KPMG

SUPPLEMENTAL INDEPENDENT EXPERT REPORT OF PHILIP TIPPIN FIA

In the matters of

RIVERSTONE INSURANCE LIMITED

AND

RIVERSTONE INSURANCE (UK) LIMITED

AND IN THE MATTER OF PART VII OF THE FINANCIAL

SERVICES AND MARKETS

ACT 2000

IN THE HIGH COURT OF JUSTICE

DATED 4 SEPTEMBER 2018

Contents

1. Introduction

Purpose of the report

1.1 I have prepared an Independent Expert report addressed to the High Court of Justice, England and Wales ('the Court') dated 10 May 2018 ('the IE Report'). In this report I describe the proposed transfer of the insurance and reinsurance policies of RIL (together with their associated reinsurance protections) to RIUK as a reorganisation of the RiverStone Europe Group in order to simplify it. The RiverStone Europe Group consists of RiverStone Holdings Limited ('RHL') and its subsidiaries, which include RIUK and RIL. RIL was acquired by RHL under its former name Brit Insurance Limited and is a non-life insurer with several lines of business. I refer in this report to the transfer of insurance business from RIL to RIUK as the 'Transfer'. I refer to RIL and RIUK as the 'Transfer Companies'.

1.2 Separately, RIUK and AXA Insurance UK plc ('AXA') have signed an agreement to transfer a portfolio of Employers' Liability ('EL') and Public Liability ('PL') policies (together with their associated reinsurance protections) that were underwritten prior to 2002 from AXA to RIUK under the provision of Part VII of FSMA under a transfer to be sanctioned by the Court. In addition, RIUK and AXA have signed an agreement for all Disease, Abuse and Stress ('DAS') claims (as agreed by RIUK and AXA) from the EL and PL policies of AXA written between 1 January 2002 and 31 December 2014 to be reinsured to RIUK. This reinsurance agreement is separate from the Part VII transfer, but conditional on the Part VII transfer being sanctioned by the Court. I refer to this reinsurance together with the proposed Part VII transfer as 'Project Arven'. I have produced a separate Independent Expert report in respect of Project Arven dated 13 April 2018.

For the avoidance of doubt, the sanction of Project Fandango by the Court is not conditional on its sanction of Project Arven, nor is the sanction of Project Arven by the Court conditional on the sanction of Project Fandango.

1.3 RIUK is a wholly-owned subsidiary of RHL and is part of the Fairfax Financial Holdings Limited group, a Canadian-based holding company engaged in property and casualty insurance and reinsurance business and investment management. RIUK is a non-life insurer which has not written new business since 1999, instead focusing on the acquisition of run-off business. It is based in the UK. It has had a diverse portfolio of run-off business which has included Marine, Aviation, Transport, Property, Casualty, Fire, Liability, Excess of Loss, Personal Lines, Professional Indemnity, Financial Institutions, Accident & Health and Motor classes. The majority of the remaining exposure exists on the longer tailed classes such as European Motor, US Asbestos and Italian Medical Malpractice.

RIL was acquired by RHL under its former name Brit Insurance Limited and is a non-life insurer with several lines of business. It was incorporated in 1992 and started writing business in 1994. It ceased writing new business in 2012 and is now in run-off. The remaining exposure on this book mainly relates to claims such as medical malpractice claims and classes such as Financial Institutions, EL and PL.

The staff that manage the business of RIUK and RIL are employed by RiverStone Management Limited ('RSML'), which is also a wholly-owned subsidiary of RHL, and is authorised by the FCA.

1.4 This Supplemental Report ('Supplemental Report' or 'Report') provides an update to the conclusions I set out in the IE Report in the light of the further information available to me, including consideration of further details of the potential implications to the Transfer Companies of "Brexit", consideration of the trading performance of the Transfer Companies since 31 December 2016 and changes in the market environment in which they operate. I have also considered and reviewed the impact of RIUK and RIL's future intentions with respect to levels of capital, operations, structure, cyber security and business mix. Additionally, my Supplemental Report also provides my opinion on the questions and other communication received from any of the Transfer Companies' policyholders.

Use and limitations

1.5 I understand that copies of my Supplemental Report will be made available to the Court, the PRA and the FCA (the relevant UK financial regulators), and the Boards of Directors of the Transfer Companies. It will also be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on the website created specifically for the Transfer, *www.riltoriuk.co.uk*, ahead of the final hearing, which is scheduled for 7 September 2018. RiverStone Europe Group has a website which covers both Transfer Companies, and there is a link from that website (at *www.trg.com/proposed-insurance-business-transfers)* to the above-mentioned website.

1.6 This Supplemental Report should be read in conjunction with the IE Report, as reading the Supplemental Report in isolation may be misconstrued. All abbreviations and technical terms used in the Supplemental Report have the same meaning as in the IE Report. For the avoidance of doubt, all limitations described in the IE Report including but not limited to those set out in sections 1.18 to 1.20, apply equally to this Supplemental Report. The glossary of terms and definitions used for this Supplemental Report can be found in Appendix 5 of the IE Report.

Professional Guidance

1.7 The Supplemental Report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council.

This Report also complies with the guidance for transfer reports set out in the Statement of Policy issued by the PRA in April 2015 entitled 'The Prudential Regulation Authority's Approach to Insurance Business Transfers' and in Chapter 18 of the Supervision Manual of the FCA Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the report.

In preparing this Report I have taken into account the requirements of the Technical Actuarial Standards ('TASs') issued by the Financial Reporting Council. The TASs which apply to the work performed in preparing this Report are Principles for Technical Actuarial Work ('TAS 100') and Insurance ('TAS 200'). In my opinion, there are no material departures from any of these TASs in my performance of this work and this Report. I have also followed the guidance set out in 'APS X2: Review of Actuarial Work' and this Report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

I understand that my duty in preparing my Report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this.

Reliances

1.8 Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.

1.9 I have not sought independent verification of data and information provided to me by the Transfer Companies, nor does my work constitute an audit of the financial and other information provided to me. Where indicated, I have reviewed the information provided for reasonableness and consistency and with the benefit of my experience this has not raised any concerns. I note that the information has been provided to me by members of the senior management of the Transfer Companies or by responsible senior professionals from the Transfer Companies' advisors.

1.10 I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted. This includes the legal advisers and the tax advisers to the Transfer Companies, where appropriate. Where significant pieces of information have been provided orally I have requested and received written confirmation.

A schedule of the additional information I have considered is listed in the Appendix.

2. Summary and overall conclusions

Approach

2.1 I have sought and received from the Transfer Companies additional information in order to consider whether any event or change in circumstances has occurred which would cause me to alter the conclusions expressed in the IE Report. The information I have requested has been selected based on my knowledge of developments in the general insurance industry and also from the wider economic environment which I consider likely to have a direct or indirect impact on the Transfer Companies. The areas I have considered include:

- Whether the analysis I performed in preparing the IE Report still points to the same conclusion given the most recent financial and economic information available.
- Any changes in the Transfer Companies' business.
- Potential operational and structural changes to the Transfer Companies.
- Current issues in the insurance industry, including any changes in regulation, legal environment and litigation that could affect the Transfer Companies.
- Relevant communications received from policyholders relating to the proposed Transfer.
- Whether the key assumptions made in forming my conclusions (described in section 2.9 of the IE Report) still apply in practice.

Having received additional information I have then considered what impact, if any, this would have on the findings of the analysis I performed in order to form my opinion expressed in the IE Report.

Additional information considered

2.2 I have received information including but not limited to:

- Updated audited financial information including the trading performance of each Transfer Company in the twelve months to 31 December 2017, and unaudited financial information for the six months ending 30 June 2018.
- Updated capital requirements and available capital metrics under the Solvency II regime for the Transfer Companies.

I note that due to the time period in which the Supplemental Report needed to be produced, the very latest financial information is unaudited. I have discussed this information with senior management within the Transfer Companies, and where appropriate, requested additional information or written confirmation. A list of additional information received is contained in the Appendix to this Report.

Findings

2.3 The findings of my Supplemental Report are summarised below and for the avoidance of doubt apply equally to those policyholders affected by the Jersey transfer.

Having considered the additional information requested from the Transfer Companies and developments occurring in the wider economic and insurance industry environment I find that:

- Both the economic and financial condition of the Transfer Companies as at 31 December 2017 and 30 June 2018, being the most recent reviewed (though in the case of 30 June 2018 data not audited) information available, is, for the purposes of analysing the impact of the Transfer on each affected policyholder group, substantially the same as that considered in the IE Report. I can thus identify no impact on the overall conclusion within the IE Report arising from such changes as have occurred.

- I have considered the results of updated scenario testing which assesses the potential impact on the financial security of RIUK and RIL policyholders before and after the Transfer. This analysis was carried out as at 31 December 2017 and is described in more detail in section 3.7. As a consequence of this additional testing I have not identified any changes to the findings set out in section 6 of the IE Report which would cause me to revise my opinion on the impact of the transfer on RIUK and RIL policyholders.

- Since issuing my IE Report, there are no matters relevant to the Transfer arising from the nature of business underwritten by the Transfer Companies.

- The management of the Transfer Companies have confirmed to me that there has been no change in the intentions with regard to any of the operations, levels of capital or mix of business written by the Transfer Companies after the Transfer has completed. There has also been no change in the post Transfer structure. As such I have not identified any intentions that would cause me to revise the conclusions of my analysis of the effects of the Transfer.

- Since issuing my IE Report, there are no further implications arising from the UK Government's response to the "Brexit" referendum that would cause me to revise my opinion in regard to the Transfer.

- I have reviewed summaries of the correspondence received from policyholders. No matters have been drawn to my attention as a result of communications received from policyholders or other relevant parties that would cause me to revise my analysis of the effects of the Transfer.

I will communicate to the Court in the event that material changes occur that require adjustments to my findings between the date of this Report and the final hearing.

Further detail on the reasoning supporting my findings above is contained in section 3 of this Report.

Conclusion

2.4 I have considered the Transfer and its likely effect on each of the affected policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed transfer is sufficiently remote for it to be appropriate to proceed with the proposed Transfer as described in the IE Report. This is also the case if Project Arven is sanctioned as well.

Philip Tippin

Fellow of the Institute and Faculty of Actuaries

Partner, KPMG LLP

4 September 2018

3. Further information considered

Quantum and type of business transferring

3.1 In sections 3.8 to 3.12 of the IE Report I consider the business that is proposed to transfer to RIUK. In particular, I consider the split of reserves by line of business for both RIUK and RIL.

I have updated the table in section 3.8 of the IE Report to show the figures regarding the open claim volumes transferring to RIUK. The outstanding claim volumes and in-force policy information is again provided for all Transfer Companies in order to give perspective on the size of the entities involved.

	Transfer Companies' Business Profile (£000's; number of open claims in units)	RIUK	RIL
31/12/2017	Gross Claims Outstanding	249,685	267,703
	Net Claims Outstanding	165,922	132,975
	Number of Open Claims	6,338	1,456
31/12/2016	Gross Claims Outstanding	304,303	324,406
	Net Claims Outstanding	208,564	151,956
	Number of Open Claims	7,049	1,957

Source: Management and UK GAAP accounts

The outstanding claims transferring to RIUK as a proportion of the existing outstanding claims are not materially different from the proportions at the time of the IE Report, and the number of claims transferring remain similar to those shown in the IE Report, though a further year of run-off has seen many claims closed in both Transfer Companies.

I have also confirmed that the proportion of reserves by line of business currently in RIUK and RIL, and therefore the proportion of those transferring to RIUK, are similar to those at the time of the IE Report. I note a fairly large decrease in the reserves held for the World Trade Center Aviation line of business by RIUK due to an agreed settlement of a claim. This change does not affect any of my conclusions in the IE Report.

As such I see no need to reconsider any of my assumptions based on this updated information.

Trading performance of Transfer Companies to 31 December 2017 and 30 June 2018

3.2 I have been provided with the audited financial information, including updated GAAP and SII balance sheet information, for each of the Transfer Companies to 31 December 2017, and the unaudited financial information to 30 June 2018. I have reviewed this information in order to identify if there has been a material change in the financial position of any of the Transfer Companies, and to satisfy myself that the financial information I have used in my consideration of the impact of the Transfer continues to be an appropriate base on which to form an opinion. I note that:

- The financial performance of the Transfer Companies over the periods to 31 December 2017 and 30 June 2018 is consistent with my understanding of the claims experience of the respective businesses over that period, and no Transfer Company has reported a financial performance that would significantly affect the financial analysis I performed in preparing the IE Report.

- I have confirmed with management of the Transfer Companies that there has been no change in general reserving strength between the balance sheets prepared for the IE Report and those at 31 December 2017 and 30 June 2018. I have reviewed the internal reserving analysis performed in order to further satisfy myself that the reserve strength of the Transfer Companies has not been weakened since the IE Report.

I have considered the impact of the recent trading performance of the Transfer Companies and have identified no matters arising which would materially change the findings of the analysis that support the conclusions contained in the IE Report.

Post Transfer balance sheets

3.3 In section 4.4 and 4.5 of the IE Report I considered the potential post Transfer UK GAAP and Solvency II balance sheets for the Transfer Companies. These tables are shown near the end of this section, updated as at 31 December 2017 and 30 June 2018.

In the IE Report I noted that a key assumption for the Transfer was as follows:

- RIUK will issue share capital to RHL the day before the Transfer; the amount of share capital issued will be based on how much capital RIUK will require, under the Solvency II regime, to cover the additional liabilities being transferred from RIL under the Transfer.

- Immediately after the Transfer, RHL will write off the net remaining intercompany balance that is owed to it by RIUK due to the course of the movement of funds in RIUK just before and just after the Transfer

Since the IE Report, an unconnected capital injection of £90millon (in respect of Project Arven, and as I describe further below) has been made to RIUK. Due to this, RIUK no longer needs to issue share capital the day before the Transfer, as it will already hold enough capital to satisfy prudential requirements. Therefore, the process described under the first bullet above will no longer take place. The process described under the second bullet will still take place in respect of the course of the movement of funds in RIUK on the day of the Transfer: on the day of the Transfer, RIL will make a dividend to RHL of the debt due from RIUK. This will be equal to the net assets transferred from RIL to RIUK. RHL will then write off that debt.

Separately to the above, I also noted in the IE Report that as part of Project Arven a capital injection which at a minimum brings the RIUK post Arven capital cover (as a proportion of the regulatory requirement) to 110% was required to be made to RIUK before the Effective Date of this Transfer. This capital injection (of £90million, as mentioned above) has been made; it was sourced from RIL via a dividend to RHL, hence its relevance to this Transfer.

I note that the actual transfer of funds occurred in June 2018 and so this is not reflected in the pre Transfer figures as at 31 December 2016 and 2017, whereas the pre Transfer figures for 30 June 2018 include the impact, hence the jumps that can be seen in pre Transfer total and net assets (upwards for RIUK and downwards for RIL) in the tables below. The impact of the capital injection post Transfer is nil, as all the business and capital will have transferred from RIL to RIUK at that point in any case.

I note that since the IE Report was produced, it was identified that $27million of RIUK's cash figure for 31 December 2016 would be more suitably classified as financial investments to remain consistent with their accounting policy. This change was agreed with RIUK's auditors. Therefore, the 31 December 2016 figures for RIUK pre Transfer for Financial Investments and Cash shown below are respectively £21.8million higher and £21.8million lower than in my IE Report. In addition to this, I note that the 31 December 2016 figures for RIUK post Transfer for Financial Investments and Cash are respectively £25.1million higher and £25.1million lower than in my IE Report; this reflects both the reclassification described above, plus the fact that for regulatory purposes a small amount of cash, circa £3million, must be kept in RIL until it is de-authorised.

I also note, as in my IE Report, that 'Other Assets' are not additive post Transfer due to the elimination of the intercompany balances with RSML which occur as part of the overall RiverStone Europe Group restructure.

UK GAAP:

UK GAAP Balance Sheet (£000's)	As At 31 December 2016 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)	As At 31 December 2017 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)	As At 30 June 2018 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)
Assets									
Financial Investments	278,920	299,822	578,742	300,520	320,172	530,692	240,476	217,981	458,456
Cash	30,093	49,693	76,541	13,065	27,818	37,853	84,981	33,932	115,807
Capital Injection	-	-	-	-	-	90,000	90,000	-	90,000
Reinsurance Assets - Intra Group	78,625	108,603	187,270	70,016	79,192	149,208	67,106	78,770	145,876
Reinsurance Assets - Other	17,115	63,847	80,929	13,748	55,536	69,284	12,118	53,548	65,667
Insurance Debtors	30	342	-	86	380	466	-	-	-
Reinsurance Debtors	90,502	38,145	128,920	66,377	28,137	94,514	53,094	23,707	76,801
Other Assets	126,365	29,014	122,527	111,144	21,672	102,804	119,682	21,613	110,544
Total Assets	621,649	589,466	1,174,928	574,956	532,907	1,074,821	667,457	429,550	1,063,151
Liabilities									
Unearned Premium Reserve	-	-	-	-	-	-	-	-	-
Outstanding claims	304,303	324,406	628,738	249,685	267,703	517,388	243,505	260,471	503,976
Other Technical Provisions	-	-	-	-	-	-	-	-	-
Reinsurance Creditors	50,953	5,006	55,922	40,889	3,940	44,829	38,931	4,090	43,021
Other Liabilities	2,108	18,177	20,313	5,735	3,149	8,884	3,587	156	3,743
Total Liabilities	357,364	347,589	704,973	296,309	274,792	571,101	286,023	264,717	550,740
Net Assets	264,285	241,877	469,955	278,647	258,115	503,720	381,434	164,833	512,411

Source: Financial statements; UK GAAP. Management information.

Solvency II:

Solvency II Balance Sheet (£000's)	As At 31 December 2016 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)	As At 31 December 2017 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)	As At 30 June 2018 RIUK (pre Transfer)	RIL (pre Transfer)	RIUK (post Transfer)
Assets									
Investments and Cash	310,098	350,900	657,698	314,477	348,773	570,208	326,747	252,376	576,017
Capital Injection	-	-	-	-	-	90,000	90,000	-	90,000
Reinsurer's Share of Provisions - Intra Group	76,644	115,369	192,013	66,210	86,551	152,758	62,318	86,094	148,412
Reinsurer's Share of Provisions - Other	31,146	63,261	94,414	28,359	53,087	81,446	27,034	52,136	79,170
Other Assets	199,171	41,533	207,821	161,127	32,370	163,484	161,531	33,731	164,512
Total Assets	617,059	571,062	1,151,946	570,172	520,782	1,057,895	667,631	424,336	1,058,111
Liabilities									
Gross Solvency II Best Estimate Liabilities	325,310	353,902	679,226	291,146	288,137	579,283	276,743	275,087	551,830
Risk Margin	19,199	12,539	31,738	19,356	8,725	28,081	15,774	14,802	30,576
Other Liabilities	48,311	19,353	67,729	41,815	3,745	45,520	39,634	1,764	41,398
Total Liabilities	392,820	385,793	778,693	352,317	300,607	652,884	332,150	291,653	623,804
Net Assets	224,240	185,269	373,253	217,856	220,175	405,011	335,480	132,683	434,307
Ring-Fenced Funds Restriction	- 12,706	- 1,942	- 14,648	- 8,464	- 287	- 8,752	- 9,758	- 213	- 9,971
Eligible Own Funds	211,453	183,327	358,605	209,391	219,887	396,259	325,722	132,470	424,336
SCR	161,534	108,850	235,277	153,579	108,450	242,026	168,622	87,777	244,453
Capital Cover Ratio	131%	168%	152%	136%	203%	164%	193%	151%	174%

Source: Q4 SII Balance Sheets. Management information.

The updated positions as at 31 December 2017 and 30 June 2018 are consistent with my understanding of any changes to the financial and economic circumstances of the Transfer Companies since the data available for the IE Report. Both of these tables show implications for the policyholders affected by the Transfer consistent with those discussed in the IE Report and the movements between them are directionally largely the same.

As such I see no need to revise any of my conclusions based on this additional information.

Consideration of capital cover ratio

3.4 In addition to the Solvency II balance sheets (in the previous section) I also considered the impact of the Transfer in terms of the consequent Solvency II capital cover ratio.

I have received an update of the SCR applicable as at 31 December 2017 and as at 30 June 2018 (from the 31 December 2016 and 30 June 2017 SCR data used in the IE Report) and compared this new information with that used in my original analysis in order to ascertain if my conclusions in the IE Report would change.

The capital cover ratios both pre and post Transfer (which act as a proxy for implied probability of policyholder deficiency) are similar as at 31 December 2017 to those I considered when preparing the IE Report. As at 30 June 2018, the RIUK capital cover ratios pre and post Transfer have increased due to the capital injection of £90million, as would be expected, which represents improved policyholder security over the analysis in the IE Report.

I note that RIUK's post Transfer capital cover ratio as at 30 June 2018 is lower than that projected for 30 June 2018 in my IE Report. This is due to the SCR being higher than was expected at the time of projection. The larger SCR is driven by increased insurance risk due to an assumption within the projections that two ring-fenced funds held by RIUK would have become immaterial as at 30 June 2018; as this wasn't the case and they were still classed as material when creating the actual balance sheet, they required their own separate SCR calculations. This resulted in a loss of diversification overall and a higher combined SCR. For avoidance of doubt, these ring-fenced funds are separate to those shown in the balance sheet tables in this Report. The larger SCR is also driven by a higher level of market risk than assumed at the time of the projections; this is due to increased concentration risk caused by an additional investment being captured within said concentration risk, and increased currency risk due to the way in which RIUK was hedged at the time.

Nevertheless, I note that the RIUK post Transfer capital cover ratio as at 30 June 2018 is still comfortably above 100%; as such, this does not change my previous conclusions.

For avoidance of doubt, the above SCR differences also apply to RIUK's pre Transfer capital cover ratio, in that it would be lower than the projected 30 June 2018 figures in my IE Report if it were directly comparable; as the £90million capital injection has now been made, it is in fact higher. I also note that RIL's capital cover ratio as at 30 June 2018 is lower than the projected 30 June 2018 figures in my IE Report, though this is simply due to the £90million capital injection. These movements do not affect my previous conclusions.

My other observations remain largely the same as in section 5.10 of the IE Report, in that:

Under the Standard Formula, RIUK policyholders see an increase in capital cover following the Transfer. RIL policyholders see a decrease in their capital cover ratio post Transfer at 31 December 2017; however I note that once the capital injection of £90million is taken into account, they see an increase.

As at 30 June 2018, as can be seen in the table in section 3.3, policyholders of RIUK see a decrease in their capital cover ratio post Transfer while policyholders of RIL see an increase. This change in relative position is as the capital injection of £90million has been sourced from RIL and paid to RIUK.

The capital cover post Transfer remains comfortably above 100% at all dates shown, and indeed, increases as the 'as at' dates get later.

As such I see no reason to revise my previous conclusions based on this updated information.

Market developments

3.5 I have considered market developments in the insurance sector since the issue of the IE Report. In addition I have reviewed the internal actuarial reserve analysis available for the Transfer Companies as at 31 December 2017 and 30 June 2018, which are the latest currently available, and these do not raise any new uncertainties that I had not considered in the IE Report.

3.6 No material market developments have occurred since the date of the IE Report. As a result I do not consider that market developments change my conclusion on the impact of the Transfer on the levels of security of each affected policyholder group from that expressed in the IE Report.

Exposure of the Transfer Companies to potential severe adverse stresses

3.7 I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 6 of the IE Report are still appropriate as stresses for the Transfer Companies, however I have considered them against the updated solvency capital position as at 31 December 2017 and 30 June 2018 for each of the Transfer Companies pre and post Transfer.

The relative impacts of the stress test results at 31 December 2017 and 30 June 2018 are broadly similar to those at the time of my IE Report:

- For RIUK pre Transfer, as at 31 December 2017, the capital cover ratios under each stress are around 10% lower than at the time of my IE Report, which is in line with the base level of capital cover falling by 10%. As at 30 June 2018, the capital cover ratios under each stress, except one, are around 45% higher than at the time of my IE Report, which is in line with the base level of capital cover increasing by around 45%. The scenario that does not follow this trend actually results in a capital cover ratio around 55% higher than in the IE Report as at 30 June 2018.

- For RIL pre Transfer, as at 31 December 2017, the capital cover ratios under each stress are around 15%-20% higher than at the time of my IE Report, which is in line with the base level of capital cover rising by around 20%. As at 30 June 2018, the capital cover ratios under each stress are around 30-40% lower than at the time of my IE Report, which is in line with the base level of capital cover decreasing by around 35% due to the capital injection.

- For RIUK post Transfer, as at 31 December 2017, the capital cover ratios under each stress, except for one, are around 5% lower than at the time of my IE Report. This is in line with the base level of capital cover falling by 5%. The scenario that does not follow this trend actually results in a capital cover ratio around 5% higher than in the IE Report as at 31 December 2017.

- For RIUK post Transfer as at 30 June 2018, the capital cover ratios under three of the stresses are around 5% higher than at the time of my IE Report. This is in line with the base level of capital cover increasing by 5%. One of the scenarios that does not follow this trend is the same one noted as at 31 December 2017, and at 30 June 2018 sees a capital cover ratio of around 10% higher than in the IE Report. The other scenario that does not follow the trend results in a capital cover ratio of around 15% higher than in the IE Report as at 30 June 2018.

In my IE Report, one of the stresses caused both RIL pre Transfer and RIUK post Transfer to fall below 100% capital cover. This is no longer the case, and as at 31 December 2017 for all stresses both pre and post Transfer RIL and RIUK have sufficient economic and financial resources to be able to pay their claim obligations to their policyholders under the extreme stresses considered. However, I note that the stresses as at 31 December 2017 do not take into account the capital injection of £90million, which has now occurred. The stresses as at 30 June 2018 do take this into account, and as such, the same stress again causes RIL pre Transfer to fall back below 100% capital cover, as was the case at the time of my IE Report. However, RIUK post Transfer capital cover remains above 100% for the stress, therefore giving an improved level of policyholder security compared to at the time of my IE Report.

As such I see no reason to revise my previous conclusions based on this updated information.

Future intentions of RIUK and RIL with respect to levels of capital, operations, structure and business mix

3.8 Based on my discussions with the managements of the Transfer Companies, and as supported in subsequent written communications, I understand that the future intentions of RIUK and RIL remain consistent with those documented in section 4.12 of the IE Report, though while at the time of my IE Report the intention was to deauthorise RIL in the medium term, RIL is now to be deauthorised on 1 October 2018.

The capital injection from RIL to RIUK of £90million was made in June 2018.

I have identified no adverse impacts to policyholders arising from intentions or motives of the Transfer Companies in proposing the Transfer which would materially change the findings of the analysis which support the conclusions contained in the IE Report.

Implications of "Brexit" Referendum

3.9 In sections 5.16 and 5.17 of the IE Report, I discussed the implications of the "Brexit" referendum, as far as was known at that time. I observed that there was considerable uncertainty about the actual implications of "Brexit", and committed to provide an update on any new information in the Supplemental Report. Since the IE Report, there has been no material new information on the potential consequences of "Brexit" on the Transfer Companies. My comments in the IE Report on the subject therefore remain valid at the date of this Supplemental Report.

4. Effects of Project Arven

4.1 Project Arven is a separate Part VII Transfer along with an associated reinsurance agreement, being carried out independently of Project Fandango, but within a similar timescale. The proposed effective date of Project Arven is 1 October 2018. It involves the transfer of a portfolio of EL and PL policies (together with their associated reinsurance protections that were underwritten in 2001 and prior from AXA to RIUK). In addition, RIUK and AXA have signed a reinsurance agreement for all DAS claims from the EL and PL policies of AXA written between 1 January 2002 and 31 December 2014 to be reinsured to RIUK. This reinsurance is conditional on the Arven Part VII Transfer being sanctioned by the Court.

4.2 Project Arven could have a material impact on the balance sheet and capital strength of RIUK though, so in the following analysis I consider what further changes happen to RIUK following the potential sanction of Project Arven and what impact this has on existing RIUK policyholders and transferring RIL policyholders over and above the impact of Project Fandango.

Effect of Project Arven on RIUK balance sheets

4.3 In section 8.6 and 8.7 of the IE Report I considered the impact of Project Arven on the post Transfer UK GAAP and Solvency II balance sheets for RIUK. These tables are shown below, updated as at 31 December 2017 and 30 June 2018. Since my IE Report, the capital injection into RIUK (of £90million) has been made, which was ultimately sourced from RIL via a dividend to RHL; I note as in section 3.3 that the impact of the capital injection post Fandango (and consequently post Fandango and Arven) is nil, as all the business and capital will have transferred from RIL to RIUK at that point in any case.

UK GAAP:

UK GAAP Balance Sheet (£ms)	As At 31 December 2016		As At 31 December 2017		As At 30 June 2018	
	RIUK (post Fandango)	RIUK (post Fandango and Arven)	RIUK (post Fandango)	RIUK (post Fandango and Arven)	RIUK (post Fandango)	RIUK (post Fandango and Arven)
Assets						
Financial Investments	579	864	531	804	458	725
Cash	77	77	38	38	116	116
Capital Injection	-	-	90	90	90	90
Reinsurance Assets - Intra Group	187	454	149	397	146	382
Reinsurance Assets - Other	81	81	69	69	66	66
Insurance Debtors	-	-	0	0	-	-
Reinsurance Debtors	129	129	95	102	77	84
Other Assets	123	123	103	103	111	111
Total Assets	1,175	1,727	1,075	1,603	1,063	1,572
Liabilities						
Unearned Premium Reserve	-	-	-	-	-	-
Outstanding claims	629	1,163	517	1,013	504	976
Other Technical Provisions	-	-	-	-	-	-
Reinsurance Creditors	56	56	45	59	43	57
Other Liabilities	20	20	9	9	4	8
Total Liabilities	705	1,239	571	1,080	551	1,041
Net Assets	470	488	504	522	512	531

Source: Financial statements; UK GAAP. Management information.

Solvency II:

Solvency II Balance Sheet (£ms)	As At 31 December 2016		As At 31 December 2017		As At 30 June 2018	
	RIUK (post Fandango)	RIUK (post Fandango and Arven)	RIUK (post Fandango)	RIUK (post Fandango and Arven)	RIUK (post Fandango)	RIUK (post Fandango and Arven)
Assets						
Investments and Cash	658	943	570	843	576	842
Capital Injection	-	-	90	90	90	90
Reinsurer's Share of Provisions - Intra Group	192	448	153	393	148	377
Reinsurer's Share of Provisions - Other	94	94	81	81	79	79
Other Assets	208	208	163	171	165	172
Total Assets	1,152	1,694	1,058	1,578	1,058	1,561
Liabilities						
Gross Solvency II Best Estimate Liabilities	679	1,192	579	1,061	552	1,008
Risk Margin	32	75	28	70	31	77
Other Liabilities	68	68	46	46	41	46
Total Liabilities	779	1,335	653	1,177	624	1,130
Net Assets	373	359	405	402	434	431
Ring-Fenced Funds Restriction	-15	-15	-9	-9	-10	-10
Eligible Own Funds	359	344	396	393	424	421
SCR	235	337	242	310	244	309
Capital Cover Ratio	152%	102%	164%	127%	174%	136%

The updated positions as at 31 December 2017 and 30 June 2018 are consistent with my understanding of any changes to the financial and economic circumstances of the Transfer Companies since the data available for the IE Report. The position under UK GAAP shows consistent implications for the policyholders affected by the Transfer to those discussed in the IE Report. Under Solvency II, the net assets decrease slightly when Arven is included; this was also the case at 31 December 2016, as can be seen above. The decreases are slight and not material.

As such I see no need to revise any of my conclusions based on this additional information.

Consideration of capital cover ratio

4.4 In addition to the Solvency II balance sheets (in the previous section) I also considered the impact of Project Arven in terms of the consequent Solvency II capital cover ratio.

I have received an update of the SCR applicable as at 31 December 2017 (from the 31 December 2016 and 30 June 2017 SCR data used in the IE Report) and compared this new information with that used in my original analysis in order to identify if my conclusions in the IE Report would change.

The capital cover ratios both pre and post Project Arven (which act as a proxy for implied probability of policyholder deficiency) are at slightly higher levels as at 31 December 2017 to those I considered when preparing the IE Report.

At the time of my IE Report, the net assets increased if Project Arven was sanctioned (assuming a capital injection post Project Arven) while the capital cover ratio decreased, as I observed in section 8.7. The capital cover ratio still shows a decrease post Project Arven though it decreases by a smaller magnitude than at 31 December 2016. The net assets now also decrease if Project Arven is sanctioned, however, the decrease is very slight; further to this, as I noted in my IE Report, the capital cover ratio remains comfortably above 100% and the capital coverage is based on a larger balance sheet, so policyholders will benefit from both this and a larger pool of capital than previously.

I have also received an update of the SCR applicable as at 30 June 2018; I note that in addition to the above comments on the 31 December 2017 update, the capital cover ratio as at 30 June 2018 has increased for RIUK both pre and post Project Arven.

As I noted in section 3.4, RIUK's post Transfer capital cover ratio as at 30 June 2018 is lower than that projected for 30 June 2018 in my IE Report; this is also true for RIUK post Arven. As noted in that previous section, the capital cover ratios are still comfortably above 100%, and this comparison does not change my previous conclusions.

The revised capital coverage ratios post Project Arven show increases from those in the IE Report at the most recent as at dates. This represents improved policyholder protection relative to that discussed in the IE Report.

Market developments

4.5 I have further considered market developments in the insurance sector since the issue of the IE Report on the business of AXA, and have reviewed the most recent internal actuarial reserve analysis available for AXA. This does not raise any new uncertainties that I had not considered in the IE Report.

4.6 No material market developments have occurred since the date of the IE Report. As a result I do not believe that market developments change my conclusion on the impact of the Project Arven over and above that of Project Fandango.

Exposure of the Transfer Companies to potential severe adverse stresses

4.7 I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 8 of the IE Report are still appropriate as stresses for the additional consideration of Project Arven, and I have considered them against the updated solvency capital positions as at 31 December 2017 for each of the Transfer Companies pre and post Transfer.

The impact of the stress test results at 31 December 2017 when taking into consideration Project Arven as well as Project Fandango are similar to those at the time of my IE Report, and in fact each scenario results in a capital cover ratio either equal to or higher than those in my IE Report. The movements between the effects seen on RIUK post Project Fandango and RIUK post both Project Fandango and Project Arven are directionally the same as in section 8 of the IE Report.

Future intentions of RIUK and AXA with respect to levels of capital, operations, structure and business mix after Project Arven

4.8 Based on my discussions with the managements of the RIUK and AXA, and as supported in subsequent written communications, I understand that there are no changes from the situation I discussed in section 8 of the IE Report with respect to any of the group structure, operations, business mix or capital following the potential sanction of Project Arven.

As a result I do not consider that any of these factors change my conclusion made in the IE Report on the impact of the Project Arven over and above that of Project Fandango.

5. Policyholder communications

5.1 I understand from the Transfer Companies that the proposed policyholder communication as set out in my IE Report has gone ahead as expected, except the following small changes:

- In addition to the groups set out in Appendix 7 of my IE Report, I note that a cover letter and accompanying information leaflets were also sent to claimant solicitors who represent a client of RIL with an open claim for whom an address is held.
- I also note that while RIL approached all of the key market bodies and associations noted in my IE Report with a request to publicise notice of the Transfer on their websites, the Association of British Insurers, Association of Insurance and Risk Managers in Industry and Commerce and the Association of Personal Injury Lawyers will not be doing so.

I have reviewed these changes and they do not change the conclusions I reached in my IE Report.

While RIL dispatched its Communication Pack to the agreed parties as set out in the IE Report, Aon Benfield ('Aon'), one of the brokers which had written policies on behalf of RIL, has stated its intention not to participate in the communications process due to the time and costs involved. RIL has responded to Aon to try and re-seek its assistance, including offering further support in connection with notifying its clients.

There have been a number of mailings noted as "return to sender", and RIL is continuing to endeavour to find suitable redelivery addresses for these. As of 24 August 2018, less than 15% of mailings have been returned as undelivered. RIL is still in the process of reattempting delivery of returned letters and expects the overall figure to be around 8%.

RIL has provided me with the weekly logs detailing the numbers of policyholders responding with queries, objections, complaints, or otherwise, and also the number of returned mailings.

As of 29 August 2018, there have been no policyholder objections or complaints.

I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusion set out in my IE Report and this Supplemental Report.

6. Overall conclusions

6.1 Having updated my financial analyses, and having considered the other matters set out above, I can confirm that all of the overall conclusions that I reached in Section 7 of the IE Report remain unchanged. Hence, in my opinion I do not identify any material adverse effect on any of the groups of policyholders of any of the Transfer Companies as a result of Project Fandango.

6.2 Furthermore, having updated my analysis of the additional impacts of Project Arven on the Transfer Companies if it is sanctioned as well as Project Fandango, I can confirm that all of the overall conclusions that I reached in Section 9 of the IE Report remain unchanged. Hence, in my opinion I do not identify any material adverse effect on any of the groups of policyholders of any of the Transfer Companies should Project Arven occur alongside Project Fandango.

Appendix – List of additional information provided for Supplemental Report

Financial Information

RIUK and RIL audited accounts and Solvency II balance sheets as at 31 December 2017

Proforma balance sheet and other financial information based on 31 December 2017 data – post Transfer

Similar information as above, but unaudited, as at 30 June 2018 for RIUK and RIL

Structure and Company Information

Confirmation of company structure

Confirmation that there are no changes to details of current and post transfer Board(s) and governance arrangements.

Changes to description of current and post transfer administration systems and arrangements

Scheme Information

Final Scheme Documents

Final schedule of assets to be transferred

Latest estimate of cost of scheme, identifying forecast costs of scheme (identifying irrecoverable costs should the scheme not proceed) and entity bearing these costs

Changes in the effect of the Transfer on existing administration and asset management contracts

Confirmation of no material shift to tax impact arising as a result of the Transfer since the IE Report

Final communications plan

Updated policy and claim overview

Weekly policyholder communications logs

Capital and Risk Management

Updated capital requirements and available capital figures under Solvency II for the Transfer Companies pre and post Transfer

External reserving reports as at 30 September 2017 for RIUK and RIL

Details of material losses that occurred in the interim period Q4 2016 and Q2 2018

Updates to the impact of the stresses on the business as set out in section 6 of the IE Report

Other information considered

Further discussions with key staff in the executive team, together with emails confirming statements and information provided verbally in these meetings that I have relied upon.