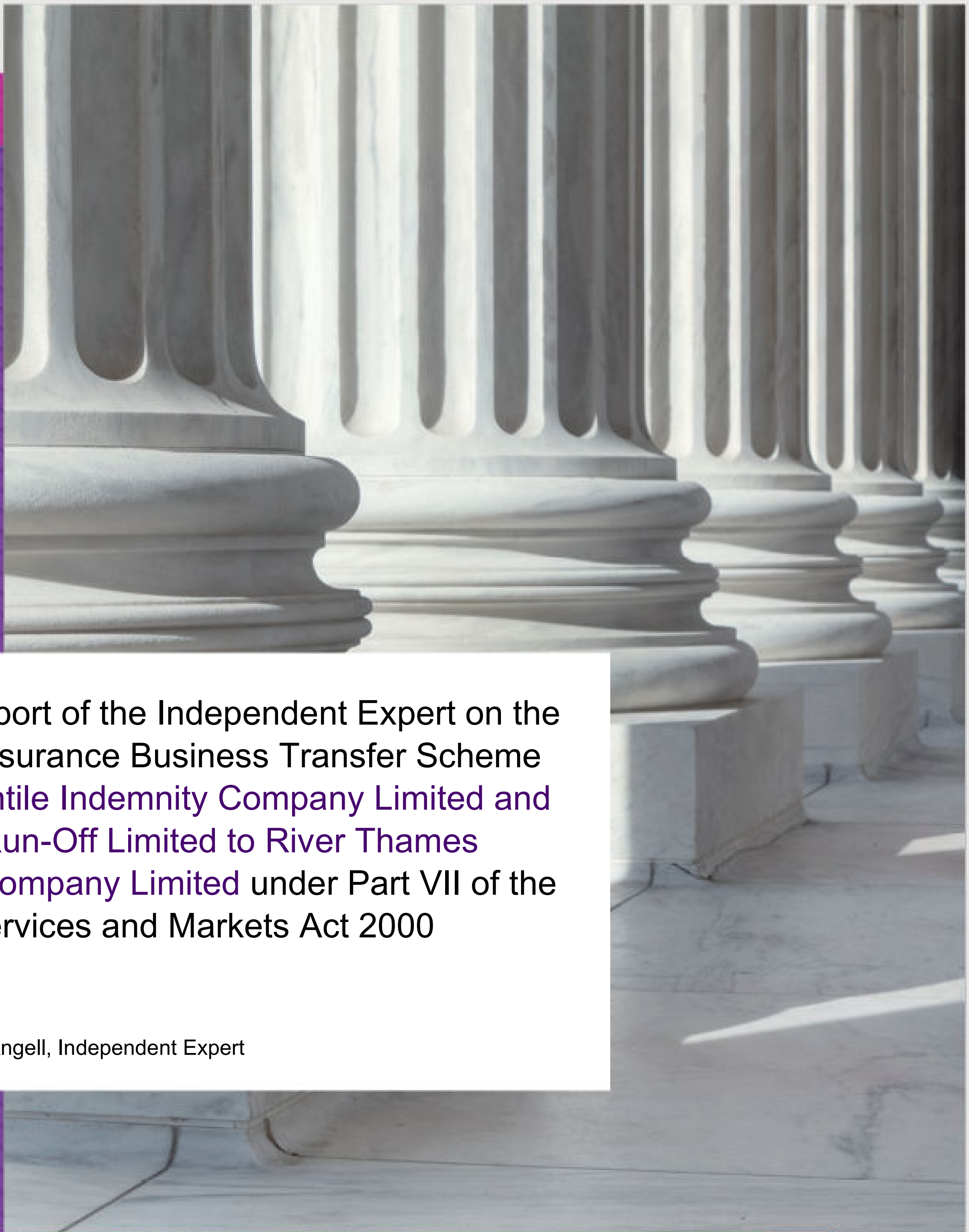

Scheme Report of the Independent Expert on the Proposed Insurance Business Transfer Scheme from Mercantile Indemnity Company Limited and Rombalds Run-Off Limited to River Thames Insurance Company Limited under Part VII of the Financial Services and Markets Act 2000

21 July 2025

Prepared by Kate Angell, Independent Expert

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Section 1: Introduction

Role and Approval as Independent Expert

1.1 When a scheme for transferring insurance business from one company to another is put to the High Court of Justice in England and Wales (the "Court") for approval it has to be accompanied by a report on the terms of the scheme from an independent expert (the "Independent Expert"). The Independent Expert's report (the "Scheme Report") is a requirement under Part VII of the Financial Services and Markets Act 2000 ("FSMA").

1.2 Towers Watson Limited (which is part of WTW) has been engaged by Enstar (EU) Limited ("Enstar") to provide a Scheme Report for the proposed Part VII transfer of the policies of Mercantile Indemnity Company Limited ("Mercantile") and Rombalds Run-Off Limited ("Rombalds") to River Thames Insurance Company Limited ("River Thames") (the "Proposed Scheme"). The Proposed Scheme relates to the transfer of certain policies within the Enstar insurance group (the "Enstar Group"), of which Enstar Group Limited ("EGL") (a Bermuda incorporated holding company) is the ultimate parent company.

1.3 I, Kate Angell, am employed by Towers Watson Limited and have been appointed as the Independent Expert for the Proposed Scheme under this engagement. This Scheme Report has been prepared for the Court in order to aid the Court's consideration as to whether the Proposed Scheme should be approved.

1.4 My appointment as the Independent Expert in connection with the Proposed Scheme was approved by the Prudential Regulation Authority (the "PRA"), in consultation with the Financial Conduct Authority (the "FCA"), on 7 August 2024. The PRA (in consultation with the FCA) has also approved the form of this Scheme Report.

1.5 In connection with this appointment there is an engagement letter in place between Towers Watson Limited and Enstar, which was signed by Enstar on 14 August 2024.

1.6 When preparing this Scheme Report, I have been assisted by colleagues within WTW, who have undertaken work under my supervision and at my direction. Although I have been assisted by my WTW colleagues, the opinions in this Scheme Report are my own opinions.

1.7 I have also produced a summary of this Scheme Report (the "Summary"), for inclusion in the explanatory circular to be sent to policyholders and other potentially affected parties. This Scheme Report contains detailed information that is not shown in the Summary.

1.8 This Scheme Report and the Summary may be relied on by the Court. Neither the Independent Expert nor WTW accepts any responsibility or liability to any third party in relation to the Scheme Report or the Summary. Any reliance placed by such third parties on the Scheme Report or the Summary is entirely at their own risk.

About the Independent Expert

1.9 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1998. I am a Senior Director in the firm of Towers Watson Limited ("TWL") where I am part of the Insurance Consulting and Technology ("ICT") business line. TWL is part of WTW which is a leading global advisory, broking and solutions firm. My curriculum vitae is enclosed at Appendix B.

The Proposed Scheme

1.10 The Proposed Scheme relates to the transfer of certain policies within the Enstar Group, which is headquartered in Bermuda. The Enstar Group manages a wide range of run-off business across multiple global markets including the UK.

1.11 The policies to be transferred under the Proposed Scheme are moving from two wholly owned subsidiaries within the Enstar Group – Mercantile and Rombalds – to a third wholly owned subsidiary – River Thames. I refer to Mercantile, Rombalds and River Thames collectively as the “Companies” in this Scheme Report. The policies to be transferred represent all the insurance and/or reinsurance policies of Mercantile and Rombalds, and no policies are expected to remain in Mercantile or Rombalds following the Proposed Scheme.

1.12 It is proposed that all the assets and liabilities within Mercantile and Rombalds be transferred to River Thames as part of the Proposed Scheme, including the benefit of all the reinsurance which provides cover for the Transferring Policies.

1.13 The purpose of the Proposed Scheme is to simplify the operational structure of the UK operations of the Enstar Group, and the Proposed Scheme is expected to reduce operational costs.

Scope of review

1.14 This Scheme Report considers the likely effects of the Proposed Scheme on the following three distinct groups of affected policyholders:

- The policyholders of Mercantile whose insurance policies are transferring to River Thames (the “Mercantile Policyholders”);
- The policyholders of Rombalds whose insurance policies are transferring to River Thames (the “Rombalds Policyholders”); and
- The existing policyholders of River Thames (the “River Thames Policyholders” or “Existing Policyholders”).

1.15 This Scheme Report also considers the likely effect of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred or amended by the Proposed Scheme.

1.16 Collectively, I refer to the Mercantile Policyholders and the Rombalds Policyholders as the “Transferring Policyholders” and I refer to the combination of the Transferring Policyholders and the Existing Policyholders as the “Affected Policyholders”.

1.17 In this Scheme Report, for each group of policyholders I have considered the security of the policyholders on two bases:

- The position should the Proposed Scheme not proceed (the “No Scheme Position”); and
- The position should the Proposed Scheme proceed (the “Post Scheme Position”).

1.18 The Post Scheme Position assumes that the Proposed Scheme goes ahead as planned.

1.19 For each group of policyholders, I have considered the likely effects of the Proposed Scheme on the security of policyholders' contractual rights and levels of service provided to policyholders. I have considered the likely effects of the Proposed Scheme by considering:

- The financial considerations of the Proposed Scheme, where I consider the likely effects of the Proposed Scheme on the security of policyholders' contractual rights;
- Non-financial considerations of the Proposed Scheme, including the likely impact of the Proposed Scheme on the levels of service provided to policyholders; and
- The proposed communication strategy.

1.20 This Scheme Report does not consider any possible alternative schemes or arrangements which might provide a more efficient or effective outcome.

1.21 This Scheme Report assesses the position of policyholders in relation to the Proposed Scheme on the basis of existing legal and regulatory frameworks. It does not attempt to predict or take account of how these frameworks may change in the future.

1.22 This Scheme Report does not consider the likely effects on new policyholders, that is, those whose contracts are entered into after the Effective Date of the Proposed Scheme.

1.23 This review does not comprise an audit of the financial resources and liabilities of River Thames, Mercantile, Rombalds or any other companies in the Enstar Group.

1.24 I have not reviewed the systems and controls currently operated by River Thames, Mercantile, Rombalds or any other companies in the Enstar Group.

Future transactions

1.25 I have not considered future changes of ownership or any other transactions (such as mergers or acquisitions or future insurance business transfers) which involve any of the entities directly involved in this Proposed Scheme.

1.26 In July 2024, EGL announced that it had entered into a definitive merger agreement under which it will be acquired by Sixth Street. The transaction is expected to close in mid-2025, subject to regulatory approvals, at which time EGL will no longer be publicly listed and instead become a privately held company. Following the close of the transaction, I understand that the Enstar Group expects to maintain its current operations and business strategy. I consider that this planned transaction will have no impact on the conclusions I have reached on the Proposed Scheme as set out in this Scheme Report given that:

- The planned transaction does not directly impact any of the Companies, as it relates to the ownership of their ultimate parent company; and
- Following the close of the transaction, the Enstar Group expects to maintain its current operations and business strategy.

1.27 At the time of writing this Scheme Report I am not aware of any other proposed ownership changes or transactions.

Exchange rates

1.28 The figures I received from Enstar were denominated in either British Pounds or US Dollars.

1.29 The reporting currency of River Thames is US Dollars and therefore I have quoted all figures in this report in US Dollars.

1.30 The figures in British Pounds ("GBP" or "£") provided by Enstar have been converted into US Dollars ("USD" or "$") for the purposes of this Scheme Report using the following exchange rate, which was the exchange rate as at 31 December 2023.

- $100 = £78.35.

Structure of this Scheme Report

1.31 The structure of this Scheme Report is as follows:

- This section sets out my statement of independence; the terms of reference of my work and the scope of my review;
- Section 2 contains an outline of the Proposed Scheme and my overall conclusions;
- Section 3 provides background to the Proposed Scheme, information on the Companies and sets out an overview of the methodology I have followed;
- Section 4 sets out details of the review I have performed, and my findings, with regards to the financial considerations of the Proposed Scheme;
- Section 5 contains details of the review I have performed, and my findings, with regards to the non-financial considerations of the Proposed Scheme, including the levels of service provided to policyholders;
- Section 6 sets out the details of my findings with regards to the proposed communication strategy to policyholders and other potentially affected parties; and
- Section 7 contains my statement of truth;
- The Appendices contain a glossary of terms, my credentials, details of the information I have used in forming my conclusions and details of how this Scheme Report complies with the requirements of the PRA and the FCA.

Supplementary Report

1.32 In general, this Scheme Report is based on data and information as at 31 December 2023, this being the most recent date at which audited financial information was available when this Scheme Report was drafted. Where possible, this has been supplemented by additional, unaudited, information as at 30 June 2024 and 30 September 2024.

1.33 I expect to produce a Supplementary Report in due course which will be based on the most up to date financial information which is available to me at that time, and which will include audited financial information as at 31 December 2024.

1.34 In my Supplementary Report, I will provide an update on the progress made to effect the Deed of Variation and amend the letter of credit with Citibank Europe plc, both of which are required to ensure that the Mercantile Policyholders who currently benefit from the ILU Guarantee do not lose that protection as a result of the Proposed Scheme (see the section starting at paragraph 4.363 in this Scheme Report).

1.35 In my Supplementary Report I will also comment on the implementation of the communication approach, including any objections received to the Proposed Scheme and whether these objections impact my conclusions on the Proposed Scheme.

1.36 At the time of drafting my Supplementary Report I will also consider any other relevant matters which have arisen since the time of drafting this Scheme Report.

Interaction with regulators

1.37 I met with the PRA and FCA to establish whether there were matters or issues which they wanted me to consider in this Scheme Report. A draft of this Scheme Report has been made available to the PRA and FCA whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of this Scheme Report.

Statement of independence

1.38 Neither I, nor any member of my immediate family, have any direct shareholdings, have any contracts of insurance or have any other financial interest in the legal entities involved in the Proposed Scheme or in any other companies in the Enstar Group.

1.39 I do not and have had no client relationship management responsibilities for any companies in the Enstar Group during the last three years. I have acted (and continue to act) as an independent expert witness for the defendant in cases where the insurer of the defendant is Mercantile, a party to the Proposed Scheme. I have not considered any of this work as part of my Independent Expert role as it is not directly relevant to the Proposed Scheme. I have not led nor participated in any other ICT consulting work for any companies in the Enstar Group during the last three years.

1.40 I consider that I have been able to act in an unfettered and independent manner in assessing the Proposed Scheme. I confirm that no party with an interest in the Proposed Scheme, nor any ICT colleagues or third party advisers that have produced reports which I have used in my review, have sought to or have exercised undue influence on my work. I do not consider that any of the matters disclosed above affect my suitability to act as the Independent Expert for the Proposed Scheme.

Terms of reference

1.41 The terms of reference for my review of the Proposed Scheme were agreed by Enstar and have been seen by the PRA and FCA.

1.42 This Scheme Report is intended to aid the Court's consideration as to whether the Proposed Scheme should be approved. In reporting on the Proposed Scheme in accordance with Part VII of the FSMA, I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid. I have complied, and continue to comply, with this duty.

1.43 In preparing this Scheme Report I have taken account of the following:

- Part 35 of the Civil Procedure Rules;
- The Practice Direction supplement to Part 35 of the Civil Procedure Rules;
- The protocol for the instruction of experts to give evidence in civil claims drafted by the Civil Justice Council;
- The guidance in SUP18 of the FCA Handbook and the "PRA's Statement of Policy: The PRA's approach to insurance business transfers" (dated January 2022) which set out guidance on the form of the Scheme Report; and
- The FCA guidance entitled "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" which was issued on 15 February 2022.

1.44 Appendix D of this Scheme Report sets out a mapping from the PRA requirements set out in paragraphs 2.27 to 2.40 of the "PRA's Statement of Policy: The PRA's approach to insurance business transfers" and the FCA requirements set out in paragraphs 18.2.31 to 18.2.41 of SUP18 to this Scheme Report.

Distribution

1.45 This Scheme Report has been prepared on the instruction of Enstar for the benefit of the Court solely for the purposes of the FSMA requirements for Part VII transfers. This Scheme Report and the Summary may be:

- Made available to the PRA, FCA, any other competent regulator, the Court, policyholders and any other person entitled to receive a copy under law or regulation applicable to the Proposed Scheme; and
- Made available on the website of the Enstar Group in connection with the Proposed Scheme.

1.46 Neither the Independent Expert nor WTW accept any responsibility or liability to any third party in relation to this Scheme Report. Any reliance placed by such third parties on the Scheme Report is entirely at their own risk.

1.47 This Scheme Report has been prepared for the purpose of reporting on the Proposed Scheme to the Court and must not be relied upon for any other purpose. It must be considered in its entirety because individual sections, if considered in isolation, may be misleading. This Scheme Report is subject to the terms and limitations, including a limitation of liability, set out in my firm's engagement letter.

Reliances

1.48 In carrying out my review and producing this Scheme Report I have relied without independent verification upon the accuracy and completeness of the data, information and accompanying explanations provided to me, both in written and oral form. Where possible, I have reviewed the information provided for reasonableness and consistency with my knowledge of the insurance and reinsurance industry. I have also met or spoken with representatives of Enstar to discuss in detail the information which they have provided to me in relation to the Proposed Scheme. I consider it is reasonable for me to rely on these individuals since they are PRA and FCA approved persons or are senior professionals employed by Enstar. Reliance has been placed upon, but not limited to, the information detailed in Appendix C.

1.49 I have obtained confirmation from Enstar that, to the best of their knowledge and belief:

- All of the items of data and information which they have provided to me for the purposes of this Scheme Report are accurate and complete.
- There are no significant errors or omissions in the descriptions in this Scheme Report of the business of their respective companies or of the Proposed Scheme.
- There are no other material items of data and information which have not been provided to me regarding the Companies and which are likely to be relevant to this Scheme Report.

1.50 Based on my review, I am satisfied that the information detailed in Appendix C represents an appropriate basis for the conclusions set out in this Scheme Report and I consider that it is reasonable for me to rely on this information. I have not identified any material issues with the information provided and there is no information which I requested from Enstar which has not been provided to me.

Limitations

1.51 No unreasonable limitations have been imposed on the scope of my work and the opinions in this Scheme Report about the Proposed Scheme are mine, based on the information provided to me and the answers given to the questions I have raised. There are no matters that I have not taken into account or evaluated in this Scheme Report that might, in my opinion, be relevant to policyholders' consideration of the Proposed Scheme.

1.52 In general, this Scheme Report is based on data and information as at 31 December 2023, this being the most recent date at which financial information was available when this Scheme Report was drafted. Where available, this has been supplemented by additional information as at 30 June 2024 and 30 September 2024.

1.53 This additional information primarily relates to reserve reviews which Enstar conducts as at 30 June for most classes and as at 30 September for some Mercantile classes, in particular UK asbestos. I understand that these reserve reviews will be the basis for the reserves set as at 31 December 2024 and form the most up to date information available on the performance of the Companies at the time of drafting this Scheme Report.

1.54 In my judgement, the results and conclusions contained in this Scheme Report are reasonable given the information made available to me. However, the actual cost of settling future claims and those still outstanding as at the valuation date is uncertain as, amongst other things, the actual cost depends on events yet to occur such as future court judgments. The actual cost of claims could be different from the estimates shown in this Scheme Report, and possibly materially so. Such differences between the estimated and actual outcome could possibly have a material impact upon the balance sheet strength of the Companies, and therefore upon the Proposed Scheme.

1.55 This Scheme Report must not be construed as legal, investment or tax advice.

1.56 Figures in all tables in this Scheme Report are subject to possible rounding differences.

Legal jurisdiction

1.57 This Scheme Report is governed by and shall be construed in accordance with English law. Towers Watson Limited, Mercantile, Rombalds, River Thames and Enstar submit to the exclusive jurisdiction of the English courts in connection with all disputes and differences arising out of, under or in connection with this Scheme Report.

Professional guidance

1.58 I am required to comply with relevant technical actuarial standards (“TASs”) issued or adopted by the Financial Reporting Council (“FRC”) in the UK, and relevant actuarial practice standards (“APSs”) issued by the Institute and Faculty of Actuaries (“IFoA”) in the UK. This Scheme Report complies with all applicable TASs and APSs. In particular, this Scheme Report has been prepared in accordance with:

- TAS 100: Principles for Technical Actuarial Work, issued by the FRC;
- TAS 200: Insurance, issued by the FRC;
- The Actuaries’ Code, issued by the IFoA; and
- APS X2: Review of Actuarial Work and APS X3: The Actuary as an Expert in Legal Proceedings, both issued by the IFoA.

1.59 The work which has been documented in this Scheme Report has been subject to an internal peer review by an appropriately qualified actuary who was not otherwise involved with my review of the Proposed Scheme.

Section 2: Executive Summary

The Proposed Scheme

2.1 The Proposed Scheme relates to the transfer of certain policies within the Enstar Group, which is headquartered in Bermuda. The parent company of the Enstar Group is EGL. The Enstar Group manages a wide range of run-off business across multiple global markets including the UK.

2.2 The policies to be transferred under the Proposed Scheme are moving from two wholly owned subsidiaries within the Enstar Group – Mercantile and Rombalds – to a third wholly owned subsidiary – River Thames. The policies to be transferred represent all the insurance and/or reinsurance policies of Mercantile and Rombalds, and no policies are expected to remain in Mercantile or Rombalds following the Proposed Scheme.

2.3 It is proposed that all the assets and liabilities within Mercantile and Rombalds be transferred to River Thames as part of the Proposed Scheme, including the benefit of all the reinsurance which provides cover for the Transferring Policies.

2.4 The Transferring Policies represent 100% of the liabilities of Mercantile and Rombalds. If the Proposed Scheme is sanctioned then, in the Post Scheme Position, the liabilities of River Thames will be comprised of 21% from the existing business of River Thames, 78% from the existing business of Mercantile and 0.3% from the existing business of Rombalds. These percentages are based on the percentages of the gross of reinsurance reserves for each of the Companies on a UK GAAP basis as at 31 December 2023. On a net of reinsurance basis, the equivalent figures would be 34% from the existing business of River Thames, 65% from the existing business of Mercantile and 1% from the existing business of Rombalds.

2.5 The Companies are all run-off companies, such that they are not writing any new business but continue to administer and pay claims for existing policies. The Companies are all domiciled in the UK and are authorised by the PRA and regulated by the PRA and FCA.

2.6 Mercantile and River Thames benefit from significant outwards reinsurance in the form of a 75% quota share and 50% quota share respectively, with Cavello Bay Reinsurance Ltd ("CBRe"), a company which is also part of the Enstar Group. Both of these reinsurance arrangements benefit from collateral arrangements which are in place.

2.7 As the Companies continue to run-off their liabilities, the dividend policy for each of the Companies allows for the regular payment of dividends subject to maintaining a solvency ratio of 130%. In addition, any dividend payments require 'non-objection' from the PRA before they can be paid, which is an additional level of protection which applies to all firms in run-off. The dividend policies and 'non-objection' requirement from the PRA apply to all the Companies in the No Scheme Position and to River Thames in the Post Scheme Position.

Findings of the Independent Expert

Introduction

2.8 I have considered the likely effects of the Proposed Scheme on the Mercantile Policyholders, the Rombalds Policyholders and the River Thames Policyholders. In each case, I have considered the likely effects of the Proposed Scheme on the security of policyholders' contractual rights. I have also considered the likely effects of the Proposed Scheme on the other factors which may impact the security of, or service levels to, the Affected Policyholders.

2.9 I have set out below my conclusions for each group of policyholders, focussing on those aspects where there is a change in the Post Scheme Position compared with the No Scheme Position. I have not commented below on those aspects where there is no material change as a result of the Proposed Scheme, or if the change is beneficial for all of the Affected Policyholders, which include the following aspects:

- Investment strategy and liquidity position;
- Expense levels;
- Protection provided to Affected Policyholders by trust funds, guarantees, letters of credit and collateral arrangements;
- Policyholder service levels; and
- Access to compensation schemes and ombudsman services.

2.10 My conclusions below on the Solvency Ratios and scenarios are based on the Solvency Capital Requirements (or "SCRs") calculated according to the Standard Formula under Solvency II. In line with their regulatory responsibilities, each of the Companies have set out in their ORSA that they consider the Standard Formula a suitable approach for calculating the SCR for each of the Companies.

2.11 I have also reviewed the results of Enstar's unapproved partial internal model (the "unapproved Enstar Capital Model"), which Enstar uses to validate the results of the Standard Formula calculation. While I have not validated the unapproved Enstar Capital Model to the standards of regulatory approval (and it has not received such regulatory approval), overall I am satisfied that both the Standard Formula and unapproved Enstar Capital Model results are a reasonable estimate for the capital requirements for each of the Companies as at 31 December 2023. However, given that the capital requirements calculated using the unapproved Enstar Capital Model are lower than those calculated using the Standard Formula, I consider it reasonable to base my conclusions on Solvency Ratios which use the SCR calculated according to the Standard Formula under Solvency II.

2.12 I have also considered the likely effects of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred or amended by the Proposed Scheme.

Conclusions for policyholders transferring from Mercantile to River Thames

2.13 It is my opinion that the Mercantile Policyholders will not be materially adversely affected by the Proposed Scheme.

2.14 In the Post Scheme Position, the Mercantile Policies represent 76% of the gross (of reinsurance) Best Estimate Technical Provisions on a Solvency II basis (as at 31 December 2023), and 61% of the net (of reinsurance) Best Estimate Technical Provisions.

Impact on Solvency Ratios

2.15 The Mercantile Policyholders will be transferring from Mercantile to River Thames under the Proposed Scheme. As a result of the Proposed Scheme, for the Mercantile Policyholders the Solvency Ratio will marginally increase from 188% in the No Scheme Position to 189% in the Post Scheme Position. The Mercantile Policyholders will benefit from an increased Solvency Ratio in the Post Scheme Position as a result of the diversification allowed for within the SCR calculation, which results in the SCR in the Post Scheme Position being lower than the sum of the SCRs for each of the Companies in the No Scheme Position.

2.16 In addition, the proportion of the highest quality Eligible Own Funds also increases marginally, from 73% of Eligible Own Funds within Tier 1 in the No Scheme Position to 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position.

Consideration of scenarios

2.17 I have also considered the impact of a number of scenarios, including some ‘extreme but plausible’ scenarios, which are scenarios which I consider unlikely to occur but still conceivable (and not merely of a theoretical nature). These scenarios have given me additional insight into the robustness of the capital position of the Companies and any corresponding impact on policyholders.

2.18 For the Mercantile Policyholders there is an increase (or no change) in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all of the scenarios other than those scenarios which only impact River Thames and the more extreme inflation scenario.

2.19 For those scenarios which only impact River Thames (i.e. Scenarios 3, 4 and 9), while the Mercantile Policyholders see a decrease in the Solvency Ratio as a result of the Proposed Scheme, the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%. This is the target Solvency Ratio for all of the Companies and hence it is reasonable to assume that dividends will be paid in the future – whether in the No Scheme Position or the Post Scheme Position – such that the Solvency Ratio will be reduced to this level for all of the Companies (subject to ‘non-objection’ being received from the PRA before any such dividends can be paid, as discussed in paragraph 2.7 above).

2.20 For the more extreme inflation scenario (Scenario 12a), the Mercantile Policyholders see a small decrease in the Solvency Ratio as a result of the Proposed Scheme, with the Solvency Ratio of River Thames in the Post Scheme Position falling below 100%. However, River Thames still has a strong positive net asset position in the Post Scheme Position, and would be expected to be able to pay all liabilities after this stress without requiring additional funds.

2.21 I therefore consider that the reduction in the Solvency Ratio for these scenarios as a result of the Proposed Scheme does not materially adversely affect the Mercantile Policyholders.

Increase in the proportion of assets which are subject to restrictions

2.22 In both the No Scheme Position and the Post Scheme Position there are a number of trust funds and collateral arrangements. Such arrangements could disadvantage policyholders in the Post Scheme Position due to a greater proportion of funds being unavailable to them.

2.23 For the Mercantile Policyholders there is an increase in the proportion of assets which are subject to restrictions (in that the restricted assets must be used to meet certain liabilities in priority to others) as a result of the Proposed Scheme. This proportion increases from 3% to 14%.

2.24 This increase in the proportion of assets which are subject to restrictions will only impact the Mercantile Policyholders in the event of the insolvency of River Thames in the Post Scheme Position. I have considered a number of scenarios in this Scheme Report and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

Impact if only insurance business transfer scheme of Mercantile Policies is effected

2.25 Throughout this Scheme Report I refer to the Proposed Scheme as a single insurance business transfer scheme, and my opinions and conclusions have been reached on this basis. It is possible, however, for only one of the insurance business transfer schemes to be effected.

2.26 If the insurance business transfer scheme of the Mercantile Policies is effected but the insurance business transfer scheme of the Rombalds Policies does not go ahead then I consider that none of my opinions and conclusions as set out in this Scheme Report will change given the low materiality of the Rombalds Policies in the overall context of the Proposed Scheme. In particular, the Rombalds Policies comprise only 0.6% of the gross Best Estimate Technical Provisions on a Solvency II basis (and 2.0% on a net of reinsurance basis) of River Thames in the Post Scheme Position.

Conclusions for policyholders transferring from Rombalds to River Thames

2.27 It is my opinion that the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme.

2.28 In the Post Scheme Position, the Rombalds Policies represent 0.6% of the gross Best Estimate Technical Provisions on a Solvency II basis (as at 31 December 2023), and 2.0% of the net (of reinsurance) Best Estimate Technical Provisions.

Impact on Solvency Ratios

2.29 The Rombalds Policyholders will be transferring from Rombalds to River Thames under the Proposed Scheme. As a result of the Proposed Scheme, for the Rombalds Policyholders, the Solvency Ratio will increase from 160% in the No Scheme Position to 189% in the Post Scheme Position.

2.30 The SCR for Rombalds is below the absolute minimum of the MCR (of €3.7 million as at 31 December 2023). As insurers are required to hold at least the MCR, the Solvency Ratio for Rombalds in the No Scheme Position is based on this absolute minimum MCR amount.

2.31 However, the proportion of the highest quality Eligible Own Funds decreases, from 100% of Eligible Own Funds within Tier 1 in the No Scheme Position to 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position. I consider, though, that this is mitigated by a number of factors – including the significant increase in the overall size of the available assets in the Post Scheme Position, a reduction in the risk that ongoing expenses deplete the Eligible Own Funds in the Post Scheme Position, the increase in the diversification of River Thames in the Post Scheme Position (which improves the overall risk profile) and the increase in the Solvency Ratio for the Rombalds Policyholders as a result of the Proposed Scheme (from 160% to 189%).

2.32 In terms of the increase in the overall size of the available assets in the Post Scheme Position, the Rombalds Policyholders are moving from a company with Eligible Own Funds of $6.8 million to a company with Eligible Own Funds of $221.3 million. This means that risks which may threaten the solvency of Rombalds in the No Scheme Position are unlikely to have a material impact on River Thames in the Post Scheme Position. For example, a new latent claim type which emerges from one of the Rombalds Policies and results in a relatively moderate reserve deterioration of $10 million would exceed the Eligible Own Funds of Rombalds in the No Scheme Position but would reduce the Eligible Own Funds of River Thames by less than 5% in the Post Scheme Position.

2.33 In terms of the reduction in the risk that the ongoing expenses deplete the Eligible Own Funds, in the No Scheme Position the run-off provision, which represents the future expenses required to manage the run-off of the business, is a material component of the total Solvency II Technical Provisions (as shown in Table 4.9 of this Scheme Report). This run-off provision is calculated assuming that the business will continue to be managed by Rombalds for five years, at which time it is assumed that Enstar will find an alternative way to manage any remaining liabilities (such as transferring them to another insurance company with more material remaining liabilities). Hence, if the Proposed Scheme does not go ahead and Enstar is unable to find an alternative way to manage any remaining liabilities, the Rombalds Policyholders are exposed to the risk that the ongoing expenses deplete the Eligible Own Funds available to pay claims, particularly given the long-tailed nature of the remaining liabilities within Rombalds. This risk is significantly reduced in the Post Scheme Position given the increase in the overall size of the available assets, and hence the reduction in the relative size of the run-off provision compared to the total liabilities.

Consideration of scenarios

2.34 I have also considered the impact of a number of scenarios, including the impact of some ‘extreme but plausible’ scenarios, which are scenarios which I consider unlikely to occur but still conceivable (and not merely of a theoretical nature). These scenarios have given me additional insight into the robustness of the capital position of the Companies and any corresponding impact on policyholders.

2.35 The Rombalds Policyholders see a reduction in the Solvency Ratio of their reinsurer in the Post Scheme Position compared with the No Scheme Position for the majority of the scenarios.

2.36 However, I would note that for a number of the scenarios the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%. This is the target Solvency Ratio for all of the Companies and hence it is reasonable to assume that dividends will be paid in the future – whether in the No Scheme Position or the Post Scheme

Position – such that the Solvency Ratio will be reduced to this level for all of the Companies (subject to 'non-objection' being received from the PRA before any such dividends can be paid, as discussed in paragraph 2.7 above).

2.37 There are seven scenarios where the Rombalds Policyholders see a reduction in their Solvency Ratio in the Post Scheme Position and the Solvency Ratio of River Thames in the Post Scheme Position falls below the target Solvency Ratio of 130%. However, I note that for these scenarios in the Post Scheme Position River Thames still has a positive net asset position, such that River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds.

2.38 In addition, I consider that in the Post Scheme Position the Rombalds Policyholders would benefit from the significant increase in the overall size of the available assets, a reduction in the risk that ongoing expenses deplete the Eligible Own Funds and the increase in the diversification of the business of River Thames.

2.39 I therefore consider that the reduction in the Solvency Ratio for the scenarios as a result of the Proposed Scheme does not materially adversely affect the Rombalds Policyholders.

Priorities on winding up

2.40 In the event of the insolvency of River Thames after the Proposed Scheme, the Rombalds Policyholders (all of whom are reinsurance policyholders) will be disadvantaged in the Post Scheme Position compared with the No Scheme Position since they will move from a company where they rank equally to all other policyholders to a company where 85% of policyholders rank before them.

2.41 However, as discussed above, I have considered a number of scenarios in this Scheme Report and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

Increase in the proportion of assets which are subject to restrictions

2.42 In both the No Scheme Position and the Post Scheme Position there are a number of trust funds and collateral arrangements. Such arrangements could disadvantage policyholders in the Post Scheme Position due to a greater proportion of funds being unavailable to them.

2.43 For the Rombalds Policyholders there is an increase in the proportion of assets which are subject to restrictions (in that the restricted assets must be used to meet certain liabilities in priority to others) as a result of the Proposed Scheme. This proportion increases from 0% to 14% for the Rombalds Policyholders.

2.44 This increase in the proportion of assets which are subject to restrictions will only impact the Rombalds Policyholders in the event of the insolvency of River Thames in the Post Scheme Position. I have considered a number of scenarios in this Scheme Report and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

Impact if only insurance business transfer scheme of Rombalds Policies is effected

2.45 Throughout this Scheme Report I refer to the Proposed Scheme as a single insurance business transfer scheme, and my opinions and conclusions have been reached on this basis. It is possible, however, for only one of the insurance business transfer schemes to be effected.

2.46 I have considered the impact on my conclusions if the insurance business transfer scheme of the Rombalds Policies is effected but the insurance business transfer scheme of the Mercantile Policies does not go ahead, as set out from paragraph 4.391 of this Scheme Report. I have concluded that my opinion that the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme will not change if only the insurance business transfer scheme of the Rombalds Policies is effected.

Conclusions for existing policyholders of River Thames

2.47 It is my opinion that the River Thames Policyholders will not be materially adversely affected by the Proposed Scheme.

2.48 In the Post Scheme Position, the River Thames Policies represent 24% of the gross Best Estimate Technical Provisions on a Solvency II basis (as at 31 December 2023), and 37% of the net (of reinsurance) Best Estimate Technical Provisions.

Impact on Solvency Ratios

2.49 The River Thames Policyholders will be remaining within River Thames under the Proposed Scheme. As a result of the Proposed Scheme, for the River Thames Policyholders the Solvency Ratio will increase from 150% in the No Scheme Position to 189% in the Post Scheme Position. In addition, the proportion of the highest quality Eligible Own Funds also increases, from 67% of Eligible Own Funds within Tier 1 in the No Scheme Position to 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position.

Consideration of scenarios

2.50 I have also considered the impact of a number of scenarios, including the impact of some ‘extreme but plausible’ scenarios, which are scenarios which I consider unlikely to occur but still conceivable (and not merely of a theoretical nature). These scenarios have given me additional insight into the robustness of the capital position of the Companies and any corresponding impact on policyholders.

2.51 For the River Thames Policyholders there is an increase in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all but three of the scenarios.

2.52 For these three scenarios, the Solvency Ratio of River Thames is either close to 100% in the Post Scheme Position or I consider that the decrease in Solvency Ratio from the No Scheme Position to the Post Scheme Position is not material. In addition, River Thames has a positive net asset position in the Post Scheme Position in all three of these scenarios, such that River Thames would still be expected to be able to pay all liabilities after these scenarios without requiring additional funds.

Priorities on winding up

2.53 In the event of the insolvency of River Thames after the Proposed Scheme the following River Thames Policyholders will be disadvantaged in the Post Scheme Position compared with the No Scheme Position:

- The direct insurance policyholders of River Thames, since as a result of the Proposed Scheme they will move from a situation where they rank before 59% of policyholders to a situation where they only rank before 15% of policyholders; and
- The reinsurance policyholders of River Thames, since as a result of the Proposed Scheme they will move from a situation where 41% of policyholders rank before them to a situation where 85% of policyholders rank before them.

2.54 However, I have considered a number of scenarios in this Scheme Report and all of these scenarios result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote.

Impact on outwards reinsurers

2.55 I have concluded that the Proposed Scheme will have no effect on the outwards reinsurers who provide reinsurance in respect of the Affected Policies, as a result of the following considerations:

- In relation to the potential effects of the Proposed Scheme on matters related to claims handling and policy administration, I have concluded that there will be no changes to the claims handling and policy administration as a result of the Proposed Scheme.
- I also concluded that the Proposed Scheme will have no impact on how the outwards reinsurance contracts are managed in either the No Scheme Position or the Post Scheme position.

Communication strategy

2.56 I have reviewed a draft of the letters and the explanatory circular (the “Circular”) which will be sent as part of the communication process and I consider that the level of information contained in these documents to be appropriate and its presentation to be clear, fair and not misleading.

2.57 In my opinion, the proposed waivers being sought of the statutory requirements to notify policyholders and reinsurers are proportionate and reasonable.

2.58 I am therefore satisfied that the proposed material to be presented to policyholders, claimants, reinsurers and other potentially affected parties is appropriate and the Companies’ approach to communication is appropriate, reasonable and proportionate.

Section 3: Overview of the Proposed Scheme

Introduction

3.1 The Proposed Scheme relates to the transfer of certain policies within the Enstar Group. The policies to be transferred represent all the insurance and/or reinsurance policies of Mercantile and Rombalds, and no policies are expected to remain in Mercantile or Rombalds following the Proposed Scheme.

3.2 River Thames, Mercantile and Rombalds are all wholly owned indirect subsidiaries of EGL within the Enstar Group and are authorised UK insurers in run-off regulated by the PRA and FCA.

3.3 It is intended that the effective date of the transaction will be 1 January 2026 (the "Effective Date").

3.4 Throughout this Scheme Report I refer to the Proposed Scheme as a single insurance business transfer scheme. I note, however, that there are actually two insurance business transfer schemes, which are the same in all material respects, are contained in a consolidated document and are intended to be effected simultaneously. Except where explicitly stated otherwise, my opinions and conclusions set out throughout this Scheme Report are on the basis that both of the insurance business transfer schemes are effected simultaneously, or that neither of them are effected. It is possible, however, for only one of the insurance business transfer schemes to be effected. I consider the impact of this on my opinions and conclusions from paragraph 4.388 of this Scheme Report.

Purpose and selection of the Proposed Scheme

3.5 The purpose of the Proposed Scheme is to simplify the operational structure of the UK operations of the Enstar Group, and the Proposed Scheme is expected to reduce operational costs.

Structure of the Proposed Scheme

3.6 The figures below depict a simplified version of the relevant parts of the structure of the Enstar Group before and after the Proposed Scheme.

Figure 3.1: Simplified current structure of the Enstar Group

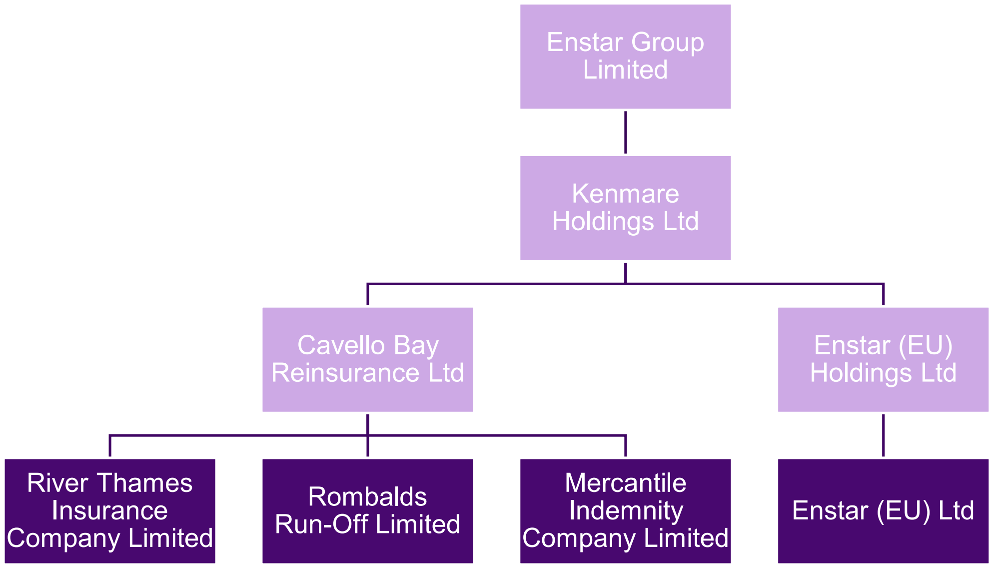
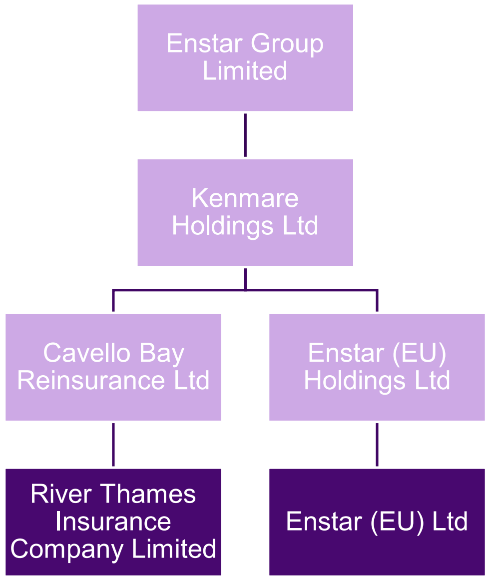


Figure 3.2: Simplified structure of the Enstar Group after the Proposed Scheme



Background of Mercantile

3.7 Mercantile is a wholly owned indirect subsidiary of EGL. Mercantile is domiciled in the UK, is authorised by the PRA and is regulated by the PRA and FCA. Mercantile is a run-off company, such that the company continues to administer and pay claims for existing policies. Mercantile is authorised in the UK to carry out[1] all classes of general insurance business (except for classes 3, 10 and 18), and to effect[2] contracts of insurance but subject to the limitation of being

[1] The regulated activity of "carrying out" contracts of insurance refers to the administration and claims handling in respect of existing contracts.
[2] The regulated activity of "effecting" contracts of insurance refers to underwriting or accepting contracts of insurance, and activities related thereto.

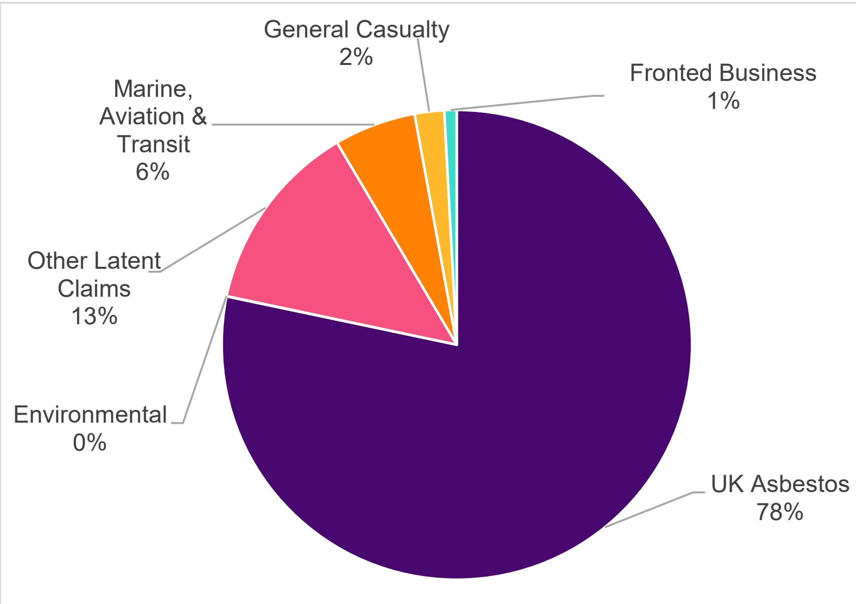
required to seek non-objection from the PRA and the FCA before using its effecting permission.

3.8 The entire business of Mercantile relates to the run-off of policies originally written or transferred to Royal & Sun Alliance Insurance Limited and The Marine Insurance Company Limited, and which were transferred to Mercantile in 2019 by way of a transfer effected under Part VII of the Financial Services and Markets Act 2000. In a subsequent Part VII transfer in 2022, which took place in response to Brexit, a proportion of the policies covering risks situated in EEA member states were transferred out of Mercantile into Alpha Insurance NV ("Alpha"), a Belgian sister company in the Enstar Group.

3.9 The business in Mercantile is mostly direct business but includes a small amount of reinsurance business. The policies were mostly written before 2006 and represent a mixture of general UK insurance and more specialist London Market business. The most material current reserves of Mercantile are for UK Employer's Liability ("EL") policies, in particular in relation to latent claims arising in relation to asbestos exposure and other industrial diseases. There is also some exposure to US Asbestos, Pollution and Health ("US APH") claims.

3.10 The breakdown of Mercantile's gross reserves (on a UK GAAP basis) by high-level reporting class is shown in the figure below.

Figure 3.3: Mercantile Gross Reserves as at 31 December 2023



3.11 The Marine Aviation & Transit reserves primarily relate to US APH claims. The Other Latent reserves include UK noise induced hearing loss and abuse claims.

3.12 Mercantile benefits from significant outwards reinsurance in the form of a 75% quota share arrangement CBRe which covers all claims, as well as both allocated and unallocated loss adjustment expenses. This reinsurance arrangement had an original limit of £1.5 billion. Following subsequent payments, the remaining limit at 31 December 2023 is £1.29 billion, which is significantly above the CBRe ceded reserves of around £0.4 billion (as shown in Table 4.5 in USD). CBRe is a Class 3B reinsurer domiciled in Bermuda and is supervised by the Bermuda Monetary Authority. It is a wholly owned indirect subsidiary of EGL and provides reinsurance protection for entities within the Enstar Group and third parties. CBRe has a financial strength rating of A from both S&P and AM Best.

3.13 This quota share is collateralised, with the amount of collateral set so that there is no Counterparty Default Risk charge for this contract under the Standard Formula Solvency Capital Requirement. As at 30 June 2024, this amounted to approximately $527 million. The collateral is held in custody by BNY Mellon and the required amount is calculated on a quarterly basis.

3.14 Mercantile also has some reinsurance with third parties. The majority of the remaining third-party reinsurance is reflected in the financials of Mercantile, although this is regularly monitored with specific provisions where recoveries are considered difficult.

3.15 Mercantile has outsourced the management and administration of its business to Enstar – a non-regulated UK based service company within the Enstar Group. Enstar has further outsourced the claims handling for around 80% of Mercantile's claims to Pro Insurance Solutions Limited ("Pro").

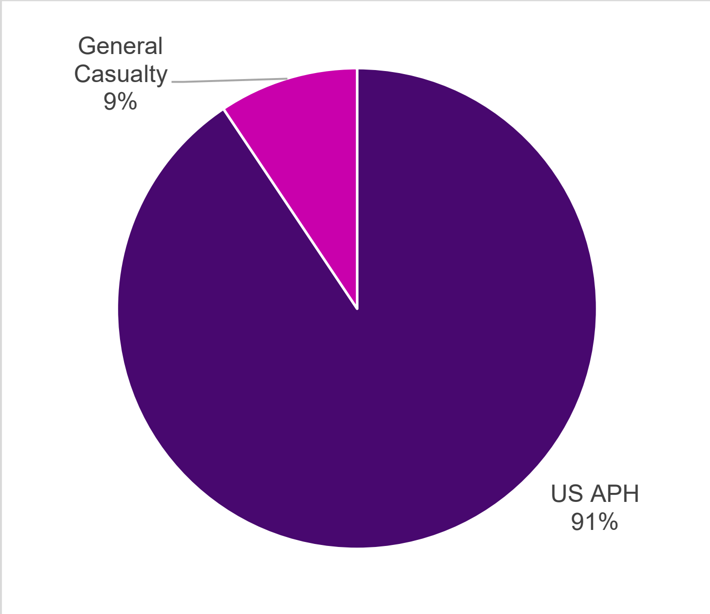
Background of Rombalds

3.16 Rombalds is a wholly owned indirect subsidiary of EGL. Rombalds is a run-off company which is domiciled in the UK, authorised by the PRA and regulated by the PRA and FCA. Rombalds is authorised in the UK to carry out all classes of general insurance business, and to effect contracts of insurance but subject to the limitation of being required to seek non-objection from the PRA and the FCA before using its effecting permission.

3.17 The business of Rombalds comprises only inwards reinsurance policies and relates solely to the run-off of policies originally written by the Nisshin Fire & Marine Insurance Company Limited ("Nisshin") which were transferred to Rombalds in 2017 by way of a transfer effected under Part VII of the Financial Services and Markets Act 2000. In a subsequent Part VII transfer in 2022, which took place in response to Brexit, all of the policies covering risks situated in EEA member states were transferred out of Rombalds into Alpha.

3.18 The business of Rombalds relates to the reinsurance of general insurance liabilities written up to 2013. The predominant remaining exposure is to US APH claims arising from the 1985 and prior underwriting years.

Figure 3.4: Rombalds Gross Reserves as at 31 December 2023



3.19 Rombalds has no outwards reinsurance, having commuted all remaining reinsurance during 2020.

3.20 Rombalds has outsourced the management and administration of its business to Enstar – a non-regulated UK based service company within the Enstar Group.

Background of River Thames

3.21 River Thames is a wholly owned indirect subsidiary of EGL. River Thames is a run-off company, having entered run-off in 1997. It is domiciled in the UK, authorised by the PRA and regulated by the PRA and FCA. River Thames is authorised in the UK to carry out all classes of general insurance business, and to effect contracts of insurance but subject to the limitation of being required to seek non-objection from the PRA and the FCA before using its effecting permission.

3.22 The business of River Thames includes liabilities arising under policies originally underwritten by River Thames, as well as liabilities assumed by way of previous Part VII transfers (in 2014 and 2017) from other insurers in the Enstar Group. As part of these previous Part VII transfers, River Thames has accepted business from Cavell Insurance Company Limited, Fieldmill Insurance Company Limited, Hillcot Re Limited, Longmynd Insurance Company Limited, Unione Italiana (UK) Reinsurance Company Limited, Bosworth Run-Off Limited, Brampton Insurance Company Limited, Knapton Insurance Limited, Marlon Insurance Company Limited, Mercantile[1] and Unionamerica Insurance Company Limited. The business transferred under these previous Part VII transfers includes business originally written by the transferring firms but also business previously transferred to them either under a Part VII transfer or a form of novation.

[1] The transfer involving Mercantile took place before the subsequent transfer into Mercantile of the policies originally written or transferred to Royal & Sun Alliance Insurance Limited and The Marine Insurance Company Limited, which were transferred into Mercantile in 2019 as discussed in paragraph 3.8 above.

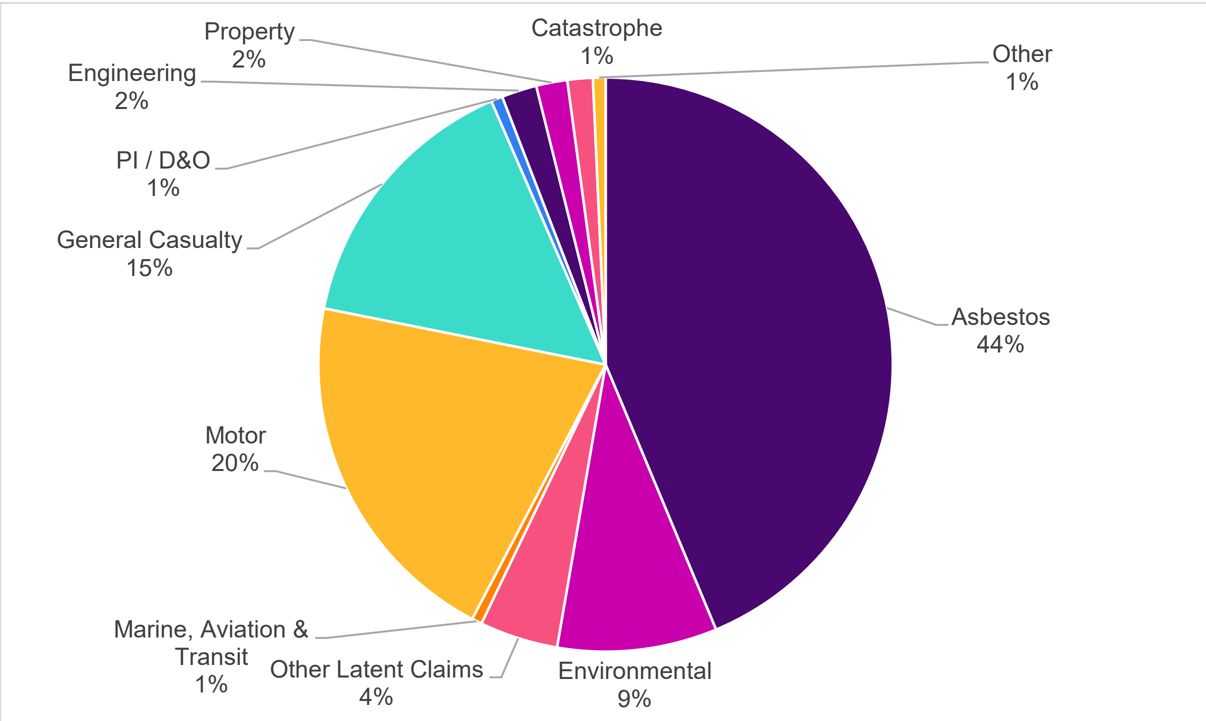
3.23 In a subsequent Part VII transfer in 2022, which took place in response to Brexit, a proportion of the policies covering risks situated in EEA member states were transferred out of River Thames into Alpha.

3.24 Due to the wide range of underlying businesses that make up the current River Thames portfolio, the remaining reserves cover a wide range of classes including both UK and non-UK (predominantly US) claims. River Thames' business includes both insurance and reinsurance policies.

3.25 All business transferred into River Thames was already in run-off. I understand that the majority of exposure relates to the period prior to 2000, although the most recent book to enter run-off did so in 2009.

3.26 Due to the age of the portfolios, the majority of remaining reserves relate to casualty business, particularly latent claims such as US APH. A breakdown of the gross reserves of River Thames (on a UK GAAP basis) by high-level reporting class is shown in the figure below.

Figure 3.5: River Thames Gross Reserves as at 31 December 2023



3.27 As at 31 December 2023, approximately 53% of the reserves of River Thames are in respect of US asbestos, pollution, and health claims (comprising 44% in respect of asbestos and 9% in respect of environmental). A further 20% of reserves relate to direct and reinsurance motor liabilities, the majority of which (77%) arise from UK Periodic Payment Orders ("PPOs") in payment. The remainder comprises general casualty, property and engineering portfolios, a mix of other latent claims and a diverse mix of smaller portfolios.

3.28 River Thames benefits from significant outwards reinsurance in the form of a 50% quota share with CBRe which covers all claims, as well as both allocated and unallocated loss adjustment expenses. This quota share is accounted for on a funds withheld basis with River Thames retaining the initial reinsurance premium adjusted for payments such that the retained funds match the current estimate of the reinsurer's share of net reserves. This figure is updated on a quarterly basis.

3.29 The funds withheld are held on the balance sheet of River Thames and, as such, CBRe benefits from the same investment yield on the funds withheld amount which River Thames achieves in respect of its entire investment portfolio.

3.30 In addition, CBRe is required to provide an additional 20% of their share of net reserves for the benefit of River Thames as additional security. This is currently provided in the form of a holding in a single exchange traded fund ("ETF") which is also held on the balance sheet of River Thames. Any investment return on this ETF is passed straight to CBRe. As with the funds withheld, this additional amount is adjusted quarterly.

3.31 Due to the age of the portfolios, outwards reinsurance with third parties has generally been fully provided for with bad debt provisions. The key exception to this is for business relating to the Inter Hannover portfolio (which was transferred to River Thames from Brampton Insurance Company Limited) where the reinsurance counterparties are known and still active.

Background of CBRe

3.32 CBRe is the immediate parent company of all the Companies in the No Scheme Position, and of River Thames in the Post Scheme Position. CBRe provides significant quota share reinsurance to both Mercantile and River Thames, as described above.

3.33 CBRe is a Class 3B Bermudan reinsurer and is regulated by the Bermuda Monetary Authority ("BMA"). The company was incorporated in 2015 and is a wholly owned subsidiary of Kenmare Holdings Limited. It is one of the primary run-off vehicles within the Enstar Group, undertaking both reinsurance activities of run-off portfolios as well as acquiring legacy portfolios.

3.34 Due to the wide range of business that has been reinsured by CBRe or transferred into the company, CBRe has exposure to multiple classes of business with the majority of the remaining exposure being in liability classes due to the long-tailed nature of these classes. The three most material Bermuda reporting classes are US Casualty, International Casualty Non-Motor and US Casualty Non-Proportional. Together these classes represent approximately 75% of the net technical provisions of CBRe (on a Bermuda regulatory basis).

3.35 As at 31 December 2023, CBRe had total liabilities of $8,975 million and surplus assets of $6,472 million, both on a Bermuda regulatory basis. CBRe has limited outwards reinsurance, with the net technical provisions amounting to 98% of the gross technical provisions as at 31 December 2023. The capital requirements of CBRe are set according to the Bermuda Solvency Capital Requirement ("BSCR"). The required BSCR as at 31 December 2023 was $3,137 million, resulting in a coverage ratio of 206%. Bermuda is deemed to have full Solvency II equivalence so I regard this coverage ratio as being directly comparable to coverage ratios for UK insurers calculated on a Solvency II basis.

3.36 As part of the Bermuda regulatory requirements, CBRe is subject to an annual regulatory opinion on its total technical provisions by an actuary who has been approved by the BMA. As part of this opinion, there is a requirement to determine whether there is a material risk of an adverse deviation in the technical provisions. Based on the size of CBRe's technical provisions and surplus assets, a materiality threshold was set at $1,294 million and no reasonable risk above this materiality threshold was identified. A number of smaller risks were identified, however, in particular exposure to Asbestos and Environmental losses, inflation and the impact of writing new legacy deals.

3.37 On a US GAAP basis, the reserves relating to the Companies represents approximately 7% of the total net reserves of CBRe.

Transferring Policies

3.38 Under the Proposed Scheme, it is proposed that all policies underwritten by Mercantile and Rombalds or previously transferred to them be transferred to River Thames such that no policies remain in Mercantile or Rombalds after the Proposed Scheme.

Transferring Assets

3.39 It is proposed that all the assets within Mercantile and Rombalds be transferred to River Thames as part of the Proposed Scheme, including the benefit of all the reinsurance which provides cover for the Transferring Policies.

3.40 The reinsurance for the Transferring Policies includes the following reinsurance for Mercantile:

- A 75% intra-group quota share reinsurance with CBRe; and
- Further external reinsurance with third parties.

3.41 I understand that Rombalds has no outwards reinsurance to transfer.

3.42 Under the Proposed Scheme, the Mercantile quota share arrangement with CBRe will transfer in favour of River Thames such that the quota share arrangement which covers the Mercantile Policies will be retained after the Proposed Scheme. There will remain separate reinsurance contracts between River Thames and CBRe after the Proposed Scheme – one covering the Existing Policies and another covering the Mercantile Policies.

3.43 In order to retain the benefit of all of the outwards reinsurance with third parties which provides cover for the Transferring Policies, the Court is being asked to sanction the transfer from Mercantile to River Thames of all the outwards third-party reinsurance contracts as part of the Proposed Scheme.

3.44 No outwards reinsurance is expected to be amended or terminated as part of the Proposed Scheme.

3.45 In order to facilitate the transfer of all the assets within Mercantile and Rombalds, it is proposed that Mercantile and Rombalds be de-authorised as insurance companies on the Effective Date of the Proposed Scheme. In the event that either company is not able to be de-authorised on the Effective Date, I understand that they will continue to hold assets sufficient to meet the Minimum Capital Requirement (“MCR”) until such time as they are de-authorised. Should this occur then under the Proposed Scheme any remaining assets will automatically be transferred to River Thames as soon as the relevant company is de-authorised.

No Scheme Position

3.46 In this Scheme Report, for each group of policyholders I have considered the security of the policyholders on two bases – the No Scheme Position and the Post Scheme Position.

3.47 When considering the Post Scheme Position, I have based my considerations on the structure of the Proposed Scheme as described throughout this section.

3.48 When considering the No Scheme Position, I have based my considerations on the existing structure of Mercantile, Rombalds and River Thames as described above and assume that no other organisational changes take place.

Overview of methodology

3.49 For each group of policyholders, I have considered the likely effects of the Proposed Scheme on the security of policyholders' contractual rights and levels of service provided to policyholders. I have considered the likely effects of the Proposed Scheme by considering:

- The financial considerations of the Proposed Scheme, where I consider the likely effects of the Proposed Scheme on the security of policyholders' contractual rights.
- Non-financial considerations of the Proposed Scheme, including the likely impact of the Proposed Scheme on the levels of service provided to policyholders.
- The proposed communication strategy.

3.50 I set out some further details on my approach to considering the above aspects in the paragraphs below. My overall conclusions on the Proposed Scheme are set out in Section 2 of this Scheme Report.

Financial considerations

3.51 Security for policyholders is provided by assets backing the technical reserves and by net shareholder assets. I have considered the balance sheets for each of the Companies, on both a statutory[1] and regulatory[2] basis, including the valuation of the assets and liabilities.

3.52 In considering policyholder security, it is also necessary to take into account the potential variability of future experience (including investment returns, claims experience, expense levels and wider operational risks), and potential future distributions to, or capital injections from, shareholders. Other factors are the nature of the reinsurance arrangements and the financial security of reinsurance counterparties.

3.53 Insurers are subject to capital requirements imposed by their regulators. The level of actual available capital compared to regulatory required capital is a measure of the security provided to policyholders. The regulatory capital for the Companies represents the amount of capital that insurers are required to hold to protect their balance sheet over a one-year period.

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[1] The statutory basis is the basis for valuing assets and liabilities in accordance with the accounting requirements of the undertaking, which for the Companies is UK GAAP.
[2] The regulatory basis is the basis for valuing assets and liabilities, and assessing capital requirements, as set out under Solvency II.

3.54 In addition to considering the regulatory capital when considering policyholder security, it is also important to consider whether an insurer will have sufficient assets to meet its liabilities over the full period during which the claims in respect of the insured policies will be paid (the "ultimate capital"). The ultimate capital amount considers the emergence of risk over a longer time horizon than the one year considered by Solvency II.

3.55 When assessing the Proposed Scheme I have therefore considered the impact of the Proposed Scheme on the regulatory capital of each of the Companies, together with the available capital, as well as the impact on the ultimate capital. I have also considered the impact of some different scenarios on the Companies in order to further understand the robustness of the capital positions of the Companies, and any corresponding impact on policyholders as a result of the Proposed Scheme.

3.56 I also discuss other financial considerations arising from the Proposed Scheme in this Scheme Report. These considerations cover the following aspects:

- Implications on ongoing expense levels
- Implications of investment strategy
- Impact of liquidity position
- Implications of new business strategy
- Implications of material litigation
- Insolvency, including the ranking of policyholders in a winding-up and access to compensation schemes
- Ring-fenced funds and guarantees
- Accounting approach
- Cost and tax implications of the Proposed Scheme
- Pension schemes

3.57 The financial considerations of the Proposed Scheme are set out in Section 4 of this Scheme Report.

Non-financial considerations

3.58 In Section 5 of this Scheme Report, I discuss the non-financial considerations arising from the Proposed Scheme, including the levels of service provided to policyholders. My considerations and findings are set out under the following headings:

- Policyholder service levels
- Comparison of regulatory regimes
- Ombudsman services
- Recognition of the Proposed Scheme in non-UK jurisdictions
- Impact on outwards reinsurers

- Governance and management framework

Proposed communication strategy

3.59 In Section 6 of this Scheme Report I set out the details of my considerations and findings with regards to the proposed strategy for communicating the proposals to policyholders and other potentially affected parties.

Solvency UK

3.60 In general, this Scheme Report is based on data and information as at 31 December 2023. At this date the Companies, which are all domiciled in the UK, were subject to the Solvency II regulatory requirements.

3.61 Following Brexit, the PRA has implemented a new Solvency UK regulatory regime, which was implemented with effect from 31 December 2024.

3.62 At the time of drafting this Scheme Report, the Solvency UK regulatory regime remains materially similar to the Solvency II regulatory regime. With regards to the calculation of Eligible Own Funds and the Solvency Capital Requirement for the Companies I understand that the only change which is not immaterial is the reduction in the cost of capital rate from 6% per annum to 4% per annum when calculating the Risk Margin for the Solvency II Technical Provisions. However, this change was implemented with effect from 31 December 2023.

3.63 Given the above, I have considered the regulatory balance sheets and capital requirements of the Companies as at 31 December 2023 (which were produced in accordance with Solvency II), together with projected balance sheets and capital requirements, when assessing the financial impacts of the Proposed Scheme without making any adjustments for the transition between Solvency II and Solvency UK. For simplicity, throughout this Scheme Report I use the term “Solvency II” to refer to both Solvency II and Solvency UK.

Definition of “materially adverse”

3.64 For each of the areas covered in this Scheme Report I have considered whether the Affected Policyholders would be “materially adversely” affected under the Proposed Scheme.

Financial security

3.65 When considering the financial security of the Affected Policyholders the key metric I have considered is the Solvency Ratio of the Companies in both the No Scheme Position and the Post Scheme Position. The Solvency Ratio is a measure of financial strength, which equals the surplus of assets over liabilities as determined under Solvency II divided by the required regulatory capital, as calculated according to the Standard Formula under Solvency II.

3.66 In addition to considering Solvency Ratios, where relevant I have also considered other aspects which I consider will impact the level of financial security of the Affected Policyholders in the Post Scheme Position but which are not reflected in the Solvency Ratio. This is particularly relevant for the Rombalds Policyholders, given the small size of Rombalds relative to both Mercantile and River Thames. As set out in this Scheme Report, when reaching my conclusions I have considered a number of factors which I consider will improve the level of financial security of the Rombalds Policyholders in the Post Scheme Position. These factors are discussed from paragraph 4.214, and include the impact of a significant increase in the overall size of the available assets, a reduction in the risk that the ongoing expenses deplete the available assets and an increase in the diversification of the business.

3.67 When reaching my conclusions I have also considered the nature of the assets held by each of the Companies.

3.68 When considering the Solvency Ratio, I have considered the following aspects in order to conclude whether any Affected Policyholders would be materially adversely affected as a result of the Proposed Scheme:

- Whether the Solvency Ratio is lower in the Post Scheme Position than in the No Scheme Position.
- Whether the Solvency Ratio remains above 130% in the Post Scheme Position, which is the target Solvency Ratio for each of the Companies. Given that 130% is the target Solvency Ratio for each of the Companies it is reasonable to assume that dividends will be paid in the future – whether in the No Scheme Position or the Post Scheme Position – such that the Solvency Ratio will be reduced to this level for each of the Companies (subject to 'non-objection' being received from the PRA before any such dividends can be paid). As such, I consider that Affected Policyholders are not materially adversely affected if the Solvency Ratio remains above 130% in the Post Scheme Position, given that this level of financial security is assumed to be acceptable in the No Scheme Position.
- Whether, if the Solvency Ratio falls below 130%, the Solvency Ratio remains above 100%, which means that the likelihood of insurer failure is lower than a 1 in 200 likelihood (a 0.5th percentile level of risk) over a one-year time horizon, which is the basis on which the regulatory capital for all entities is set according to Solvency II.
- Whether, if the Solvency Ratio falls below 100%, the net asset position remains positive i.e. the assets of the company are greater than the liabilities such that the company is expected to be able to pay all liabilities without requiring additional funds.

3.69 My conclusions are predominantly based on the absolute level of the Solvency Ratio in the Post Scheme Position as set out in the previous paragraph, and therefore the likelihood that all valid claims will be met in the Post Scheme Position, rather than whether the Solvency Ratio is lower in the Post Scheme Position than in the No Scheme Position. This is particularly the case where I have considered the impact of different scenarios on the Solvency Ratios of each of the Companies, which are set out from paragraph 4.217 of this Scheme Report. In taking this approach, I have taken account of the following judgments for previous Part VII transfers:

- Paragraph 11 from *Re Royal Sun Alliance Insurance plc [2008] EWHC 3436 (Ch)*:
  - *"The word "material" is important. The court is not concerned to address theoretical risks. It might be said that a transfer of business from a very large company to a large company involved a reduction in the cover available to the transferring policyholders, but assuming that the transferee is in a financially strong position it matters not that the level of cover in the transferee is less than that in the transferor. What the court is concerned to address is the prospect of real, as opposed to fanciful, risks to the position of policyholders."*

- Similar wording was also used in the Court of Appeal's judgment in *Re The Prudential Assurance Company Ltd and Rothesay Life plc [2020] EWCA Civ 1626*:
  - *"An adverse effect will only be material to the court's consideration if it is: (i) a possibility that cannot sensibly be ignored having regard to the nature and gravity of the feared harm in the particular case, (ii) a consequence of the scheme, and (iii) material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned. In some cases, it may also be relevant for the court to consider whether there would be such material adverse effects in the event that the scheme was not sanctioned."*

3.70 While the Solvency Ratio is based on the regulatory capital, which targets a likelihood of insurer failure of a 1 in 200 likelihood (a 0.5th percentile level of risk) over a one-year time horizon, I also considered the likelihood of insurer failure above a 1 in 40 likelihood (a 2.5th percentile level of risk) over the ultimate time horizon (the full period during which the claims in respect of the insured policies will be paid). However, as discussed in paragraph 4.187 of this Scheme Report, both measures result in materially similar results for the individual risk types for the Companies. I therefore concluded that, given that the capital requirements calculated using the unapproved Enstar Capital Model are lower than those calculated using the Standard Formula, it is reasonable to base my conclusions on Solvency Ratios which use the SCR calculated according to the Standard Formula under Solvency II.

Levels of service

3.71 When considering the levels of service provided to policyholders, I have compared the levels of service which can be expected in the No Scheme Position and the Post Scheme Position and relied on my judgement in assessing whether a difference in expected service levels can be considered to materially adversely affect policyholders, explaining the reasons for my opinion.

Section 4: Financial considerations

Introduction

4.1 In this section, I discuss the financial considerations arising from the Proposed Scheme under the following headings:

- Review of balance sheets
- Review of reserves
- Review of investments
- Review of capital requirements
- Implications on ongoing expense levels
- Impact on liquidity position
- Implications of new business strategy
- Impact of material litigation
- Insolvency
- Ring-fenced funds and guarantees
- Accounting approach
- Cost and tax implications of the Proposed Scheme
- Pension schemes

Review of balance sheets

4.2 In this section I set out my review of the UK GAAP and Solvency II balance sheets for each of the Companies in the No Scheme Position as well as the River Thames consolidated balance sheet in the Post Scheme Position. This includes a review of the latest audited balance sheets for each of the Companies as at 31 December 2023, as well as consideration of the projected balance sheets in both the No Scheme Position and the Post Scheme Position.

4.3 The Companies are subject to the same reporting and regulatory requirements – with each of the Companies currently reporting under UK GAAP and following the Solvency II regime for regulatory reporting. These requirements will not be impacted by the Proposed Scheme.

4.4 The purpose of my review is to set out the key components of the balance sheet for each of the Companies, including any material differences as well as investigating how this may change in the Post Scheme Position.

4.5 As the Companies continue to run-off their liabilities, the dividend policy for each of the Companies allows for the regular payment of dividends subject to maintaining a solvency ratio of 130%. Dividends were paid by Mercantile in 2023 and River Thames in 2024. Future payments are expected to continue subject to the maintenance of a solvency ratio of at least

130%. In addition, any dividend payments require 'non-objection' from the PRA before they can be paid, which is an additional level of protection which applies to all firms in run-off. The dividend policies and 'non-objection' requirement from the PRA apply to all the Companies in the No Scheme Position and to River Thames in the Post Scheme Position.

4.6 As part of my review of the balance sheets, I have conducted a review of the reserves and investments for each company. These are set out in their own sections below.

Balance Sheets as at 31 December 2023

4.7 The balance sheets as at 31 December 2023 reflect the latest audited position available for each of the Companies at the time of drafting this Scheme Report.

4.8 The following tables show a high-level summary of the balance sheets for each of the Companies as at 31 December 2023 on both a UK GAAP and Solvency II basis. The River Thames balance sheets incorporate two adjustments compared with the audited figures to reflect two significant post balance sheet developments:

- A dividend of $121.9 million which was paid by River Thames during 2024; and
- A dividend of $35.2 million which had been expected to be paid by River Thames during the first half of 2025 (and therefore prior to the Proposed Scheme taking effect). In practice, the dividend was approved at $33.1 million. I do not consider that the difference between the expected dividend (on which all the figures in this Scheme Report are based) and the actual dividend to impact any of the conclusions I have reached.

4.9 In addition, the Solvency II figures for Mercantile incorporate an adjustment to allow for a missing element of collateral in the Counterparty Default Risk calculation which was omitted for the submitted figures. This adjustment impacts the SCR, and hence also the Risk Margin.

Table 4.1: River Thames Balance Sheet as at 31 December 2023 (USD thousands)

	UK GAAP	Solvency II
Cash & Investments	262,010	262,010
Reinsurance	119,762	112,367
Other Assets	13,485	13,065
Total Assets	**395,257**	**387,442**
Best Estimate Reserves / Technical Provisions	212,116	200,617
Risk Margin		11,548
Other Liabilities	134,806	134,519
Total Liabilities	**346,922**	**346,685**
Net Assets	**48,334**	**40,757**

Table 4.2: Mercantile Balance Sheet as at 31 December 2023 (USD thousands)

	UK GAAP	Solvency II
Cash & Investments	274,160	274,160
Reinsurance	597,996	493,189
Other Assets	24,659	23,761
Total Assets	**896,815**	**791,110**
Best Estimate Reserves / Technical Provisions	774,475	640,935
Risk Margin		22,094
Other Liabilities	12,550	12,432
Total Liabilities	**787,025**	**675,461**
Net Assets	**109,790**	**115,649**

Table 4.3: Rombalds Balance Sheet as at 31 December 2023 (USD thousands)

	UK GAAP	Solvency II
Cash & Investments	11,793	11,793
Reinsurance	0	0
Other Assets	845	808
Total Assets	**12,638**	**12,602**
Best Estimate Reserves / Technical Provisions	3,317	4,918
Risk Margin		596
Other Liabilities	291	283
Total Liabilities	**3,609**	**5,797**
Net Assets	**9,029**	**6,805**

4.10 The reporting currency for River Thames and Rombalds is USD, while for Mercantile the reporting currency is GBP. In the Post Scheme Position, the reporting currency for River Thames is expected to remain as USD. Under the Standard Formula, it is most capital efficient to hold any assets above the Best Estimate Technical Provisions in the reporting currency. Given this, Enstar is planning to sell all GBP assets in excess of the Best Estimate Technical Provisions in the Post Scheme Position immediately after the Effective Date and replace these with USD assets in order to minimise the Currency Risk within the Standard Formula. As a result, the change in reporting currency is expected to have an indirect impact on Mercantile Policyholders since the current asset portfolio of Mercantile will be changed to be a more USD aligned portfolio immediately after the Effective Date.

4.11 The Solvency II Technical Provisions contain an allowance for the Risk Margin in addition to the Best Estimate Technical Provisions. The River Thames Risk Margin in the Post Scheme Position is expected to differ from a straight sum of the No Scheme Position Risk Margins of the Companies due to diversification between the Companies. Otherwise, there are not expected to be any material differences between the balance sheets on a Post Scheme

Position and the sum of the balance sheets for the individual Companies in the No Scheme Position.

4.12 The reserves (including the corresponding reinsurance) and investments are discussed in more detail in the following sections. Other balance sheet items are correspondingly less material for each of the Companies. These predominantly reflect the normal levels of debtors and creditors typical for insurance businesses.

4.13 In addition, Enstar has produced projected balance sheets for year ends 2024 to 2028. These are discussed later in this section.

Review of reserves

4.14 In this section I set out my review of the reserves for each of the Companies including both the level of reserves as well as the approaches and assumptions used to set these reserves. The purpose of this review is to understand whether the approaches taken to set the reserves are reasonable and whether I consider that the level of reserves for each of the Companies (on both a UK GAAP and Solvency II basis) is reasonable.

4.15 For each of the Companies I have reviewed the reserves based on the most recent information available at the time of drafting this Scheme Report. The most recent audited accounts for each of the Companies are as at 31 December 2023. I have supplemented this information by considering the results of Enstar's internal reserve reviews. In most cases, these internal reserve reviews were conducted as at 30 June 2024 with the exception of certain business for Mercantile, predominantly relating to UK asbestos exposure, which was conducted as at 30 September 2024. These internal reserve reviews which were undertaken during 2024 are expected to form the basis of the audited accounts as at 31 December 2024.

4.16 The reserving function of each company is outsourced to Enstar with the same actuarial team assessing the reserves for each of the Companies. In addition, as discussed from paragraph 5.24 of this Scheme Report, there is a high degree of commonality in the governance structure of each of the Companies and a high degree of overlap of Senior Management Functions. As such I consider that there are likely to be minimal or no changes in the approaches and assumptions used to set the reserves as a result of the Proposed Scheme.

4.17 I have reviewed the level of reserves for each of the Companies, as well as the methodology and assumptions used to set these reserves. I have performed an in-depth review of classes representing approximately 80% of the gross reserves for River Thames and 90% of the gross reserves for Mercantile. Overall, these represent approximately 87% of the gross reserves of River Thames in the Post Scheme Position. Details of the classes I have reviewed are shown in Table 4.4 to Table 4.6 below.

4.18 Given the overall small size of the reserves of Rombalds (including the low materiality of these reserves in the Post Scheme Position) I consider that the likelihood of any mis-estimation of the reserves for Rombalds materially adversely affecting any of the Affected Policyholders to be remote. As such, I have not performed an in-depth review for any of the reserves of Rombalds.

4.19 Details of Enstar's reserve methodologies and the results of my in-depth reviews for specific classes are set out later in this section.

4.20 Overall, I consider that the reserves for both Mercantile and River Thames are reasonable and the methods used to estimate these reserves are appropriate.

Reserve summary

4.21 The following tables set out the best estimate reserves for each company on a UK GAAP basis (the "Best Estimate Reserves") as at 30 June 2024 or 30 September 2024 as appropriate, based on the timing of Enstar's internal reserve reviews. These tables exclude any classes where the Best Estimate Reserves are zero.

4.22 The class column shows Enstar's classification which represents the high-level type of business contained within the class.

Table 4.4: River Thames Best Estimate Reserves (USD millions)

Class	Proportion reviewed in detail	Reserves at Q2 2023	Reserves at Q2 2024
Asbestos	100%	94.9	88.8
Pollution	47%	21.8	19.4
Other Latent	0%	9.0	9.0
General Casualty	98%	32.7	30.5
Motor	81%	46.2	40.4
All Other	0%	18.8	14.1
Total Gross	**80%**	**223.3**	**202.2**
External Reinsurance Recoveries (Net of Bad Debt)		(29.1)	(26.9)
Net of External Reinsurance Recoveries		**194.2**	**175.3**
Internal Reinsurance Recoveries		(97.1)	(87.7)
Total Net of Reinsurance		**97.1**	**87.7**

Table 4.5: Mercantile Best Estimate Reserves (USD millions)

Class	Proportion reviewed in detail	Reserves at Q3 2023	Reserves at Q3 2024
Asbestos	99%	590.3	545.2
Environmental	0%	0.0	0.1
Other Latent	92%	103.3	94.6
General Casualty	0%	15.3	15.1
Marine, Aviation & Transit	0%	43.9	40.2
Fronted Business	0%	6.5	6.1
Total Gross	**89%**	**759.4**	**701.6**
External Reinsurance Recoveries (Net of Bad Debt)		(70.3)	(62.8)
Net of External Reinsurance Recoveries		**689.1**	**638.8**
Internal Reinsurance Recoveries		(516.8)	(479.1)
Total Net of Reinsurance		**172.3**	**159.7**

Table 4.6: Rombalds Best Estimate Reserves (USD millions)

Class	Proportion reviewed in detail	Reserves at Q2 2023	Reserves at Q2 2024
Asbestos	0%	2.9	2.7
General Casualty	0%	0.3	0.2
Total Gross	0%	3.2	2.9
External Reinsurance Recoveries		0.0	0.0
Net of External Reinsurance Recoveries		**3.2**	**2.9**
Internal Reinsurance Recoveries		0.0	0.0
Total Net of Reinsurance		**3.2**	**2.9**

4.23 As expected from companies which have been in run-off for a significant period of time, the majority of reserves for each of the Companies relate to latent claims or other long tailed exposure.

4.24 As can be seen in the tables above, the reserves for each company have decreased between the two dates shown. This is in line with expectations for companies in run-off – with the reserves reducing as claims are paid and no new exposures are added (which otherwise might result in an increase in reserves).

4.25 For River Thames, significant exposures include US APH and PPOs. In addition to the more common non-life classes, there is also a small amount of exposure to life reinsurance business.

4.26 For Mercantile, the most material exposures relate to UK asbestos claims as well as other UK latent claims such as deafness and abuse. In addition, there is smaller exposure to US APH business and PPOs.

4.27 For Rombalds, the majority of the exposure relates to US APH business.

4.28 Due to the age of the business, much of the original reinsurance for each company has either been commuted or is considered to be uncollectible.

4.29 For River Thames, all external reinsurance is generally assumed to be uncollectible with a bad debt provision being held within the external recoveries as noted in the table above. The key exception to this relates to the former Inter Hannover portfolio where the reinsurance counterparties are known and still active.

4.30 For Mercantile, the majority of remaining external reinsurance is assumed to be collectible although this is regularly monitored with specific provisions where recoveries are considered difficult. A bad debt provision is held within the external recoveries for this in the table above.

4.31 Rombalds has no external reinsurance and hence no recoveries are projected.

4.32 In addition, River Thames and Mercantile benefit from internal quota shares back to CBRe of 50% and 75% respectively.

4.33 The following table sets out the reserves of River Thames in the Post Scheme Position as if the Proposed Scheme had become effective during 2024 (either Q2 or Q3 depending on the timing of the latest internal reserve review).

Table 4.7: Best Estimate Reserves on a combined basis (USD millions)

Class	River Thames	Mercantile	Rombalds	Combined
Asbestos	88.8	545.2	2.7	636.7
Pollution and Environmental	19.4	0.1	0.0	19.5
Other Latent	9.0	94.6	0.0	103.6
General Casualty	30.5	15.1	0.2	45.8
Motor	40.4	0.0	0.0	40.4
Marine, Aviation & Transit	0.0	40.2	0.0	40.2
Fronted Business	0.0	6.1	0.0	6.1
All Other	14.2	0.0	0.0	14.2
Total Gross	**202.2**	**701.6**	**2.9**	**906.7**
External Recoveries (Net of Bad Debt)	(26.9)	(62.8)	0.0	(89.7)
Net of External Recoveries	**175.3**	**638.8**	**2.9**	**817.0**
Internal Recoveries	(87.7)	(479.1)	0.0	(566.8)
Net	**87.7**	**159.7**	**2.9**	**250.3**

4.34 On a combined basis, asbestos is by far the most significant class. However, it is important to note that the Enstar classes do not distinguish between geographies and that the asbestos business for River Thames and Rombalds relates to US exposure whilst for Mercantile it relates to the UK.

4.35 As such, with regards to Reserve Risk, the most material impact for the River Thames Policyholders and the Rombalds Policyholders in the Post Scheme Position is the exposure to UK latent claims and, in particular, UK asbestos claims.

4.36 The Mercantile Policyholders already have some exposure to the largest claim types seen in River Thames and Rombalds in the No Scheme Position, including US APH and UK PPOs. The impact for the Mercantile Policyholders is that the degree of exposure will materially increase as a result of the Proposed Scheme.

4.37 Although the underlying cause of the claims is similar for both UK and US asbestos, the presentation of claims and how they have developed, as well as the likely drivers of movements in future claim amounts, show significant differences. In particular, US asbestos claims have significant exposure to the US legal system with many of the underlying insurance contracts in litigation or settled. On the other hand, future claim movements for UK asbestos exposures are largely driven by changes in the underlying reporting of claims as well as being exposed to legal developments in the UK.

4.38 As such, I consider there to be a significant degree of diversification between these claim types and do not consider that the Affected Policyholders are materially exposed to a new concentration of Reserve Risk as a result of the Proposed Scheme.

Reserve uncertainty

4.39 Projections of reserves are subject to potentially large errors of estimation, since the ultimate liability of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes and social / economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on one's ability to predict the aggregate course of future events.

4.40 In reviewing the Best Estimate Reserves set by Enstar, I have considered the possibility of such events but not made any specific allowance for them.

4.41 Each of the Companies is exposed to higher than normal reserve uncertainty (when compared with a 'typical' non-life insurer) due to the long-tailed nature of the remaining liabilities and the exposure to latent claims.

4.42 I consider that the key sources of uncertainty for the reserves over and above the inherent uncertainty in reserve projections are:

- Exposure to known types of latent claims. Latent claims such as asbestos are more uncertain than other liabilities due to both uncertainty in the future development of the underlying losses and how these will be allocated to specific insurers. They are subject to disputes over coverage and, particularly in the US, carry significant exposure to risks arising from litigation.

- Potential new types of latent claims. Many of the original policies underlying the reserves were written on a losses occurring basis. This means that, if a new loss type is identified where the original damage or injury occurred whilst the Companies were active, they may be liable for any losses arising out of this period. Examples of such potential loss types include losses arising from sports related head trauma and in connection with the use of perfluoroalkyl and polyfluoroalkyl substances ("PFAS")[1].

- Future Inflation. Due to the reserves being expected to be paid over a long period of time, they are exposed to a higher degree of risk from future inflation than most claim types. This includes both economic inflation (as captured in CPI) but also court award inflation or social inflation over and above economic inflation.

- PPOs. Both River Thames and Mercantile have exposure to PPOs. These are cases where payments are due for the lifetime of the claimant rather than being a single lump sum payment. As such, they are exposed to uncertainty from the lifespan of the claimant. These individuals are often injured in such a way that their lifespan is expected to be reduced. However, there is additional uncertainty as it can be difficult to estimate the actual impact in these cases.

[1] PFAS are a group of man-made synthetic chemicals which take a long time to break down. Repeated exposure can therefore cause the chemicals to accumulate over time within the bloodstream of exposed individuals and this accumulation has been linked to a number of diseases (including cancers). There have been some material settlements to date as a result of PFAS contamination and there remains significant uncertainty as to the magnitude of future insurance exposures.

4.43 In addition to the Best Estimate Reserves, Enstar has estimated a range of reserves for each of the Companies. These ranges are not intended to represent the total possible range of outcomes but rather a reasonable range which the reserves may fall into.

4.44 For all Companies the high estimate is approximately 15-20% higher than the best estimate whereas the low estimate is approximately 10-15% lower than the best estimate. In my experience, it is common for the range of reasonable reserves to be higher above the best estimate than below. This reflects the skewed nature of insurance liabilities where there is more scope for an adverse movement in reserves than a favourable movement.

4.45 In the Post Scheme Position, I would expect the range for the combined River Thames reserves to be below the sum of the corresponding high and low estimates for the Companies. This reflects my expectation that there is a level of diversification between the Companies such that positive (or negative) developments do not necessarily impact all three Companies at the same time.

4.46 In order to gain comfort as to the level of uncertainty in the reserves, and the potential impact on the Affected Policyholders as a result of the Proposed Scheme, I have considered a range of scenarios of potential reserve deteriorations. These scenarios include both movements that I consider reasonably plausible and those that are more extreme (but still plausible). These scenarios are discussed from paragraph 4.214 of this Scheme Report.

Reserving methodology

4.47 Due to the age of the business within the Companies, Enstar does not estimate the reserves using triangle based projection techniques, which is the standard approach for a ‘typical’ non-life insurer which is continuing to write business.

4.48 Instead, Enstar uses a range of projection techniques primarily based on a calendar year approach i.e. grouping claims by when they were reported or paid rather than based on the original policy period. In my experience, this is a common approach for reserves of this age and I consider the overall concept to be reasonable.

4.49 The specific methodologies can largely be broken down into four main groups with additional approaches used for some specific types of business. The main approaches used by Enstar to estimate the reserves are:

- Frequency / severity projections;
- Industry benchmarks;
- Calendar projections; and
- Outstanding claims.

4.50 The choice of methodology is determined by the nature of the business rather than the company, with similar methodologies used for similar business across each of the Companies.

4.51 Further details on each approach are set out below.

Frequency / severity projections

4.52 Frequency / severity approaches are primarily used to set reserves for UK latent claims including asbestos, deafness and abuse claims.

4.53 The basic methodology involves separately estimating the expected number of claims to be reported in each future year as well as the expected average cost of those claims. This is supplemented by an estimate of incurred but not enough reported ("IBNER") reserves relating to those claims which have already been reported but which have not yet been settled (and which may settle for more or less than the current reserves which have been set by the claims handlers).

4.54 For segments other than mesothelioma (a particular type of disease resulting from exposure to asbestos), the estimate of future claim numbers is derived from the historical experience of claims reported to the company in each calendar year. A curve is fitted to this and extrapolated to give future claim numbers.

4.55 For mesothelioma, a curve is selected based on the projections from the Institute and Faculty of Actuaries' UK Asbestos Working Party. This curve gives an estimate of the total future UK mesothelioma claim numbers and the curve is scaled to match the company's recent experience.

4.56 In addition, there is an allowance made that not all claims reported to the company will be considered valid and some will close for no cost. These are known as nil claims and the expected future claim numbers are scaled by the expected proportion of nil claims. This nil claim proportion is estimated based on recent experience.

4.57 For all classes using this methodology, the individual claims severity is estimated by considering the average cost of claims that have either been reported or settled recently. This provides an estimate for the current expected claim cost.

4.58 For the purposes of projecting future claims, this expected claim cost is inflated for each future settlement year. The total future cost is then the sum over each future settlement year of the expected number of non-nil claims multiplied by the inflated average cost per claim.

4.59 The IBNER for known claims is set by estimating a redundancy factor based on a projection of historical reported claims to ultimate.

4.60 In my experience, this is a common methodology used to project UK latent claims and I consider that the overall framework is reasonable. In particular, the projections produced by the UK Asbestos Working Party are regarded as an industry standard for estimating mesothelioma claims and I consider it appropriate that Enstar has based its projections using this analysis.

4.61 There are fewer industry estimates available for other latent claim types and so I consider using estimates based on historical experience to be reasonable in these cases.

Industry benchmarks

4.62 For US APH business, Enstar uses a range of benchmark based approaches to estimate the reserves. These benchmarks are driven by an underlying view of the total industry losses for US asbestos and pollution claims of $100 billion and $46 billion respectively.

4.63 From these estimates, factors are derived that are applied to characteristics of the individual classes in order to derive an estimate of reserves. The final reserves selection is then an average of various methods.

4.64 The specific methods considered by Enstar are:

- Survival ratios;
- Market share;
- Incurred but not reported ("IBNR") to incurred ratio; and
- IBNR to outstanding ratio.

4.65 The survival ratio estimates the future reserves in terms of recent payments (or recent movements in incurred claims). The benchmark is set as the number of years of payment at the current levels required to meet the expected future claims.

4.66 The market share approach estimates what proportion the business represents of the total market based on recent payment or incurred history and applies this proportion to the total industry losses to derive an estimate of ultimate losses for the company.

4.67 The IBNR to incurred ratio and IBNR to outstanding ratio assume that the total IBNR is proportional to the current incurred or outstanding claims respectively. These proportions are estimated from industry data and applied to the company's current position to provide an estimate of IBNR and hence reserves.

4.68 For the IBNR to outstanding ratio, Enstar also considers a variation where the ratio is trended in line with changes in the historical ratio since the prior review.

4.69 For each of these methods, a number of adjustments are made to industry data to allow for smoothing of historical experience as well as the differing nature of some of the specific business. In particular, reinsurance reserves are assumed to lag the overall industry experience. In my experience, this is a common assumption as it takes time for information to propagate from the direct insurers to reinsurers.

4.70 The Best Estimate Reserves are set as an average of a combination of the different methodologies described above with other combinations used to set the high and low estimates.

4.71 This approach is similar to how I would estimate the reserves for US APH business and the specific methodologies considered are in line with my experience.

Calendar projections

4.72 For other long-tailed classes, Enstar uses a combination of calendar year based approaches to estimate the reserves. The main methods employed are known as:

- Aggregate reserve run-off method; and
- Recursive development factor method.

4.73 The aggregate reserve run-off method considers a point in the past and the development since. The incurreds since that time are expressed as a proportion of the outstanding reserves. This ratio is then applied to the current outstanding reserves to estimate the IBNR and hence the reserves. This method is sensitive to the year chosen as the starting point and this is an area of expert judgement applied by the Enstar reserving team.

4.74 The recursive development factor method assumes a constant ratio of the change in outstanding claims to the amount paid over a year. This ratio is applied to historical outstanding claims then adjusted for actual payments since that date to arrive at an estimate for reserves on the basis that this assumption holds. The current reserve estimate is then taken as the average over a number of years.

4.75 Unlike the other methods considered, the use of these specific approaches is not as widespread. However, I understand the reasoning of not relying on underwriting year based approaches for reserves of this age as well as the specific logic of the methods considered by Enstar.

Outstanding claims

4.76 For certain classes, predominantly short-tailed business, Enstar has set the reserves equal to the current case estimates i.e. no provision is made for IBNR.

4.77 As this primarily impacts smaller classes, I have not reviewed this approach in detail. However, I note that these classes are not expected to show significant development after this length of time and that, in my experience of these classes, case reserve estimates are often not updated and may no longer be required. For reserves of this age this can often lead to a degree of over-estimation of outstanding claims, such that holding the current case estimates is a prudent approach.

Deep dive reviews

4.78 As discussed above, I have undertaken in-depth reviews for classes representing approximately 80% of the gross reserves for River Thames and 90% of the gross reserves for Mercantile. Details of these reviews are set out in the table below, together with the proportion of the gross reserves of Mercantile and River Thames respectively which each segment covers.

Table 4.8: Details of reserves reviewed

Company	Segment	Proportion of reserves
Mercantile		
	EL Mesothelioma	61%
	Other UK asbestos	9%
	EIROS	7%
	NIHL	4%
	UK Abuse	8%
	Total	**89%**
River Thames		
	US APH	48%
	General Casualty	15%
	PPO	16%
	Total	**80%**

4.79 Based on the in-depth reviews I have undertaken, I consider that the reserves for each of the Companies are reasonable and the methods used to estimate these reserves are appropriate. There is, however, considerable uncertainty in the reserves. As noted above, in order to gain comfort as to the level of uncertainty in the reserves, and the potential impact on the Affected Policyholders as a result of the Proposed Scheme, I have considered a range of scenarios of potential reserve deteriorations. These scenarios include both movements that I consider reasonably plausible and those that are more extreme (but still plausible). These scenarios are discussed from paragraph 4.217 of this Scheme Report.

Mercantile - EL Mesothelioma

4.80 Mercantile has exposure to a range of asbestos related diseases through a range of different insurance types. Of these, by far the most material relates to claims for mesothelioma from Employer’s Liability policies.

4.81 Mesothelioma is a type of cancer caused by exposure to asbestos fibres. It is almost invariably fatal within two years of diagnosis, but has an extremely long latency period between the period of asbestos exposure and the disease manifesting, often 30-40 years. It is typically the largest component of an insurers exposure to asbestos claims and has the highest average cost of claims.

4.82 Due to its significance to the UK insurance industry as a whole, the Institute and Faculty of Actuaries set up a working party (the “Asbestos Working Party”) to analyse asbestos claims. Over the years, the Asbestos Working Party has produced a number of models to forecast future asbestos claim numbers and costs. The projection of future claim numbers is driven by an underlying epidemiological model which takes into account a number of factors including the exposure of the UK workforce to asbestos by year, the distribution of the UK population and the expected latency period. This produces an estimate for the number of future claims for the UK as a whole.

4.83 Mercantile and its predecessor companies are not exposed to all potential claims and so the future projection curve is scaled down to match the company’s recent claims experience.

4.84 In my experience, the use of the Asbestos Working Party model, as well as scaling it to match an insurer’s own recent experience, is a standard approach for projecting mesothelioma claims. Where more details are available of the specifics of the insurer's own exposure (for example if they have earlier or later exposure relative to the market) the curve can be adjusted for this but, if not, a simple scaling is the most common approach.

4.85 Overall, whilst there is significant uncertainty in the number of future mesothelioma claims that Mercantile will receive, I am satisfied that the approach taken by Enstar is in line with standard industry practice and that the projections are reasonable.

4.86 The average cost per claim is set based on recent experience over the past 5 years, taking a weighted average between claims reported and claims settled. This cost is reflective of the amount paid by Mercantile rather than the total claim amount and so implicitly reflects Mercantile's share of any amount paid in this calculation (where claims are shared with other parties if a claimant was exposed to asbestos during different periods of employment).

4.87 The historical average cost has been adjusted for inflation since payment to obtain a value in today's money terms assuming a 2.7% annual inflation rate. Although there is significant volatility in these claims, there appears to be an upwards trend in the average cost in recent years, even after allowing for the claims being on-levelled using the assumption of 2.7% annual inflation. This increasing trend may be driven by the recent period of heightened inflation and suggests that the selected average cost per claim may be potentially optimistic. Future inflation is based on a curve that varies between 1.9% and 3.2% by year.

4.88 Whilst I believe that the overall methodology used to estimate these reserves is reasonable, I consider that the selected average cost per claim may be potentially optimistic. However, there is significant uncertainty with regards to the future claims frequency and severity for this class and therefore a wide range of reasonable reserves. As such, I do not consider that the current estimate is unreasonable.

Mercantile - Other UK Asbestos

4.89 In addition to EL Mesothelioma, Mercantile has exposure to asbestos losses both from other lines and other disease types. I have reviewed the following additional UK asbestos classes:

- EL Lung Cancer;
- EL Asbestosis;
- EL Pleural Thickening;
- EL Pleural Plaque; and
- T&G – Mesothelioma.

4.90 The other EL classes represent other asbestos related diseases which are generally considered significantly less material than mesothelioma. These classes are modelled using a frequency / severity approach as described above, utilising the analysis of the Asbestos Working Party to forecast future claim numbers where appropriate.

4.91 T&G refers to Timber & General, a former UK insurer which ceased writing business in 1972 and ran into financial difficulties in 1976. In order to avoid the adverse publicity of a market failure, the liabilities and assets of Timber & General were taken over by a consortium of nine insurance companies. As a result of various agreements made by predecessor companies, the claim liabilities of Timber & General now reside with Mercantile, although 2/3 of the liabilities are reinsured with other insurance companies.

4.92 The liabilities of Timber & General are dominated by Employer's Liability mesothelioma claims. These are modelled using a frequency / severity approach as described above. The projected number of future claims is modelled using the work of the Asbestos Working Party. The selected curve takes into account the earlier exposure of Timber & General compared with the industry as a whole, given that Timber & General ceased writing business in 1972. This results in the faster run-off pattern for Timber & General.

4.93 For Timber & General Mesothelioma, the initial average cost per claim is set in line with the five-year average on-levelled claims and gives a similar value to EL Mesothelioma. For other diseases, a three-year average is used. The average costs for these diseases are significantly below those for mesothelioma which is in line with my experience.

4.94 I consider that the overall methodology used to estimate these reserves is reasonable and that the reserves for these classes are reasonable, particularly in the context of their low materiality within Mercantile (and therefore the limited impact on the total reserves of Mercantile of any reserve deterioration for this segment).

Mercantile - EIROS

4.95 Electricity Industry Run-Off Services Limited ("EIROS") is a company responsible for managing the run-off of a market wide insurance scheme started in 1949 to cover the British electricity industry. Various market participants participated in this scheme including predecessor companies of Mercantile. The remaining liabilities relate to asbestos claims arising out of Employer's and Public Liability coverages as well as other industrial diseases. Due to changes in the per claim deductible in 1977 (1978 in Scotland) the majority of the exposure relates to earlier periods.

4.96 From time to time, EIROS commissions an external reserve review of the remaining liabilities. Most recently this was produced as at 30 June 2021.

4.97 ICT associates within WTW produced the EIROS report as at 30 June 2021 referred to in the previous paragraph and I have considered this work as part of my Independent Expert role. I was not involved in the production of the EIROS report. The liabilities covered by the EIROS report comprise 7% of the gross reserves of Mercantile (as at 30 September 2024) and will comprise 5% of the gross reserves of River Thames in the Post Scheme Position. The EIROS report is not relevant for the current liabilities of either Rombalds or River Thames.

4.98 Enstar sets the reserve for this class based on this external report and allowing for Mercantile's share of the total reserves. The current reserves are estimated using a roll-forward approach whereby adjustments are made to allow for the passage of time since the report was last produced, using the projected reporting year claim volumes.

4.99 I have reviewed the report and I consider the approach taken to set the total reserves to be appropriate and consistent with market practice. Further, I consider Enstar's approach to roll forward the reserves to the current date to be reasonable.

Mercantile - NIHL

4.100 Noise induced hearing loss ("NIHL") or deafness represents claims resulting from loss of hearing typically sustained during employment. There is a long history of claims of this type and it has frequently been a target for claim management firms. This has resulted in a number of spikes in claim counts followed by reductions as new legislation is brought in, typically restricting the level of fees that can be claimed.

4.101 Average claim cost for this class is lower than for most other forms of latent claims. Although there can be a high claim frequency, there is often a correspondingly high nil-claim rate, particularly at times where frequency spikes as claim management firms attempt to register claims before a deadline.

4.102 In 2023, changes to the law resulted in fixed recoverable costs for the majority of NIHL claims. This resulted in a spike in claim applications seen in the market prior to the effective date of the changes. This can also be seen in Mercantile's claims data with a significant spike in loss numbers in 2023 followed by an apparent reduction in 2024.

4.103 It is unclear to what extent this reduction will persist or if there will be a similar spike in claims at a future date. As such, there is a heightened level of uncertainty at this time. However, I note that even this latest increase in claims is significantly below the previous peak seen in 2014/2015.

4.104 In estimating future claim numbers, Enstar has assumed that the 2024 half year numbers projected to a full year are an appropriate starting point. Given the recent volatility and difficulty in taking an average, I do not consider this to be unreasonable. However, as noted above, there is a relatively high degree of uncertainty in this figure.

4.105 For future years, Enstar has selected an adjusted exponential decay with an additional speeding up factor increasing the decay rate.

4.106 Although the fit of the selected curve appears reasonable for recent years, if the curve is extended back to historical years, it significantly overestimates the losses in older years (compared with actual experience). This suggests that the decay rate may be too fast. Enstar has performed some sensitivities on the decay factor with the slowest decay considered resulting in a £12.4 million increase in reserves.

4.107 This figure is material for NIHL on a standalone basis and is reflective of the high degree of uncertainty for this class. However, I do not consider it to be material in the context of Mercantile as a whole and I am satisfied that the reserves are not unreasonable.

Mercantile - UK Abuse

4.108 Mercantile has exposure to a number of losses relating to historical sexual abuse claims. These claims typically arise where one of Mercantile's predecessors provided Public Liability insurance to an organisation where abuse claims have been made against one of its employees or members.

4.109 Enstar splits out some cases where there is a specific grouping e.g. football related claims as well as where there are any Group Litigation Orders ("GLOs") in place. GLOs are orders made under UK civil procedure rules providing for the management of cases that give rise to common or related issues of fact or law. The majority of such groupings have largely closed with only small amounts of reserves remaining. The majority of reserves relates to the remainder where there are no groupings - the Other Non-GLO class. It is this class that I have reviewed in detail.

4.110 As with other UK latent claim types, Enstar has used a frequency / severity approach for estimating abuse reserves.

4.111 The initial severity has been selected in line with a 5-year average of historical claims based on settlement date, allowing for inflation to adjust them to current money terms. The same level of inflation is assumed in future years. The class has seen a recent deterioration due to increases in severity for Scottish claims. However, the uncertainty around the severity is reducing as more claims settle and a significant proportion of Scottish claims which were previously open have been settling below case estimates.

4.112 The initial frequency is set based on an average of recent years. This is then assumed to follow the standard decay methodology outlined above. The decay parameters have been rolled forward from previous years and do not appear to have been updated at this time.

4.113 The assumption of a significant decay in claim numbers does not appear to be consistent with recent experience which has shown relatively little trend (either upwards or downwards) in reported numbers.

4.114 Whilst I believe that the overall methodology used to estimate these reserves is reasonable, I consider that the selected decay pattern to estimate the future frequency of claims is potentially optimistic. However, there is significant uncertainty with regards to the future claims frequency and severity for this class and, as such, I do not consider that the current estimate is unreasonable.

River Thames - US APH

4.115 River Thames has significant exposure to US latent claims, most materially asbestos related but also pollution. This exposure is a combination of direct and reinsurance business written in the London Market.

4.116 I have performed a review of the following River Thames segments which cover US APH reserves:

- Asbestos RI;
- Asbestos Direct;
- Unione – Asbestos; and
- Pollution Direct.

4.117 Enstar has relied on industry benchmark derived figures as discussed above to estimate the reserves for these classes. In my experience, this is a common approach for this kind of business, particularly for reinsurance business. For direct business, I have also seen this approach supplemented by individual assured modelling, considering the specifics of the underlying exposure and the insurance policies written.

4.118 Overall, I consider the approach taken to be reasonable. In particular, Enstar's estimates of industry losses for US asbestos and pollution of $100 billion and $46 billion respectively are broadly in line with my firm's estimates for these figures, and consistent with those quoted in an AM Best report published in November 2024[1].

4.119 However, the resulting reserve estimates are below what I would expect for this business. The main drivers of this are the selection of different averaging periods, the selection of different weights between the alternative methods and allowing for an uplift, given that our view is that there is under reserving within the industry reported figures.

4.120 However, although there is a difference in views here, I would note that there is significant uncertainty in the projection of US APH reserves and therefore there is a wide range of reasonable reserves. As such, I do not consider that the assumptions made by Enstar are unreasonable.

4.121 In order to gain comfort as to the level of reserves and the impact of an increase in the US APH reserves on the Affected Policyholders, I have considered two scenarios which assess the impact of a deterioration in the US APH reserves. These are discussed in more detail below in the section on scenarios, from paragraph 4.217.

River Thames - General Casualty

4.122 River Thames has two main casualty classes: Casualty 1985 & Prior and Casualty 1986 & Post. These consolidate casualty business from a number of different original companies and with the split in 1985/1986 due to the market trend in moving from a losses occurring basis, where the policy that responds is the one in force at the date of loss, to a claims made basis, where the policy responding is that in force when the claim is made.

4.123 Both of these classes are considered mature with the majority of claims already paid. Based on Enstar's ultimates, these classes are over 99% developed.

4.124 As such, Enstar does not consider that standard actuarial reserving techniques are appropriate but instead relies on the calendar projection approaches discussed above. Enstar has supplemented this with analysis of recent trends in payments and incurred claims to gain comfort as to the overall levels of reserves.

4.125 In reviewing these classes, I have considered both Enstar's methodology as well as metrics around the reserve levels. Based on the amount of claims paid during the last 3.5 years, I estimate a survival ratio (being the number of years of claim payments at the current levels which could be sustained by the current reserves) of approximately 15 years for the 1985 & Prior business and 19 years for the 1986 & Post business. These are both higher than I would typically expect for this kind of business and are indicative of reasonable levels of reserves.

4.126 For the 1986 & Post business, incurred claims have been largely stable over the last seven years and had previously trended downwards. Over the same period, the amount of claims paid each year has been reducing and appears to be approaching a point below the selected ultimate.

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[1] https://news.ambest.com/pr/PressContent.aspx?refnum=35428&altsrc=2#:~:text=AM%20Best's%20estimate%20for%20ultimate,to%20a%20newly%20issued%20report.

4.127 Conversely, for the 1985 & Prior business, both the paid and incurred claims (being paid claims plus case reserves) have continued to increase over this period with the level of incurred claims now getting close to the projected ultimate. Enstar has noted this in their reserve review and indicated the potential for further adverse development. However, the paid claims amount still remains well below the incurred claims amount, which includes significant case reserves.

4.128 This difference between the two classes matches my experience with the 1985 & Prior business expected to have the greater potential for future movements due to typically being on a losses occurring basis, where the policy that responds is the one in force at the date of loss. This compares with the claims made basis seen for later periods where the policy responding is that in force when the claim is made.

4.129 Overall, whilst there is the potential for adverse development on the 1985 & Prior business, I consider this to be offset by the potential for future releases on the 1986 & Post business. As such, I consider that the reserves for these classes are reasonable in aggregate.

River Thames - PPOs

4.130 PPOs are used to settle specific kinds of claim where a long-term payment schedule is agreed, often for the lifetime of the claimant, rather than a single payment being made. PPOs are typically associated with claims arising from motor insurance policies although they can be awarded for any liability claim. They are most often associated with severely injured claimants who require significant care for the rest of their lives as a result of their injuries.

4.131 Although the payment schedule is agreed as part of settlement, there still remains significant uncertainty on the ultimate claim payments due to being linked to the lifetime of the claimant as well as the payment amounts typically being indexed with inflation or a similar measure.

4.132 The uncertainty in claimant lifetime is heightened as, due to the nature of the injuries that give rise to PPOs, the life expectancy of the claimants is typically reduced. However, this is very specific to each individual and can be difficult to estimate accurately.

4.133 Both River Thames and Mercantile have exposure to PPOs. River Thames has approximately 30 PPO claims and Mercantile has six. Due to the age of the underlying reserves, Enstar does not expect any remaining open claims to settle as PPOs and I consider that this is reasonable. All of the PPOs within Mercantile relate to UK exposures, but around five of the PPOs within River Thames relate to different jurisdictions (namely Australia, Belgium, France and the US).

4.134 Enstar projects the reserves for each PPO individually. The known payment schedules are applied with claim amounts indexed assuming future annual increases of 3%. These payments are then discounted at 2.75% to arrive at a present value, resulting in a real discount rate of -0.25%.

4.135 Future payments are probability weighted to reflect the life expectancy of each claimant, in order to give an estimate of total future payments. The underlying mortality assumptions are taken from the 17th edition of the English Life Tables (an official publication showing trends in mortality and life expectancy, analysed by age and sex) which is the most recently published version.

4.136 Where an estimated life impairment is known, this has been taken into account by increasing the expected mortality in all future years by a constant factor. Where no estimate is available, the life expectancy is assumed to be unimpaired.

4.137 The reinsurance recoveries on PPOs are calculated on an individual basis taking into account the underlying claims payment as well as the difference in future indexation of payments vs the original terms.

4.138 Overall, the approach for calculating the reserves for PPOs is in line with my experience and appears reasonable. However, I note that there is significant uncertainty in these reserves both as highlighted above but also due to the small number of individual lives involved.

4.139 PPO claimants whilst typically not themselves policyholders still need to be considered when considering the potential impact of the Proposed Scheme. As the claims have been settled but payments remain, there is a more direct relationship to the insurers than is typical. Further, the long-tailed nature of these payments mean that PPOs are sensitive to the long-term stability of the company.

Solvency II Technical Provisions

4.140 In addition to reviewing the Best Estimate Reserves on a UK GAAP basis, I have reviewed the Solvency II Technical Provisions (“TPs”) for each of the Companies.

4.141 The TPs are the required regulatory basis for assessing reserves under Solvency II and form the basis of the Reserve Risk component of the Standard Formula SCR. The calculation of the TPs from the underlying Best Estimate Reserves is set out in the Actuarial Function Report (“AFR”).

4.142 I have reviewed the process for calculating the TPs as set out in the 2023 AFR for each of the Companies. The 2023 AFRs were the most recent AFRs available when this Scheme Report was drafted. The AFRs set out the process as at 31 December 2023 although I understand that this has not changed materially since.

4.143 The table below shows the derivation of the TPs from the Best Estimate Reserves for each of the Companies as at 31 December 2023 as well as diagnostic ratios of the various components at the bottom of the table. The figures for River Thames allow for the two adjustments for dividend payments as set out in paragraph 4.8 and the Mercantile figures include the adjustment for a missing element of collateral as set out in paragraph 4.9.

Table 4.9: Derivation of TPs as at 31 December 2023 (USD millions)

	River Thames	Mercantile	Rombalds
Net UK GAAP Reserves	92.4	176.5	3.3
Remove UK GAAP Claims Handling Provision	(2.0)	(8.3)	(0.2)
ENIDs	3.6	7.3	0.2
Run-off Provision	20.0	25.1	2.8
Discounting	(25.6)	(52.9)	(1.2)
Best Estimate Net TPs	**88.3**	**147.7**	**4.9**
Risk Margin	11.5	22.1	0.6
Solvency II Net TPs	**99.8**	**169.8**	**5.5**
ENID Ratio	3.9%	4.4%	7.5%
Expense Ratio	21.3%	14.3%	84.7%
Discount Percentage	22.5%	26.3%	20.1%
Risk Margin Percentage	13.1%	15.0%	12.1%

4.144 The core components of the derivation of the TPs are in line with my expectations. These are all standard components of the TPs with the run-off provision representing the expenses expected to be required to manage the run-off of the remaining liabilities.

4.145 Other adjustments seen in calculating the TPs do not apply to the Companies (such as allowance for future premiums and bound but not incepted business) given that the Companies are all in run-off with no unexpired exposures.

ENIDs

4.146 The TPs are intended to represent a strict best estimate including allowance for scenarios not captured within the historical data. To achieve this, insurers hold an additional allowance for Events not in Data ("ENIDs"). This load is typically higher for liability business where there is a greater possibility of late notification of unexpected events which are not represented in the historical data.

4.147 Enstar calculates the ENID load using a common approach in the market. A higher load is selected for latent claim types such as asbestos and pollution than for other classes.

Run-off provision

4.148 The run-off provision represents the future expenses required to manage the run-off of the business. The most notable item in the table above is the high expense ratio (being expenses as a proportion of TPs), particularly for Rombalds. Run-off insurers often have relatively high expense ratios as they are unable to offset any costs against new business.

4.149 In addition, a number of the costs required to manage the run-off of the business are relatively fixed and so do not decrease as the reserves decrease. I understand that this is the driver of the high expense ratio for Rombalds which is more reflective of the small size of the remaining reserves than high expenses.

4.150 I expect this to be a particular benefit in the Post Scheme Position as the same level of fixed costs will no longer be incurred in relation to the Rombalds Policies, with the overall combined expenses of the Companies expected to reduce in the Post Scheme Position.

4.151 The run-off provision has been calculated assuming that the business will continue to be managed by the Companies for a number of years. At this time the reserves are expected to be significantly smaller and it is assumed that Enstar will look to find an alternative way to manage any remaining liabilities (such as transferring them to another insurance company with more material remaining liabilities).

4.152 In the period prior to the assumed exit, the expenses are assumed to decrease in proportion to reserves. Additional expenses are assumed to be incurred in the exit year and the year prior, in order to account for the costs of exiting the business.

4.153 For River Thames and Rombalds, it is assumed that this exit period is five years in the future at any valuation date. For Mercantile, when this business was initially transferred into Mercantile it was determined that there was no realistic prospect of achieving an exit within five years and the run-off period was set to 20 years. However, this period is not fixed and has been reducing over time. As at 31 December 2023, the assumed run-off period when calculating the run-off provision for Mercantile is 16 years.

4.154 Although the difference in run-off period assumed between the Companies is unusual, I am satisfied that the expenses have been calculated on an appropriate basis that reflects how the business is managed and that the resulting expense ratios do not appear to be unreasonable.

Discounting

4.155 Solvency II Technical Provisions are calculated on a discounted basis and Enstar discounts the reserves using the risk-free rates published by the PRA. I have compared the discount percentages above to the risk free rates published for 31 December 2023 in GBP and USD. The discount factors used by Enstar are in line with an average payment period of around 6 to 9 years. Given the long-tailed nature of the remaining liabilities this appears to be reasonable.

Risk margin

4.156 In addition to the Best Estimate Technical Provisions, Solvency II requires insurers to hold a Risk Margin that represents the risk of the business over and above the best estimate. There is a prescribed formula for calculating the risk margin based on a discounted cost of capital.

4.157 Following the move to Solvency UK, a number of changes were made to the Risk Margin with effect from 31 December 2023. Most notably, the required cost of capital reduced from 6% per annum to 4% per annum for all insurers. This resulted in a significant reduction in the Risk Margin for each of the Companies.

4.158 The nature of the prescribed calculation results in a higher Risk Margin for long-tailed business such as the Companies have. This can be seen above, where Mercantile has both the highest Risk Margin percentage as well as the highest discount percentage – both of which are indicative of longer tailed liabilities.

4.159 I have reviewed the Risk Margin as a proportion of the Best Estimate Technical Provisions for the Companies and I consider them to be broadly in line with my experience for insurers with similar risk profiles.

4.160 Overall, I am satisfied that the TPs have been derived from the Best Estimate Reserves (on a UK GAAP basis) in an appropriate way and that the resulting TPs are reasonable.

Review of investments

4.161 I have reviewed the investment holdings of each of the Companies as at 30 June 2024, which are summarised in the table below.

Table 4.10: Held assets by Solvency II category (USD thousands)

Asset Class	River Thames	Mercantile	Rombalds
Government Bonds	53,358	17,588	0
Corporate Bonds	70,760	183,983	0
Collective Investments Undertakings	146,965	51,159	10,622
Cash and Cash Equivalents	7,384	11,285	787
Total	**278,467**	**264,014**	**11,409**

4.162 I have also reviewed breakdowns of the collective investment undertakings for each of the Companies on a look through basis i.e. on the basis of each of the underlying assets of the collective investment undertakings. Overall, across the directly held assets and the collective investment undertakings, the assets held by each of the Companies are summarised in the table below.

Table 4.11: Held assets by Solvency II category

Asset Class	River Thames		Mercantile		Rombalds	
	USD 000's	%age	USD 000's	%age	USD 000's	%age
Government bonds	69,458	25%	18,145	7%	1,137	10%
Corporate bonds	165,612	59%	198,479	75%	9,474	83%
Listed equity	1	0%	8	0%	0	0%
Unlisted equity	11,335	4%	13	0%	0	0%
Structured notes	111	0%	616	0%	0	0%
Collateralised securities	232	0%	1,674	1%	0	0%
Mortgages and loans	19,139	7%	28,756	11%	0	0%
Forwards	1	0%	28	0%	0	0%
Cash and deposits	12,576	5%	16,294	6%	798	7%
Total	**278,467**		**264,014**		**11,409**	

4.163 As can be seen above, each of the Companies have broadly similar asset profiles although Rombalds does not have exposure to equity, mortgages and other securities. This is in line with the smaller size of the business.

4.164 For government and corporate bonds, I have further reviewed the breakdown of these bonds by credit rating. A summary of this breakdown is shown in the table below. Note that, due to the availability of data, this split is based on data as at 30 September 2024 for River Thames and Mercantile and 31 December 2023 for Rombalds. I have discussed this with Enstar and consider that the data at these dates is the most consistent approach with Table 4.11 above.

Table 4.12: Split of held bonds by credit rating

Rating class	Corporate Bonds			Government Bonds		
	River Thames	Mercantile	Rombalds	River Thames	Mercantile	Rombalds
AAA- or higher	1%	9%	1%	14%	13%	0%
AA+	0%	8%	0%	67%	0%	48%
AA	1%	3%	4%	3%	0%	8%
AA-	5%	6%	8%	11%	85%	0%
A+	24%	9%	8%	0%	2%	7%
A	12%	6%	13%	1%	0%	5%
A-	25%	19%	35%	0%	0%	1%
BBB+	10%	13%	10%	1%	0%	6%
BBB	5%	8%	11%	1%	0%	18%
BBB-	2%	16%	7%	1%	0%	6%
BB+ or lower	5%	2%	2%	0%	0%	1%
Unrated	9%	0%	0%	0%	0%	0%
Investment grade (BBB- and above)	86%	98%	97%	100%	100%	99%

4.165 As can be seen, the majority of bonds held for all of the Companies are investment grade (BBB- or above) and a high proportion are higher rated, with over 60% of both corporate and government bonds rated A- or higher for all entities. River Thames' exposure to unrated bonds relates to a single private debt fund. I understand that although this fund is unrated it has an internal rating equivalent to B+ although this rating is not used for the Standard Formula calculation.

4.166 With regards to government bonds, the majority of the holdings for River Thames and Mercantile are in line with their primary exposures (i.e. the USA for River Thames which is rated AA+ and the UK for Mercantile which is rated AA-). For Rombalds, whilst the USA is the largest source of government bonds it has exposure to a wide range of other government bonds. The most material secondary exposure is approximately $100k to Saudi Arabia (which is rated A+). Rombalds also has exposure to a number of government bonds which are rated BBB+ or lower, which relate to exposure spread across 14 different governments.

4.167 Overall, I consider these investments to be in line with those of insurers with similar risk profiles and, in particular, that the investment strategy does not appear to be materially different between the Companies. In addition, I have included economic stresses as part of the scenarios which I have considered, as discussed from paragraph 4.217 below.

4.168 I understand that, during the second half of 2024, one of the funds within the collective investment undertakings was unwound, which impacts the proportion of investments held in collective investment undertakings for River Thames and Rombalds. However, I understand that the profile of the investment holdings is not affected by this change and that this change does not reflect a change to the investment strategy of the Companies.

4.169 A breakdown of the currency split of the investment assets and net Solvency II Technical Provisions for each company is shown in the tables below.

Table 4.13: Currency split of investment assets as at 31 December 2023

	GBP	USD	EUR	Other
River Thames	8%	88%	3%	1%
Mercantile	94%	6%	0%	0%
Rombalds	3%	97%	0%	0%

Table 4.14: Currency split of liabilities (net Solvency II Technical Provisions) as at 31 December 2023

	GBP	USD	EUR	Other
River Thames	27%	61%	10%	3%
Mercantile	97%	3%	0%	0%
Rombalds	51%	49%	0%	0%

4.170 As can be seen above, the majority of the assets and liabilities for the Companies are in USD or GBP with River Thames being predominantly USD whereas Mercantile has predominantly GBP liabilities.

4.171 Due to the nature of the Standard Formula Currency Risk methodology, it is beneficial from a capital perspective for any surplus assets above the Best Estimate Technical Provisions to be invested in the reporting currency. As a result, the current assets of the Companies have a slightly different currency mix than the reserves – reflecting the current reporting currency of USD for River Thames and Rombalds, and the current reporting currency of GBP for Mercantile.

4.172 I have discussed the intended future investment strategy with Enstar and I understand that there are no plans to change the current investment strategy in the Post Scheme Position, which is to align assets to the long-tailed nature of the remaining liabilities whilst maintaining appropriate levels of liquidity and diversification between asset classes, sectors and issuers.

4.173 The only notable change as a result of the Proposed Scheme is with regards to the currency of the surplus assets. Currently, the reporting currency of River Thames and Rombalds is USD whereas the reporting currency for Mercantile is GBP. In the Post Scheme Position the reporting currency of River Thames will continue to be USD.

4.174 In the Post Scheme Position Enstar plans to retain its current strategy of minimising the Currency Risk charge within the Standard Formula calculation. As a result, Enstar intends to adjust the asset portfolio immediately after the Effective Date so as to reduce the Currency Risk charge within the Standard Formula in the Post Scheme Position. Given the nature of the Standard Formula Currency Risk methodology, as noted above, the result of this will be a decrease in GBP assets and an increase in USD assets (given the effective change in reporting currency for Mercantile's business from GBP to USD).

4.175 Given the considerations set out above, I do not consider that any of the Affected Policyholders will be adversely affected by a change in investment strategy as a result of the Proposed Scheme.

Review of capital requirements

Current capital requirements

4.176 River Thames, Mercantile and Rombalds are all subject to the Solvency II capital requirements and the capital for each company is assessed using the Standard Formula calculation.

4.177 The Solvency Capital Requirement for each of the Companies as at 31 December 2023 according to the Standard Formula is shown in the table below. The figures for River Thames allow for the two adjustments for dividend payments as set out in paragraph 4.8 and the Mercantile figures include the adjustment for a missing element of collateral as set out in paragraph 4.9.

Table 4.15: Solvency Capital Requirement as at 31 December 2023 (USD 000s)

Risk	River Thames	Mercantile	Rombalds
Non-Life Underwriting Risk	28,932	47,982	1,587
Life Underwriting Risk	958	0	0
Health Underwriting Risk	1,057	0	0
Market Risk	13,254	28,745	1,558
Counterparty Default Risk	1,464	1,909	30
Operational Risk	4,979	18,833	148
Diversification	(9,943)	(15,860)	(675)
Total SCR *	**40,701**	**81,610**	**2,649**

4.178 * The total SCR for Rombalds is below the absolute minimum of the MCR of €3.7 million as at 31 December 2023. In practice, as insurers are required to hold at least the MCR, the SCR for Rombalds is set with reference to this absolute minimum MCR of €3.7 million (or $4.2 million) as at 31 December 2023.

4.179 Whilst the magnitudes of the individual risks vary, the overall risk profile is similar between each of the Companies. In particular, the largest risk for all participants is Non-Life Underwriting Risk which comprises solely of the Reserve Risk component. This is in line with my expectations for run-off non-life insurers.

4.180 The main difference in risk profile is that only River Thames is currently exposed to Health and Life Underwriting Risk. This arises both through exposure to PPOs and through the Life Reinsurance business within River Thames. However, I do not consider this to be a material difference between the Companies, although I do consider a scenario of a stress on the PPO reserves, as discussed from paragraph 4.217 below.

4.181 As part of the Own Risk and Solvency Assessment ("ORSA") insurers are expected to comment on the appropriateness of the Standard Formula given the risk profile of the firm. I have reviewed the ORSA for each of the Companies which set out that the Standard Formula is considered a suitable approach for calculating the SCR for each of the Companies.

4.182 Following my review, I consider that this position is reasonable. However, I do note some specific considerations for run-off insurers in general and the Companies in particular with regards to the calculation of Reserve Risk:

- The granularity of the Standard Formula with regards to Reserve Risk means that the majority of reserves for each of the Companies are grouped into only two classes for the Standard Formula calculation (General Liability Insurance & Proportional Reinsurance and Non-Proportional Casualty Reinsurance). This allows for limited diversification between different claim types which might be expected to show limited correlation in practice, for example UK mesothelioma claims and US pollution claims.

- Offsetting this, the volatility assumptions for Reserve Risk in the Standard Formula are calibrated based on the experience of 'typical insurers'. This means that the Standard Formula is likely to underestimate the volatility associated with latent claims and other extremely long-tailed liabilities as seen in the participants.

4.183 As such, I gain comfort in Enstar's use of their unapproved partial internal model (the "unapproved Enstar Capital Model") to validate the results of the Standard Formula calculation. The unapproved Enstar Capital Model is not a formal partial internal model, or "PIM", since none of the Companies has approval to use the unapproved Enstar Capital Model for regulatory reporting purposes. However, this validation still allows Enstar to consider an independent view of the risks for the Companies and understand the appropriateness of the Standard Formula calculation.

4.184 The unapproved Enstar Capital Model covers all Risks except Operational Risk. The unapproved Enstar Capital Model has been parameterised to reflect Enstar's view of the risks to the business as well as the dependencies between different lines of business at a more granular level than is possible in the Standard Formula. In addition, the unapproved Enstar Capital Model differs from the Standard Formula in that it can allow for the risks emerging from the claims liabilities until they are fully run-off (also referred to as the "ultimate capital"). This compares with the Standard Formula approach which only considers the risks emerging over a one-year time frame.

4.185 The unapproved Enstar Capital Model is used by Enstar to assess the capital requirements based on different percentiles and over different time periods. Following my request, Enstar provided me with the capital requirements calculated using the unapproved Enstar Capital Model based on the 97.5th percentile (such that it is assessed to be sufficient 39 times out of 40) over the period until all liabilities are fully run-off. This compares with the Standard Formula which assesses the capital requirement according to the 99.5th percentile (such that it is assessed to be sufficient 199 times out of 200) over a one-year time frame.

4.186 The results of the unapproved Enstar Capital Model on this basis for each of the Companies are shown in the table below.

Table 4.16: unapproved Enstar Capital Model Results as at 31 December 2023 (USD 000s) (97.5th percentile ultimate capital)

Risk	River Thames	Mercantile	Rombalds
Underwriting Risk	30,224	50,027	2,681
Market Risk	4,515	19,865	(459)
Counterparty Default Risk	2,400	5,715	0
Operational Risk	1,279	4,139	66
Diversification	(17,631)	(38,120)	(1,210)
Total SCR	**20,787**	**41,626**	**1,079**

4.187 The results for the individual risk types are in good agreement with the Standard Formula results. While the unapproved Enstar Capital Model results set out above consider the risks emerging from the claims liabilities until they are fully run-off (which increases the calculated capital) the capital is calculated according to a lower probability of being sufficient (the 97.5th percentile as opposed to the 99.5th percentile - which reduces the calculated capital). Overall, for the Companies, these offsetting impacts result in generally lower results for the individual risk types.

4.188 The key difference is the allowance for diversification between risk types, which is significantly higher in the unapproved Enstar Capital Model. This reflects the assumption in the unapproved Enstar Capital Model that Market Risk is uncorrelated with other risk types.

4.189 This assumption is commonly made in capital models and I consider it to be reasonable here as the long-tailed insurance liabilities are driven by factors which generally do not impact the overall economy as reflected in Market Risk.

4.190 While I have not validated the unapproved Enstar Capital Model to the standards of regulatory approval (and it has not received regulatory approval), overall I am satisfied that both the Standard Formula and unapproved Enstar Capital Model results are appropriate measures to use when I consider the financial effects of the Proposed Scheme, for both the No Scheme Position and the Post Scheme Position. However, given that the capital requirements calculated using the unapproved Enstar Capital Model are lower than those calculated using the Standard Formula, I consider it reasonable to base my conclusions on Solvency Ratios which use the SCR calculated according to the Standard Formula under Solvency II. I also note that the results of the unapproved Enstar Capital Model are expected to remain below those of the Standard Formula for the next five years, as shown in the projected balance sheets set out from paragraph 4.194 of this Scheme Report.

Capital risk appetite

4.191 Each of the Companies has a risk appetite which is a target level of Eligible Own Funds expressed in the form of a Solvency Ratio (the “Capital Risk Appetite”). This Capital Risk Appetite is used to determine whether it is appropriate to pay a dividend, and the size of any such dividend declared, or whether additional capital is required.

4.192 The Capital Risk Appetite for each of the Companies is 130% although, as set out in the ORSA for each of the Companies, certain actions are required if the Solvency Ratio (being the

Eligible Own Funds divided by the Solvency Capital Requirement) falls below a certain level. These thresholds are the same for each of the Companies and include the following thresholds:

- 135% - If the Solvency Ratio falls below this threshold, it is reported to the Board at the next scheduled Board meeting, together with the implementation of increased reporting requirements to the Board.
- 130% - If the Solvency Ratio falls below this threshold, then the Board is notified within five working days, together with an initial notification to the PRA. A short-term capital forecast including cash flow priorities is prepared, and consideration is given to reshaping the investment portfolio and / or increasing liquidity in line with the contingency plans for each of the Companies.

4.193 The Capital Risk Appetites are the same for each of the Companies and will be retained at the same level in the Post Scheme Position. As such, I consider that the Affected Policyholders will not be impacted by any change in the Capital Risk Appetite as a result of the Proposed Scheme.

Projected balance sheets and capital requirements

4.194 As part of the preparation for the Proposed Scheme, Enstar has produced projected balance sheets and capital requirements for each of the Companies as at the 2024 to 2028 year ends in the No Scheme Position.

4.195 In addition, Enstar has projected the balance sheets and capital requirements for River Thames in the Post Scheme Position over the same period. This projection of the Post Scheme Position is on the same basis as the projections of the No Scheme Position with the exception that the surplus assets currently held by Mercantile in GBP are assumed to be transferred to equivalent USD assets (as discussed in paragraph 4.174 above).

4.196 The starting point for these projections is the 31 December 2023 balance sheets on a Solvency II basis, as shown in Tables 4.1 to 4.3 above. The projections are then assumed to be in line with Enstar’s Medium Term Capital Plan and are based on the following key assumptions:

- Projections follow the three year UK GAAP profit forecast.
- Reserves are assumed to be paid out in line with existing payment patterns with assets reduced to account for these payments.
- The asset mix is assumed to remain constant.
- The current letter of credit for £32 million which expires in 2025 and provides the Tier 2 Eligible Own Funds of Mercantile is replaced by another letter of credit for the value of £19.1 million. This letter of credit will be for the benefit of Mercantile in the No Scheme Position and River Thames in the Post Scheme Position.
- No other dividends or management actions are assumed to take place over the projection period, and it is assumed that there are no changes to the risk profile or external environment.

- A number of simplifying assumptions have been made to calculate the Standard Formula result. In particular:
  - Reserve Risk is assumed to run off in line with undiscounted net reserves.
  - Market Risk is assumed to run off in line with the total assets.
  - Counterparty Default Risk is assumed to run off in line with the undiscounted ceded reserves.
  - Operational Risk is assumed to run off in line with the undiscounted gross reserves.
- Consistent assumptions have also been applied when calculating the projected capital using the unapproved Enstar Capital Model.

4.197 I have reviewed these assumptions and I consider that they are in line with those that I have seen for similar exercises from other firms. Overall, I consider them to be reasonable and that the approach provides a consistent basis from which to assess the impact of the Proposed Scheme.

4.198 Tables 4.17 to 4.20 below set out the net assets from the projected Solvency II balance sheets for each of the Companies in the No Scheme Position and River Thames in the Post Scheme Position. In addition to the net assets, the tables show the total projected Standard Formula SCR, the projected Solvency Ratio (on a Standard Formula basis), the projected capital requirements based on the unapproved Enstar Capital Model, and the make-up of the Eligible Own Funds. The projected capital requirements based on the unapproved Enstar Capital Model are the 97.5th percentile figures for the ultimate capital, as discussed from paragraph 4.183 of this Scheme Report.

Table 4.17: River Thames Solvency II Balance Sheet projection (USD thousands) – No Scheme Position

	2023	2024	2025	2026	2027	2028
Net Assets	**40,757**	**44,811**	**47,838**	**50,267**	**50,509**	**50,764**
Eligible Own Funds	61,108	63,797	65,560	66,818	65,946	65,172
SCR	40,701	37,972	35,444	33,102	30,873	28,816
Solvency Ratio	**150%**	**168%**	**185%**	**202%**	**214%**	**226%**
unapproved Enstar Capital Model Results	20,787	19,188	17,180	15,411	13,761	12,248
Structure of Eligible Own Funds						
Tier 1	40,757	44,811	47,838	50,267	50,509	50,764
Tier 2	20,350	18,986	17,722	16,551	15,436	14,408
Tier 3	0	0	0	0	0	0

Table 4.18: Mercantile Solvency II Balance Sheet projection (USD thousands) – No Scheme Position

	2023	2024	2025	2026	2027	2028
Net Assets	**115,649**	**119,743**	**122,331**	**125,263**	**124,441**	**123,732**
Eligible Own Funds	153,111	154,470	146,709	149,641	148,819	148,110
SCR	81,610	76,139	71,044	66,368	61,776	57,522
Solvency Ratio	**188%**	**203%**	**207%**	**225%**	**241%**	**257%**
unapproved Enstar Capital Model Results	41,626	37,798	34,191	30,804	27,957	24,978
Structure of Eligible Own Funds						
Tier 1	112,306	116,400	118,988	121,920	121,098	120,389
Tier 2	40,805	38,069	24,378	24,378	24,378	24,378
Tier 3	0	0	3,343	3,343	3,343	3,343

Table 4.19: Rombalds Solvency II Balance Sheet projection (USD thousands) – No Scheme Position

	2023	2024	2025	2026	2027	2028
Net Assets	**6,805**	**6,908**	**6,976**	**7,048**	**7,169**	**7,281**
Eligible Own Funds	6,805	6,908	6,976	7,048	7,169	7,281
MCR*	4,248	4,248	4,248	4,248	4,248	4,248
Solvency Ratio	**160%**	**163%**	**164%**	**166%**	**169%**	**171%**
unapproved Enstar Capital Model Results	1,079	895	727	577	442	316
Structure of Eligible Own Funds						
Tier 1	6,805	6,908	6,976	7,048	7,169	7,281
Tier 2	0	0	0	0	0	0
Tier 3	0	0	0	0	0	0

* For Rombalds, the minimum floor of the MCR remains the binding capital constraint throughout the projection period.

Table 4.20: River Thames Solvency II Balance Sheet projection (USD thousands) - Post Scheme Position

	2023	2024	2025	2026	2027	2028
Net Assets	**166,044**	**174,047**	**179,489**	**184,688**	**184,001**	**183,438**
Eligible Own Funds	221,286	225,475	226,367	229,411	225,623	222,205
SCR	117,169	109,541	102,548	96,130	89,929	84,218
Solvency Ratio	**189%**	**206%**	**221%**	**239%**	**251%**	**264%**
unapproved Enstar Capital Model Results	50,848	46,142	41,068	36,719	32,789	29,035
Structure of Eligible Own Funds						
Tier 1	162,701	170,705	176,146	181,346	180,658	180,096
Tier 2	58,585	54,770	46,878	46,878	44,965	42,109
Tier 3	0	0	3,343	1,187	0	0

4.199 The projections follow a similar pattern for each of the Companies as follows:

- The Solvency II Technical Provisions decrease in future years as the reserves continue to be paid out. For each Company approximately one third of the Solvency II Technical Provisions as at 31 December 2023 are expected to be paid out by the end of 2028. This is broadly in line with the assumptions I reviewed as part of my consideration of the reserves as discussed above.

- The level of assets reduces as these claims are paid, so that the net assets of each of the Companies remains materially constant.

- The risk profiles of the Companies in the No Scheme Position remain broadly constant with all items decreasing over time, with Non-life Underwriting Risk and Market Risk being the dominant risks for all Companies. The main impact over the projection period is the increased proportion of Market Risk relative to Non-Life Underwriting Risk. This is expected as the Non-Life Underwriting Risk is driven by the size of the reserves whereas Market Risk is driven by the level of assets. Whilst the assets reduce as claims are paid, this does not impact the excess assets and so the surplus of assets over liabilities becomes higher as a proportion of the liabilities. Consequently, Market Risk increases its share of the total risk.

- Over the projection period, the SCR remains approximately constant as a proportion of the Net Solvency II Technical Provisions. As a result, the Solvency Ratio increases over time for all entities. This effect is less relevant for Rombalds as the SCR is already below the minimum floor of the MCR and so the capital requirement does not decrease over time.

- The movements in the unapproved Enstar Capital Model capital over the projection period, which is on an ultimate basis, are similar to those from the Standard Formula as they are both driven by the expected reduction in reserves and assets as claims pay out. However, the capital reduces more quickly on the unapproved Enstar Capital Model basis. This is driven by Market Risk where the allowance for future investment returns and release of the risk margin profit (over the period until all the liabilities are run off) means that this reduces more quickly than in the Standard Formula.

4.200 Overall, Mercantile is expected to have the highest Solvency Ratio in 2028 in the No Scheme Position, followed by River Thames and then Rombalds. However, this is slightly deceptive for Rombalds as, due to its small size, it is required to hold a greater capital amount than would be implied by the Standard Formula.

4.201 In the Post Scheme Position, the SCR allows for a degree of diversification between the combined business and so the SCR in the Post Scheme Position is lower than the sum of the SCRs for each of the Companies in the No Scheme Position. As can be seen above, this results in River Thames in the Post Scheme Position having a higher Solvency Ratio than any of the Companies on a standalone basis in the No Scheme Position in all of the years covered by the projections. Overall, I do not consider there to be any material differences in the run-off characteristics of each of the Companies. However, I do note that, in practice, the regulatory capital for Rombalds in the No Scheme Position will continue to be set by the MCR over the projection period which is assumed to remain constant and hence the requirement as a proportion of reserves becomes higher over time.

4.202 The projected SCRs and risks for River Thames in the Post Scheme Position broadly follow that of the standalone Companies and I do not consider that the Proposed Scheme will have a material impact on the risk profile as seen at this level for any of the Affected Policyholders.

Eligible Own Funds

4.203 Eligible Own Funds are the surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own

Funds[1]. As a result of these limits, the Eligible Own Funds in the Post Scheme Position are higher than the sum of the Eligible Own Funds for each of the Companies in the No Scheme Position.

4.204 The majority of the Eligible Own Funds of the Companies are graded as sufficient quality to meet the requirements of Tier 1 Eligible Own Funds. These are the highest grade of financial resources recognised under Solvency II and are predominantly shareholders' equity.

4.205 River Thames and Mercantile also have financial resources in the form of letters of credit. These have been approved by the PRA as Ancillary Own Funds and are classified as Tier 2 Eligible Own Funds. The letter of credit provided to River Thames amounts to $22.5 million and is due to remain in place for the whole of the projection period. The letter of credit provided to Mercantile amounts to £32 million which expires in 2025 and is assumed to be replaced by another letter of credit for the value of £19.1 million immediately on expiry. In addition, Mercantile has a small amount of Tier 3 Eligible Own Funds which relates to a deferred tax asset.

4.206 I consider the impact of changes in the tiering of the Eligible Own Funds on the Affected Policyholders as a result of the Proposed Scheme below.

Summary

4.207 A summary of the balance sheet and capital requirements for each of the Companies in the No Scheme Position as well as River Thames in the Post Scheme Position as at 31 December 2023 is set out in the table below. Although the Effective Date of the Proposed Scheme is not until 31 December 2025, I have chosen this date as it is the last date where

[1] Tier 2 Eligible Own Funds are restricted to a maximum of 50% of the SCR. Tier 3 Eligible Own Funds must be less than 15% of the SCR, and the sum of Tier 2 and Tier 3 Eligible Own Funds cannot exceed 50% of the SCR. In addition, at least 50% of the SCR must be met by Tier 1 Own Funds.

actual accounting information, as opposed to projections, is available and it also represents the starting point for the scenarios considered in the next section.

Table 4.21: Financial Position as at 31 December 2023 (USD thousands)

	No Scheme Position			Post Scheme Position
	River Thames	Mercantile	Rombalds	
Cash & Investments	262,010	274,160	11,793	547,963
Reinsurance	112,367	493,189	0	605,556
Other Assets	13,065	23,761	768	37,594
Total Assets	**387,442**	**791,110**	**12,562**	**1,191,113**
Best Estimate Technical Provisions	200,617	640,935	4,918	846,470
Risk Margin	11,548	22,094	596	31,405
Other Liabilities	134,519	12,432	243	147,195
Total Liabilities	**346,685**	**675,461**	**5,757**	**1,025,069**
Net Assets	**40,757**	**115,649**	**6,805**	**166,044**
SCR	**40,701**	**81,610**	**2,649**	**117,169**
MCR			4,248	
Eligible Own Funds	61,108	153,111	6,805	221,286
Solvency Ratio	**150%**	**188%**	**160%**	**189%**
unapproved Enstar Capital Model Results	20,787	41,626	1,079	50,848
Structure of EOF ($ thousands)				
Tier 1	40,757	112,306	6,805	162,701
Tier 2	20,350	40,805	0	58,585
Tier 3	0	0	0	0
Structure of EOF (%)				
Tier 1	67%	73%	100%	74%
Tier 2	33%	27%	0%	26%
Tier 3	0%	0%	0%	0%

4.208 As can be seen, River Thames in the Post Scheme Position is a significantly larger company than any of the individual Companies. This is most obvious for Rombalds where there is a significant increase in the size of the available assets, which I consider provides additional protection to the Rombalds Policyholders.

4.209 On a Post Scheme basis, River Thames benefits from a degree of diversification between the business of the Companies. This is lower than might normally be expected as, although the Companies have exposure to different types of insurance liabilities, they are largely included within the same Solvency II classes (with around 95% of the gross reserves of River Thames in the Post Scheme Position falling into two Solvency II classes[1]). As a result, the benefit of diversification within the Standard Formula is limited.

4.210 Notwithstanding this, the fact that there is some diversification between entities means that the SCR in the Post Scheme Position is smaller than the sum of the SCRs in the No Scheme Position. This has a knock-on impact of also slightly reducing the Risk Margin and hence

[1] General Liability insurance and proportional reinsurance, and Non-proportional casualty reinsurance.

increasing the Eligible Own Funds. These factors mean that the Solvency Ratio in the Post Scheme Position is higher than that of any of the Companies in the No Scheme Position, both as shown in the table above and throughout the projection period.

4.211 Based on the above, I therefore note that:

- The Solvency Ratio for the River Thames Policyholders would be 150% in the No Scheme Position and would increase to 189% in the Post Scheme Position.
- The Solvency Ratio for the Mercantile Policyholders would be 188% in the No Scheme Position and would increase to 189% in the Post Scheme Position.
- The Solvency Ratio for the Rombalds Policyholders would be 160% in the No Scheme Position and would increase to 189% in the Post Scheme Position.

4.212 In terms of the tiering of the Eligible Own Funds available:

- River Thames goes from having 67% of Eligible Own Funds within Tier 1 in the No Scheme Position to having 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position. If the position as at 31 December 2028 is considered, these figures become 78% and 81% respectively.
- Mercantile goes from having 73% of Eligible Own Funds within Tier 1 in the No Scheme Position to having 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position. If the position as at 31 December 2028 is considered, these figures would both become 81%.
- Rombalds goes from having 100% of Eligible Own Funds within Tier 1 in the No Scheme Position to having 74% of Eligible Own Funds within Tier 1 in the Post Scheme Position. If the position as at 31 December 2028 is considered, these figures become 100% and 81% respectively.

4.213 As a result of the Proposed Scheme, the River Thames Policyholders will have, and the Mercantile Policyholders will move to, an insurer with an increased Solvency Ratio and an increased proportion of the highest quality Eligible Own Funds. In my opinion, therefore, based on considering the impact of the Proposed Scheme on regulatory coverage ratios and the tiering of the Eligible Own Funds, the River Thames Policyholders and the Mercantile Policyholders will not be materially adversely affected as a result of the Proposed Scheme.

4.214 As a result of the Proposed Scheme, the Solvency Ratio of their reinsurer also increases for the Rombalds Policyholders. However, the impact of the Proposed Scheme also results in a lower proportion of the highest quality Eligible Own Funds. However, I consider that this is mitigated by a number of factors – including the significant increase in the overall size of the available assets in the Post Scheme Position (which I discuss further in the following paragraph), a reduction in the risk that ongoing expenses deplete the Eligible Own Funds in the Post Scheme Position (which I discuss further in paragraph 4.216 below), the increase in the diversification of River Thames in the Post Scheme Position and the increase in the Solvency Ratio compared to that of Rombalds as a result of the Proposed Scheme (from 160% to 189%). Taking all of these factors into account, in my opinion, based on considering the impact of the Proposed Scheme on regulatory coverage ratios and the tiering of the

Eligible Own Funds, the Rombalds Policyholders will not be materially adversely affected as a result of the Proposed Scheme.

4.215 In terms of the increase in the overall size of the available assets in the Post Scheme Position, the Rombalds Policyholders are moving from a company with Eligible Own Funds of $6.8 million to a company with Eligible Own Funds of $221.3 million (see Table 4.21 of this Scheme Report), which is an increase in the Eligible Own Funds by a factor greater than 30. This means that risks which may threaten the solvency of Rombalds in the No Scheme Position are unlikely to have a material impact on River Thames in the Post Scheme Position. For example, a new latent claim type which emerges and results in a relatively moderate reserve deterioration of $10m (compared with the $100m I have assumed for Scenario 8 and 9 in the section below) would exceed the Eligible Own Funds of Rombalds in the No Scheme Position but would reduce the Eligible Own Funds by less than 5% in the Post Scheme Position.

4.216 In terms of the reduction in the risk that the ongoing expenses deplete the Eligible Own Funds, in the No Scheme Position the run-off provision, which represents the future expenses required to manage the run-off of the business, is a material component of the total Solvency II Technical Provisions (as shown in Table 4.9 of this Scheme Report). This run-off provision is calculated assuming that the business will continue to be managed by Rombalds for five years, at which time it is assumed that Enstar will find an alternative way to manage any remaining liabilities (such as transferring them to another insurance company with more material remaining liabilities). Hence, if the Proposed Scheme does not go ahead and Enstar is unable to find an alternative way to manage any remaining liabilities, the Rombalds Policyholders are exposed to the risk that the ongoing expenses deplete the Eligible Own Funds available to pay claims, particularly given the long-tailed nature of the remaining liabilities within Rombalds. This risk is significantly reduced in the Post Scheme Position given the increase in the overall size of the available assets, and hence the reduction in the relative size of the run-off provision compared to the total liabilities.

Consideration of scenarios

Introduction

4.217 In this section I have considered the impact of different scenarios on the Solvency Ratios of each of the Companies in both the No Scheme Position and the Post Scheme Position, in order to further understand the robustness of the capital positions of the Companies and any corresponding impact on policyholders.

4.218 I asked Enstar to perform 14 different scenarios, which are summarised in Table 4.22 below. I have also considered the impact of a more extreme inflationary scenario as an extension to Scenario 12.

4.219 These scenarios were selected to cover what I consider to be the most material risks which the Companies are exposed to – namely Reserve Risk (as discussed in paragraph 4.42), Market Risk and Counterparty Default Risk. Within Reserve Risk, the scenarios were selected to cover the most material areas of uncertainty as well as two overall scenarios. The scenarios contain a mixture of extreme (but plausible) events and less severe events to consider the impact on the Affected Policyholders of a range of scenarios.

4.220 For each of the scenarios, I have considered whether the 'return period' of the adverse scenario is low, medium, high or extreme. The return period is the estimated time between a scenario occurring. For example, if a scenario has a return period of 50 years, then that scenario is expected to occur once every 50 years or, equivalently, the probability of the scenario occurring in any given year is 2% (i.e. 1 ÷ 50) although I note that some of the scenarios may not fully emerge over a single year. The lower the return period the more frequently a scenario is assumed to occur. I have defined the low, medium, high and extreme return periods as follows:

- The scenarios with a low return period are those which I might expect to arise more frequently than once in every 10 years;
- The scenarios with a medium return period are those which I might expect to arise approximately once in every 10 to 50 years;
- The scenarios with a high return period are those which I might expect to arise approximately once in every 50 to 200 years; and
- The scenarios with an extreme return period are those which I might expect to arise less frequently than once in every 200 years.

4.221 Whether the 'return period' of each adverse scenario is low, medium, high or extreme has been included to illustrate the relative differences in the expected frequency of each scenario. However, it should be noted that there is considerable uncertainty and judgement associated with both the assessment of whether the 'return period' of each adverse scenario is low, medium, high or extreme and the estimated return periods for each grouping as set out in the previous paragraph.

4.222 Whether I consider the return period for each of the adverse scenarios to be low, medium, high or extreme is set out in the table below.

Table 4.22: Details of Scenarios

Scenario Number	Category	Expected Return Period	Scenario Name	Details of Scenario
1	Reserve Risk	Low	Moderate deterioration in UK asbestos reserves	15% deterioration in all UK asbestos reserves in Mercantile
2	Reserve Risk	High	Severe deterioration in UK asbestos reserves	50% deterioration in all UK asbestos reserves in Mercantile
3	Reserve Risk	Low	Moderate to severe deterioration in US APH reserves	30% deterioration in all US asbestos and pollution reserves in River Thames
4	Reserve Risk	Medium	Extreme deterioration in US APH reserves	70% deterioration in all US asbestos and pollution reserves in River Thames
5	Reserve Risk	Low	Deterioration in PPO reserves	Impact if PPO reserves are based on unimpaired mortality rather than mortality for impaired lives
6	Reserve Risk	High	Deterioration of all reserves by 25%	Impact of 25% increase in all reserves (both case reserves and IBNR) applied to each of the Companies
7	Reserve Risk	Extreme	Deterioration of all reserves by 50%	Impact of 50% increase in all reserves (both case reserves and IBNR) applied to each of the Companies

Scenario Number	Category	Expected Return Period	Scenario Name	Details of Scenario
8	Latent claim risk	Medium	Emergence of new latent claim type for Mercantile	Impact of new latent claim type which emerges and results in a reserve deterioration of $100m
9	Latent claim risk	Medium	Emergence of new latent claim type for River Thames	Impact of new latent claim type which emerges and results in a reserve deterioration of $100m
10	Market Risk	High	Global Financial Crisis	Impact of an economic scenario comparable with the Global Financial Crisis which took place from December 2007 to March 2009
11	Market Risk	Medium	Market Crash	Impact of an economic scenario comparable with the Market Crash which took place in September / October 2008
12	Market Risk	Medium	Inflationary scenario	Impact of an economic scenario comparable with the economic situation which was observed from 2022
12a	Market Risk	High	More extreme inflationary scenario	Impact of an economic scenario comparable with the economic situation which was observed from 2022, but with more extreme elevated inflation
13	Reinsurer default	High	Default of CBRe	Impact of the default of CBRe
14	Reserve deterioration combined with reinsurer default	Extreme	Default of CBRe together with instantaneous increase in all reserves of 25%	Impact of the default of CBRe together with a 25% increase in all reserves, with default of CBRe taking place before collateral is increased to reflect the reserve deterioration

4.223 The Companies are not all impacted by each scenario but River Thames is impacted by all the scenarios in the Post Scheme Position and each of the Companies are impacted by multiple scenarios. Given the overall size of the balance sheet of Rombalds (in comparison to both River Thames and Mercantile) the scenarios have been specified such that there is a greater focus on the risks to which River Thames and Mercantile are exposed. As such there are 12 scenarios which impact either River Thames or Mercantile in the No Scheme Position, whereas only seven scenarios impact Rombalds in the No Scheme Position.

4.224 The scenarios were conducted by Enstar as at 31 December 2023 allowing for the adjustments described in paragraphs 4.8 and 4.9. Hence, the starting position for each of the scenarios is consistent with the figures in Tables 4.1 to 4.3 of this Scheme Report, as well as the basis used for the projected balance sheets. This date was selected as it is the most recent date at which the full underlying reserve and asset information is available.

4.225 Each of the scenarios is assumed to be an immediate shock that emerges instantaneously at the as at date of the underlying balance sheets. Following the shock, the SCR under the Standard Formula has been calculated so that the full, immediate, impact of the stress on each of the Companies can be seen.

4.226 I have reviewed the results of the scenarios, and discussed with Enstar the methodology employed by Enstar to derive them, and I consider them to be reasonable.

4.227 The table below shows the Solvency Ratio for each of the Companies after each scenario as well as the impact of the scenarios on the Solvency Ratio in terms of the absolute change in percentage points (or "pp"). If a scenario does not impact a particular Company then the impact is given as "-".

4.228 An expanded version of the table below is also included in Appendix E, which additionally includes the Eligible Own Funds and SCR for each of the scenarios.

Table 4.23: Impact on Solvency Ratios by Scenario

Scenario	Category	Expected Return Period	No Scheme Position						Post Scheme Position	
			River Thames		Mercantile		Rombalds		River Thames	
			Solvency Ratio	Impact	Solvency Ratio	Impact	Solvency Ratio	Impact	Solvency Ratio	Impact
Base	-	-	150%	-	188%	-	160%	-	189%	-
1	Reserve Risk	Low	150%	-	141%	(47pp)	160%	-	157%	(31pp)
2	Reserve Risk	High	150%	-	61%	(127pp)	160%	-	91%	(97pp)
3	Reserve Risk	Low	98%	(52pp)	188%	-	160%	-	169%	(20pp)
4	Reserve Risk	Medium	38%	(112pp)	188%	-	160%	-	143%	(46pp)
5	Reserve Risk	Low	148%	(2pp)	186%	(2pp)	160%	-	187%	(2pp)
6	Reserve Risk	High	77%	(73pp)	98%	(90pp)	128%	(32pp)	101%	(88pp)
7	Reserve Risk	Extreme	21%	(129pp)	42%	(146pp)	95%	(65pp)	42%	(147pp)
8	Latent claim	Medium	150%	-	133%	(55pp)	160%	-	152%	(37pp)
9	Latent claim	Medium	19%	(131pp)	188%	-	160%	-	134%	(55pp)
10	Market Risk	High	85%	(65pp)	95%	(92pp)	107%	(53pp)	106%	(83pp)
11	Market Risk	Medium	108%	(42pp)	122%	(66pp)	122%	(38pp)	132%	(57pp)
12	Market Risk	Medium	106%	(44pp)	134%	(54pp)	132%	(28pp)	137%	(52pp)
12a	Market Risk	High	42%	(108pp)	88%	(99pp)	119%	(41pp)	82%	(107pp)
13	Reinsurer default	High	92%	(58pp)	72%	(115pp)	160%	-	86%	(103pp)
14	Reserve risk & reinsurer default	Extreme	27%	(123pp)	11%	(177pp)	128%	(32pp)	18%	(171pp)

4.229 The scenarios make no allowance for any mitigating actions that may be undertaken by the Companies to improve their position following the events being modelled. In particular, unlike standalone companies, the Companies are all part of the Enstar Group and, as such, may in practice receive financial support from the Enstar Group should any such scenarios materialise. Furthermore, some of these scenarios, if they were to occur, may emerge over an extended number of years allowing time for such mitigating actions to be taken.

4.230 I do not consider that there is a high likelihood of the above scenarios occurring simultaneously and as such, with the exception of scenario 14 which may be considered a combination of scenarios 6 and 13, I have only considered them individually. In the event of any one of these scenarios occurring prior to the Proposed Scheme or in the event that I consider that a material positive correlation has arisen between the likelihoods of these scenarios occurring then I would consider this in my Supplementary Report.

Exposure to CBRe

4.231 In the No Scheme Position, both Mercantile and River Thames have material exposure to CBRe as a result of the significant quota shares which are in place (with Mercantile having a 75% quota share in place and River Thames having a 50% quota share in place), and similarly River Thames has material exposure to CBRe in the Post Scheme Position with these quota shares remaining in force for the business previously covered.

4.232 For all of the scenarios except Scenarios 13 and 14, it has been assumed that the reinsurance with CBRe remains effective although the Solvency Ratio immediately after the scenario has been calculated excluding the impact of any subsequent collateral top-ups which may be required (which is a conservative assumption).

4.233 Most of the scenarios which I have considered result in an increase in assumed reinsurance recoveries. However, these increases amount to less than 2% of CBRe's surplus assets for the majority of the scenarios. The exceptions to this are Scenario 2 (which assumes a 50% deterioration in all UK asbestos reserves in Mercantile), Scenario 6 (which assumes a 25% increase in all reserves for all the Companies) and Scenario 7 (which assumes a 50% increase in all reserves for all the Companies).

4.234 Given that CBRe is exposed to many of the same kinds of business as the Companies, there is a risk that CBRe may also be in a stressed position if these scenarios were to materialise for the Companies. I have therefore separately considered two scenarios which assume that CBRe defaults. I have firstly considered Scenario 13 which considers the default of CBRe in isolation.

4.235 I have also considered a more extreme scenario (Scenario 14) which considers a 25% increase in the reserves for all the Companies together with the default of CBRe (and with the default assumed to occur before the collateral is increased to reflect the reserve deterioration). As this scenario is the combination of two already relatively extreme scenarios this scenario should be considered particularly extreme and at the upper end of what is plausible. For this scenario I have assumed that no reinsurance recoveries will be obtained from CBRe in excess of the collateral which is already held by the Companies, despite the strong coverage ratio of 206% of CBRe (as discussed from paragraph 3.32 of this Scheme Report).

Impact on US Trust Funds and other collateral arrangements

4.236 Both River Thames and Mercantile have assets which are subject to restrictions, as a result of having trust funds and other collateral arrangements in place. These arrangements are discussed from paragraph 4.343 below. For some of the scenarios considered below, the amounts held in these trust funds and other collateral arrangements would need to be increased, which would result in an increase in the proportion of assets which are subject to restrictions. This could result in policyholders who are not protected by such arrangements being disadvantaged due to a greater proportion of funds being unavailable to them. I discuss this from paragraph 4.359 below and explain why, after additionally considering the impact of the scenarios below, I remain of the opinion that the Affected Policyholders will not be materially adversely affected by the Proposed Scheme as a result of an increase in the proportion of assets which are subject to restrictions.

Details of scenarios

Scenario 1

4.237 This scenario is intended to represent a moderate deterioration in Mercantile's UK asbestos reserves. UK asbestos represents the largest area of gross reserves for both Mercantile in the No Scheme Position and River Thames in the Post Scheme Position, so I consider this to be an important sensitivity.

4.238 This scenario impacts the reserves for both mesothelioma and other asbestos related diseases. These reserves are inherently uncertain and the results of this scenario provide me with comfort as to the financial stability of the Companies as the overall level of solvency remains high after a moderate adverse movement in reserves, with the Solvency Ratio remaining above the target of 130% for both Mercantile in the No Scheme Position and River Thames in the Post Scheme Position.

Scenario 2

4.239 This scenario is similar to Scenario 1 but represents a more extreme outcome. In my opinion this scenario is an 'extreme but plausible event' given that it relates to a material deterioration of the UK asbestos reserves for Mercantile. In this context I consider an 'extreme but plausible event' to be a scenario which is unlikely to occur but is still conceivable (and not merely of a theoretical nature).

4.240 Under this scenario, Mercantile would suffer a significant reduction in solvency with the Solvency Ratio falling to 61% in the No Scheme Position. While this means that Mercantile would not be able to cover the SCR it still represents a positive net asset position i.e. Mercantile would be expected to be able to pay all liabilities after this stress without requiring additional funds.

4.241 I note that the implications of a Solvency Ratio below 100% are less significant for a run-off firm than for a live firm. For a live firm, falling below a 100% Solvency Ratio might result in the company being prevented from writing future business, which could have implications for existing policyholders (such as due to an increase in the expense ratio and anticipated profits from future business no longer being available). However, this does not apply to a firm already in run-off (such as the Companies involved in the Proposed Scheme). Whilst such a company could, in theory, be placed into insolvency it is more likely that, so long as the firm remained in a positive net asset position, it would be kept running as it would still be able to pay all expected remaining liabilities.

4.242 In the Post Scheme Position, the impact is still severe (given the materiality of the UK asbestos reserves) and River Thames would fall below a 100% Solvency Ratio. However, the impact is reduced, with River Thames maintaining a 91% Solvency Ratio in the Post Scheme Position.

Scenario 3

4.243 This scenario is intended to represent a moderate to severe deterioration in the US asbestos and pollution reserves of River Thames. These represent the largest area of gross reserves for River Thames in the No Scheme Position and a material contributor in the Post Scheme Position, so I consider this to be an important sensitivity.

4.244 As discussed in paragraph 4.120, there is significant uncertainty in the projection of US APH reserves and therefore a wide range of reasonable reserves. Based on my review of the US APH reserves of Enstar, I consider this scenario to represent a moderate to severe deterioration in US APH reserves.

4.245 In the No Scheme Position, this scenario has a material impact on the solvency of River Thames, with the Solvency Ratio falling just below 100%. In the Post Scheme Position, the impact is much less significant with the Solvency Ratio of River Thames being 169% after the assumed scenario.

Scenario 4

4.246 This scenario is intended to represent a more extreme deterioration in the US asbestos and pollution reserves of River Thames. In my opinion this scenario is an ‘extreme but plausible event’.

4.247 The impact on River Thames in the No Scheme Position is severe, with the Solvency Ratio falling to only 38%. However, this still represents a positive net asset position, meaning that River Thames is still expected to be able to pay all remaining claims.

4.248 In the Post Scheme Position, the impact is much less severe with the Solvency Ratio only falling to 143%.

4.249 In respect of scenario 3 and scenario 4, I note that there is a high degree of overlap between the River Thames US asbestos and pollution business and the Rombalds reserves such that, any real-world scenario impacting the River Thames reserves would likely also impact Rombalds. I have not considered this outcome due to the low materiality of the Rombalds business but I consider that the impact of these two scenarios will likely be more favourable for Rombalds Policyholders than implied by the results set out above (given that, if I had also applied the stress to the Rombalds reserves, the Rombalds Policyholders would have a lower Solvency Ratio in the No Scheme Position compared with that shown in the table above).

Scenario 5

4.250 This scenario represents a deterioration in the PPO reserves of River Thames and Mercantile.

4.251 PPOs are an unusual form of liability as they depend upon the lifetime of a small number of individuals with each loss having the potential for significant financial impact. There is generally a high degree of uncertainty due to the future lifespan of the individual involved. This is particularly the case as these individuals often have significant injuries which may impact their future life expectancy. Estimating their life expectancy is an important part of estimating future PPO reserves but is an area of significant expert judgement and uncertainty.

4.252 This scenario attempts to quantify the impact of this uncertainty by assuming that there is no impairment to life expectancy for the PPO claimants. As can be seen from the table above, the impact on the Solvency Ratios in both the No Scheme Position and the Post Scheme Position is not material.

Scenario 6

4.253 This scenario is intended to represent a severe reserve deterioration impacting all of the liabilities for each of the Companies, compared with the more specific scenarios above which impact certain parts of the reserves for individual Companies.

4.254 The scenario assumes that the reinsurance with CBRe remains effective (with Mercantile having a 75% quota share in place and River Thames having a 50% quota share in place) but the Solvency Ratio immediately after the scenario has been calculated excluding the impact of any subsequent collateral top-ups which may be required.

4.255 For River Thames and Rombalds this is primarily a Reserve Risk stress, since for River Thames the deterioration in reserves does not exceed the existing collateral provided by CBRe and Rombalds does not have any reinsurance in place. For Mercantile, there is a knock-on impact from Counterparty Default Risk as the deterioration in reserves exceeds the existing collateral from CBRe. The result is that this is a more severe scenario for Mercantile than for River Thames or Rombalds.

4.256 In the Post Scheme Position the Solvency Ratio of River Thames stays just above 100%.

Scenario 7

4.257 This scenario is a more extreme version of Scenario 6, representing an extreme reserve deterioration impacting all of the liabilities for each of the Companies.

4.258 The scenario assumes that the reinsurance with CBRe remains effective (with Mercantile having a 75% quota share in place and River Thames having a 50% quota share in place) but the Solvency Ratio immediately after the scenario has been calculated excluding the impact of any subsequent collateral top-ups which may be required.

4.259 For Rombalds this is primarily a Reserve Risk stress. For Mercantile and River Thames, there is a knock-on impact from Counterparty Default Risk as the deterioration in reserves exceeds the existing collateral from CBRe. The result is that this is a more severe scenario for Mercantile and River Thames than for Rombalds.

4.260 The Solvency Ratio falls below 100% for all of the Companies in the No Scheme Position under this scenario, and for River Thames in the Post Scheme Position. The Solvency Ratio in the Post Scheme Position is higher than, or the same as, the Solvency Ratio for River Thames and Mercantile in the No Scheme Position, but lower than the Solvency Ratio for Rombalds in the No Scheme Position.

4.261 As with other scenarios where the Solvency Ratio falls below 100%, I would expect the Companies to continue to be able to pay all claims in both the No Scheme Position and the Post Scheme Position.

Scenario 8

4.262 Much of the liability business written by Mercantile is on a losses occurring basis. As a result, there can be a significant delay between a loss event occurring and it being reported – the resulting claims being known as “latent claims”. This means that, even though Mercantile has been in run-off for many years, it might still be exposed to future losses from new latent claim types.

4.263 Asbestos related claims are an example of a type of latent claim. There are currently a number of potential claim types that could emerge as a new type of latent claim in the future. The most common suggestions at this time are head injuries from playing sports and claims arising from the use of PFAS. It is also possible that future claims may emerge that are not currently foreseen.

4.264 I have discussed exposure to potential new latent claim types with Enstar including head injuries and PFAS. However, at this time it is difficult to know whether any particular claim type will emerge as significant losses in the market and, if it does, whether Mercantile will be materially impacted.

4.265 Consequently, scenario 8 is intended to represent a generic exposure to losses from a potential future latent claim type rather than a specific known risk. There is a high degree of uncertainty as to whether such a loss type will emerge and, if it does, what the impact would be on Mercantile. As such, I consider this to be an extreme but plausible scenario.

4.266 The result of this scenario is a reduction in the Solvency Ratio for Mercantile in the No Scheme Position, although it remains above Enstar's target Solvency Ratio of 130%. In the Post Scheme Position, the impact is reduced.

Scenario 9

4.267 Scenario 9 is the equivalent of scenario 8 except that the new latent claim impacts River Thames rather than Mercantile.

4.268 Although the numerical size of the scenario is the same, it has a significantly higher impact on River Thames. This reflects both the smaller size of River Thames (so that the same numerical loss is a greater proportion of current reserves) as well as the lower proportion of reinsurance in place with CBRe (50% compared to the 75% quota share in place for Mercantile).

4.269 In the No Scheme Position, this scenario results in the most significant reduction in Solvency Ratio for River Thames, with the Solvency Ratio falling to 19%. As with the other scenarios, River Thames would still have positive net assets and hence would be expected to be able to pay all future claims. However, in this case River Thames would be relying on its Ancillary Own Funds in order to do so.

4.270 In the Post Scheme Position, the impact is less material with the Solvency Ratio remaining marginally above Enstar's target Solvency Ratio of 130%.

4.271 In respect of scenarios 8 and 9, I note that they each only impact one Company in the No Scheme Position. However, the risk for this type of latent claim emerging impacts each of the Companies although not all of them will necessarily be impacted by any one new latent claim type that emerges.

Scenario 10

4.272 This scenario aims to replicate the impact on the financial markets of the Global Financial Crisis which took place from December 2007 to March 2009.

4.273 For all three of the economic scenarios, Enstar has used economic risk management software to derive coherent economic scenarios based on a number of key assumptions. Each scenario is then applied to their asset portfolio to derive the shock to the balance sheet and SCR.

4.274 The key assumptions for this scenario are:

- The five-year US interest rate falls by 121 basis points;
- The S&P 500 index falls by 54%;
- The credit spread for A rated USD bonds increases by 362 basis points;
- The unemployment rate increases by 3.7%;
- GDP falls by 4%; and
- The scenario lasts for 15.4 months.

4.275 I have reviewed the assumptions underlying this scenario, and their impact on the asset portfolios of the Companies, and I am satisfied that this is a reasonable extreme but plausible economic stress to consider. This scenario is focussed on an asset stress, with the liabilities only being impacted to the extent that the fall in interest rates reduces the allowance for discounting on a Solvency II basis.

4.276 In the No Scheme Position, this scenario results in a very significant reduction in the Solvency Ratio for each of the Companies, with the Solvency Ratio for both River Thames and Mercantile falling below 100% and the Solvency Ratio for Rombalds falling below Enstar's target Solvency Ratio of 130%.

4.277 In the Post Scheme Position, the Solvency Ratio remains above 100% but below Enstar's target of 130%. The Solvency Ratio in the Post Scheme Position is higher than the Solvency Ratio for River Thames and Mercantile in the No Scheme Position, and marginally lower than the Solvency Ratio for Rombalds in the No Scheme Position.

Scenario 11

4.278 This scenario aims to replicate the impact on the financial markets of the Market Crash which took place in September / October 2008.

4.279 The key assumptions for this scenario are:

- The five-year US interest rate falls by 8 basis points;
- The S&P 500 index falls by 23%;
- The credit spread for A rated USD bonds increases by 242 basis points;
- The unemployment rate increases by 0.7%;
- GDP falls by 1%; and
- This scenario lasts for 1.7 months.

4.280 I have reviewed the assumptions underlying this scenario, and their impact on the asset portfolios of the Companies, and I am satisfied that this is a reasonable economic stress to consider – albeit a less extreme scenario than Scenario 10 above. As for Scenario 10, this scenario is also focussed on an asset stress, with the liabilities only being impacted to the extent that the fall in interest rates reduces the allowance for discounting on a Solvency II basis.

4.281 As this is a less extreme scenario than Scenario 10, the impact is also less extreme with each of the Companies on a standalone basis maintaining a Solvency Ratio above 100% in the No Scheme Position but below Enstar’s target of 130%.

4.282 In the Post Scheme Position, the impact is reduced and River Thames maintains a Solvency Ratio of 132%, slightly above Enstar’s target. The Solvency Ratio in the Post Scheme Position is higher than the Solvency Ratio for each of the Companies in the No Scheme Position.

Scenario 12

4.283 This scenario aims to replicate the impact on the financial markets of the economic situation which was observed from 2022. It is intended to reflect an inflationary environment and so impacts both the assets and liabilities.

4.284 The key assumptions for this scenario are:

- The five-year US interest rate increases by 283 basis points;
- The S&P 500 index falls by 28%;
- The credit spread for investment grade USD bonds increases by 67 basis points;
- The credit spread for higher yield USD bonds increases by 269 basis points;
- A higher level of inflation for future claims payments, set with reference to UK EL Mesothelioma for Mercantile and US asbestos for Rombalds and River Thames. This results in:
  - For Mercantile, excess inflation (in addition to the level of inflation already allowed for in the reserves) of 0%, 9%, 4% and 3% for years one to four after the shock; and
  - For River Thames and Rombalds, excess inflation of 0%, 7%, 2% for years one to three after the shock.

4.285 I have reviewed the assumptions underlying the scenario, and their impact on both the asset portfolios of the Companies and the booked reserves, and I am satisfied that they are based on appropriate information and appear reasonable. However, I note that the scenario results in a decrease in Net Solvency II Technical Provisions for each of the Companies as the inflationary increases to reserves are more than offset by the increased discount credit due to the increase in interest rates.

4.286 This scenario reduces the SCR for River Thames and Rombalds in the No Scheme Position with both a reduction in Market Risk and Reserve Risk. However, for Mercantile these decreases are more than offset by an increase in Counterparty Default Risk as the available collateral from CBRe is no longer sufficient to offset the Counterparty Default Risk charge and the SCR increases.

4.287 For each of the Companies in the No Scheme Position, this scenario reduces the Eligible Own Funds and so, notwithstanding the above, the Solvency Ratio falls for each of the Companies. The Solvency Ratio for River Thames falls below Enstar's target Solvency Ratio of 130%, although remains above 100%. Mercantile is the most impacted by this scenario although, given the higher Solvency Ratio before the stress, the Solvency Ratio remains slightly above Enstar's target in the No Scheme Position. Rombalds is the least impacted by this scenario and the Solvency Ratio remains above Enstar's target in the No Scheme Position.

4.288 In the Post Scheme Position, the increase in Counterparty Default Risk is more than offset by the decreases to Reserve Risk and Market Risk, and the overall SCR reduces slightly. The Solvency Ratio of River Thames falls to 137% in the Post Scheme Position, which is slightly above Enstar's target and higher than any of the Companies in the No Scheme Position.

Scenario 12a – More extreme inflation scenario

4.289 For Scenario 12, the higher level of inflation for future claims payments is expected to return to normal levels after five years for the UK and after four years for the US. While this is largely consistent with the impact of the economic situation which was observed from 2022 there is a risk that inflation does not return to normal levels as quickly as expected. A longer period of elevated inflation could, for example, result from the effects of the imposed and potential future policies of the current US administration, particularly the imposition of tariffs.

4.290 I have therefore considered a more extreme inflation scenario, based on the results from Scenario 12 but applying additional excess inflation to the future claim payments (in addition to the level of inflation already allowed for in the reserves, and allowed for in Scenario 12). For this additional scenario I have only made adjustments to the future claim payments, with no updates being made to the run-off provision, SCR or the Risk Margin (beyond those already incorporated into Scenario 12). For this more extreme inflation scenario I have assumed that the reinsurance with CBRe remains effective. I consider that these simplifications do not impact the overall conclusions I have drawn from this scenario.

4.291 For this more extreme inflation scenario I have assumed the following:

- The most extreme level of excess inflation assumed for Scenario 12, during year two after the shock (of 9% for UK exposures and 7% for US exposures), additionally applies to years one and three after the shock.
- The return to normal inflation levels (consistent with that already allowed for in the reserves) is much slower than assumed for Scenario 12, with some level of excess inflation impacting the claim payments for 10 years after the shock.
- All other assumptions remain in line with Scenario 12.

4.292 This more extreme inflationary scenario results in approximately a 20% deterioration in gross Solvency II Technical Provisions for Mercantile and River Thames in the No Scheme Position, and for River Thames in the Post Scheme Position, compared with the base position before any stress is applied. The deterioration in net Solvency II Technical Provisions is approximately 25%. Overall, however, this scenario is more extreme than Scenario 6 (which is a deterioration of all reserves by 25%), given that for this scenario the Eligible Own Funds are also reduced by the impact on the financial markets of the assumptions underlying Scenario 12, as set out in paragraph 4.284 above.

4.293 This more extreme inflation scenario results in a significant reduction in the Solvency Ratio for both Mercantile and River Thames in the No Scheme Position, and a significant reduction in the Solvency Ratio for River Thames in the Post Scheme Position, with all these Solvency Ratios falling below 100%. Rombalds is the least impacted by this scenario, with the Solvency Ratio for Rombalds remaining above 100% in the No Scheme Position.

4.294 However, as with other scenarios where the Solvency Ratio falls below 100%, I would expect the Companies to continue to be able to pay all claims in both the No Scheme Position and the Post Scheme Position. This more extreme inflationary scenario therefore provides me with comfort as to the robustness of the Companies to a more extreme inflationary stress.

Scenario 13

4.295 This scenario considers the impact of a default by CBRe. CBRe is the largest reinsurer of both Mercantile and River Thames, with a 75% and 50% quota share respectively.

4.296 Rombalds does not have any outwards reinsurance, having commuted all remaining reinsurance during 2020.

4.297 CBRe has been given an A credit rating by both S&P and AM Best. This represents high financial stability with an expected default probability over the next five years of less than 0.5%. As such, I consider this to be an extreme but plausible scenario.

4.298 Both Mercantile and River Thames have mitigations against a potential default by CBRe. Mercantile holds collateral to a value such that there is no Counterparty Default Risk for this contract under the Standard Formula SCR. For River Thames the reinsurance contract is on a funds withheld basis (where River Thames retains the reinsurance premium adjusted for payments, such that the retained funds match the current estimate of the reinsurer’s share of net reserves), with an additional 20% share of net reserves held as additional security.

4.299 This scenario results in the elimination of the CBRe reinsurance recoveries on the balance sheet and an increase in the assets on the balance sheet to reflect the additional assets now available which were previously in the form of collateral. Since the underlying gross losses remain unchanged the available collateral is not exhausted.

4.300 This scenario results in a significant reduction in the Solvency Ratio for both Mercantile and River Thames in the No Scheme Position. The transfers of collateral more than offset the reduction in expected reinsurance recoveries on the balance sheet – such that the Eligible Own Funds are expected to increase for both Mercantile and River Thames). However, this is more than offset by an increase in SCR due to:

- An increase in Reserve Risk. Reserve Risk is calculated based on the net Solvency II Technical Provisions which significantly increase in this scenario due to the loss of reinsurance recoveries; and
- An increase in Market Risk, due to the increase in the assets on the balance sheet.

4.301 The Solvency Ratio falls below 100% for both Mercantile and River Thames in the No Scheme Position under this scenario.

4.302 Given the exposure of both River Thames and Mercantile to CBRe, there is not a material benefit in the Post Scheme Position, with the River Thames Solvency Ratio in the Post Scheme Position falling to 86% (which is between the River Thames and Mercantile Solvency Ratios in the No Scheme Position).

4.303 As with other scenarios where the Solvency Ratio falls below 100%, I would expect the Companies to continue to be able to pay all claims in both the No Scheme Position and the Post Scheme Position.

Scenario 14

4.304 This scenario is a combination of Scenario 6 and Scenario 13. It is intended to test the case where there is a significant reserve deterioration together with the failure of CBRe (before the collateral is increased to reflect the reserve deterioration) and therefore replicates a situation where the available collateral is not sufficient to fully meet the reserves. As it is the combination of two already relatively extreme scenarios this scenario should be considered particularly extreme and at the upper end of what is plausible.

4.305 The results of this scenario largely follow those of the two underlying scenarios. It is particularly extreme for River Thames and Mercantile given their exposure to CBRe. The impact on Rombalds is less extreme as Rombalds is only impacted by the reserve stress portion of this scenario.

4.306 Even under this extreme scenario, each of the Companies remains in a positive net asset position. However, Mercantile requires the use of Ancillary Own Funds to remain so, which will involve drawing down on the letters of credit which make up the Ancillary Own Funds.

4.307 As with Scenario 13, the Solvency Ratio for River Thames in the Post Scheme Position is between the results for River Thames and Mercantile in the No Scheme Position. Notably though, River Thames does not require Ancillary Own Funds to remain in a positive net asset position.

Conclusions

4.308 Consideration of the above scenarios has given me additional insight into the robustness of the capital positions of the Companies and an understanding of the impact of the scenarios on the capital position in both the No Scheme Position and the Post Scheme Position.

4.309 Based on my consideration of the above scenarios, I remain of the opinion that none of the Affected Policyholders will be materially adversely affected as a result of the Proposed Scheme. This conclusion is based on the following considerations.

Mercantile Policyholders

4.310 For the Mercantile Policyholders there is an increase (or no change) in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all of the scenarios other than those scenarios which only impact River Thames (scenarios 3, 4 and 9) and the more extreme inflation scenario.

4.311 For scenarios 3, 4 and 9 where the Mercantile Policyholders see a decrease in the Solvency Ratio as a result of the Proposed Scheme, the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%. This is the target

Solvency Ratio for each of the Companies and hence it is reasonable to assume that dividends will be paid in the future – whether in the No Scheme Position or the Post Scheme Position – such that the Solvency Ratio will be reduced to this level for each of the Companies (subject to 'non-objection' being received from the PRA before any such dividends can be paid).

4.312 For the more extreme inflation scenario (Scenario 12a), the Mercantile Policyholders see a small decrease in the Solvency Ratio as a result of the Proposed Scheme, with the Solvency Ratio of River Thames in the Post Scheme Position falling below 100%. However, River Thames still has a strong positive net asset position in the Post Scheme Position and would be expected to be able to pay all liabilities after this stress without requiring additional funds.

River Thames Policyholders

4.313 For the River Thames Policyholders there is an increase in the Solvency Ratio in the Post Scheme Position compared with the No Scheme Position for all of the scenarios other than for scenarios 2, 13 and 14.

4.314 For scenario 2, the Solvency Ratio of River Thames reduces from 150% in the No Scheme Position to 91% in the Post Scheme Position. I therefore consider that while the Solvency Ratio reduces, River Thames still has a strong positive net asset position in the Post Scheme Position, and would be expected to be able to pay all liabilities after this stress without requiring additional funds.

4.315 For scenarios 13 and 14, although the River Thames Policyholders see a decrease in the Solvency Ratio of their insurer as a result of the Proposed Scheme, I do not consider the decrease material (being from 92% to 86% under scenario 13 and from 27% to 18% under scenario 14). In addition, I note that for both scenarios River Thames has a positive net asset position in the Post Scheme Position, such that River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds. Furthermore, I consider that scenario 14 is particularly extreme and at the upper end of what is plausible.

Rombalds Policyholders

4.316 The Rombalds Policyholders see a reduction in the Solvency Ratio of their reinsurer in the Post Scheme Position compared with the No Scheme Position for the majority of the scenarios.

4.317 However, I would note that for a number of the scenarios the Solvency Ratio of River Thames in the Post Scheme Position remains above the target Solvency Ratio of 130%. This is the target Solvency Ratio for each of the Companies and hence it is reasonable to assume that dividends will be paid in the future – whether in the No Scheme Position or the Post Scheme Position – such that the Solvency Ratio will be reduced to this level for each of the Companies (subject to 'non-objection' being received from the PRA before any such dividends can be paid).

4.318 There are seven scenarios where the Rombalds Policyholders see a reduction in the Solvency Ratio of their reinsurer in the Post Scheme Position and the Solvency Ratio of River Thames in the Post Scheme Position falls below the target Solvency Ratio of 130% (scenarios 2, 6, 7, 10, 12a, 13 and 14).

- In scenario 2 (a severe deterioration of 50% in the UK asbestos reserves in Mercantile) and scenario 6 (a deterioration of 25% in all the reserves for each of the Companies), the River Thames Solvency Ratio in the Post Scheme Position remains close to 100% and, as such, River Thames has a strong positive net asset position i.e. River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds.

- For the second reserve deterioration scenario which impacts all of the reserves (scenario 7), the Solvency Ratio for River Thames in the Post Scheme Position reduces to 42%. This represents a material decrease in the Solvency Ratio for the Rombalds Policyholders compared with the No Scheme Position, although I note that in the Post Scheme Position River Thames still has a positive net asset position i.e. River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds. However, the likelihood of River Thames being able to pay all expected claims after this stress would be reduced given the small net asset position (and therefore there would be a reasonable risk that any further stress would result in a negative net asset position). However, I consider that scenario 7 is particularly extreme and at the upper end of what is plausible. In addition, the low Solvency Ratio in the Post Scheme Position is partly driven by the increase in the SCR as a result of this scenario, which is predominantly driven by an increase in the reserve risk component of the SCR (given the specification of the Standard Formula under Solvency II, even though the risk of further reserve deteriorations may in fact be largely unchanged or reduced). If the SCR did not increase from the base position the Solvency Ratio in the Post Scheme Position would be 71%. I therefore consider that the risk that the Rombalds Policyholders are adversely affected as a result of such a scenario to be remote.

- For scenario 10 the impact on the Solvency Ratio is not material, with Rombalds having a Solvency Ratio of 107% in the No Scheme Position, which would reduce only marginally to 106% in the Post Scheme Position.

- For the more extreme inflation scenario (scenario 12a), there is a decrease in the Solvency Ratio for the Rombalds Policyholders in the Post Scheme Position compared with the No Scheme Position, although I note that in the Post Scheme Position River Thames still has a strong positive net asset position i.e. River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds.

- For the first reinsurer default scenario (scenario 13) the Solvency Ratio for River Thames in the Post Scheme Position reduces to 86%. This represents a decrease in the Solvency Ratio for the Rombalds Policyholders compared with the No Scheme Position, although I note that in the Post Scheme Position River Thames still has a strong positive net asset position i.e. River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds.

- For the second reinsurer default scenario (scenario 14) the Solvency Ratio for River Thames in the Post Scheme Position reduces to 18%. This represents a material decrease in the Solvency Ratio for the Rombalds Policyholders compared with the No Scheme Position, although I note that in the Post Scheme Position River Thames still has a positive net asset position i.e. River Thames would still be expected to be able to pay all liabilities after this stress without requiring additional funds. However, the likelihood of River Thames being able to pay all expected claims after this stress would be reduced given the small net asset position (and therefore there would be a reasonable risk that any further stress would result in a negative net asset position). However, I consider that scenario 14 is particularly extreme and at the upper end of what is plausible and hence consider that the risk that the Rombalds Policyholders are adversely affected as a result of such a scenario to be remote.

4.319 In addition, as discussed elsewhere in this Scheme Report, I consider that in the Post Scheme Position the Rombalds Policyholders would benefit from the significant increase in the overall size of the available assets, a reduction in the risk that ongoing expenses deplete the Eligible Own Funds and the increase in the diversification of River Thames.

Implications on ongoing expense levels

4.320 Other than the costs of the Proposed Scheme itself, which I discuss in paragraph 4.385 below, the Proposed Scheme is expected to have a positive impact on the current overall combined expenses of the Companies, with some cost savings expected to be achieved (such as through a reduction in the overall number of independent non-executive directors and a saving in audit fees).

4.321 This reduction in ongoing expense levels will either have no impact or improve the security of the Affected Policyholders in the Post Scheme Position.

Impact on liquidity position

4.322 The Enstar Group has a group liquidity risk policy that applies to all companies within the Enstar Group. As this is a group wide policy, it will not be impacted by the Proposed Scheme and will continue to apply to each of the Companies in both the No Scheme Position and the Post Scheme Position. The group liquidity risk policy notes that the Enstar Group has a low appetite for liquidity risk with liquid assets and debt facilities available to meet short term cash demands.

4.323 I therefore consider that there will be no material impact on the degree of liquidity risk for any of the Affected Policyholders as a result of the Proposed Scheme.

Implications of new business strategy

4.324 The Companies are in run-off, such that they continue to administer and pay claims for existing policies. All of the Companies are authorised in the UK to carry out general insurance business in their respective classes, and to effect contracts of insurance but subject to the limitation of being required to seek non-objection from the PRA and the FCA before doing so.

4.325 The Enstar Group is an active acquirer of run-off business. If a UK non-life run-off insurance transaction were to be undertaken by the Enstar Group, it could be undertaken by any of Mercantile, Rombalds or River Thames in the No Scheme Position, or by River Thames in the Post Scheme Position, or by a newly established and authorised Enstar UK non-life run-off company. The decision as to which company would undertake any such transaction would depend on the size of the deal and the type of business concerned (and would be subject to the usual due diligence and all required approvals being obtained).

4.326 All of the Companies therefore have the potential, and are authorised, to undertake new non-life run-off insurance transactions in the No Scheme Position and, similarly, River Thames has the potential, and is authorised, to undertake new non-life run-off insurance transactions in the Post Scheme Position but subject, in each case, to the limitation of being required to seek non-objection from the PRA and the FCA before doing so. As such, I consider that the Proposed Scheme will not have any impact on the future new business strategy of the Companies.

4.327 Following completion of the Proposed Scheme, Rombalds and Mercantile are expected to be de-authorised by the PRA and cease to be insurance entities. As noted above, I understand that River Thames may be involved in future insurance business transfers. However, I am not aware of any such future transactions and, if any were to occur in the future, they would be subject to the required level of review and regulatory scrutiny prior to proceeding. As such the impact of any future transactions is outside of the scope of my review.

Impact of material litigation

4.328 All insurance companies are involved in litigation as part of their daily operations. This is particularly the case for latent claims where coverage is often triggered many years after the original policy term.

4.329 I have been provided with a list of the current arbitration and litigation actions for River Thames and Mercantile. I understand that there are no ongoing arbitration and litigation actions for Rombalds. For both River Thames and Mercantile the current arbitration and litigation actions predominantly relate to US business.

4.330 I consider that the current arbitration and litigation actions are consistent with what I would expect an insurance company with similar exposures to be involved in as part of their daily operations and I do not consider that any of the current arbitration and litigation actions are material. As such, I consider that the Affected Policyholders will not be impacted by any material litigation as a result of the Proposed Scheme.

Insolvency

Priorities on winding up

4.331 Under English law, direct insurance creditors rank ahead of inwards reinsurance creditors in the event of the winding-up of a company with insurance business. None of the Affected Policyholders will have a change in their priority on insolvency as a result of the Proposed Scheme given that the Companies are domiciled in the UK. However, the mix of insurance and reinsurance policyholders is likely to change.

4.332 I have been provided with the following details on the mix of direct insurance and inwards reinsurance policyholders for each of the Companies, with the percentages calculated according to the split of reserves.

Table 4.24: Percentage Split of Policies

	No Scheme Position			Post Scheme Position
	Mercantile	Rombalds	River Thames	River Thames
Direct insurance policies	98%	0%	41%	85%
Inwards reinsurance policies	2%	100%	59%	15%

4.333 In the event of the insolvency of River Thames after the Proposed Scheme the following policyholders will be disadvantaged in the Post Scheme Position compared with the No Scheme Position:

- The direct insurance policyholders of River Thames (since as a result of the Proposed Scheme they will move from a situation where they rank before 59% of policyholders to a situation where they only rank before 15% of policyholders).
- The reinsurance policyholders of Rombalds (since they will move from a company where they rank equally to all other policyholders to a company where 85% of policyholders rank before them).
- The reinsurance policyholders of River Thames (since as a result of the Proposed Scheme they will move from a situation where 41% of policyholders rank before them to a situation where 85% of policyholders rank before them).

4.334 However, I have considered a number of scenarios in this Scheme Report and all of these scenarios (including two which I consider to be particularly extreme) result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote. As a result, I consider that the Affected Policyholders will not be materially adversely affected by the Proposed Scheme as a result of changes impacting the priorities on winding up.

Access to the Financial Services Compensation Scheme

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

4.336 As a proportion of the UK GAAP reserves (as at 31 December 2023 based on gross of reinsurance reserves and excluding any claims handling provision), 13% of the River Thames reserves in the No Scheme Position relate to business which is protected by the FSCS. For Mercantile the equivalent figure is 93%. None of the business of Rombalds is protected by the FSCS.

4.337 In the event of insurer insolvency, the FSCS will only cover claims by policyholders where each of the following conditions are met:

- **The policyholder is an eligible claimant**

In general, retail policyholders (private individuals and small businesses) are covered for all claims and large businesses are covered for claims in respect of compulsory liability insurance. The Proposed Scheme will have no impact on whether an Affected Policyholder is an "eligible claimant" under the FSCS.

- **The claim is a protected claim**

  The criteria for a claim to be a protected claim is dependent on the location of the risk and the type of insurance it relates to. The Proposed Scheme will have no impact on whether a claim arising from an Affected Policyholder is a "protected claim" under the FSCS.

- **The claim is made against a relevant person**

  A "relevant person" includes an insurer with permission to effect or carry out contracts of insurance. Given that River Thames is a "relevant person" the Proposed Scheme will have no impact on whether an Affected Policyholder is able to make a claim against a "relevant person" under the FSCS.

4.338 The Proposed Scheme therefore has no impact on access to the FSCS for the Affected Policyholders, and all Affected Policyholders who have access to the FSCS in the No Scheme Position will continue to retain such access to the FSCS after the Proposed Scheme.

Ring-fenced funds and guarantees

4.339 Ring-fenced funds (which include trust funds) consist of a ring-fenced pool of assets which are firstly used to pay policyholders who are protected by the arrangement. Any excess over the funding requirement is released to general assets and so will eventually be available for the benefit of all policyholders.

4.340 Policyholders can also sometimes be the beneficiaries of guarantees whereby in the event that their insurer is unable to pay their claims, the guarantor would meet the shortfall.

4.341 There are a number of trust funds and other guarantees in the Companies, which can be broadly divided into four categories:

- US Trust Funds and other collateral arrangements
  - The US Trust Funds relate to either Surplus Lines business in the US for River Thames and Mercantile (the "US Surplus Lines Trust Funds" or "SLTFs"), or reinsurance business in the US for River Thames (the "US Credit for Reinsurance Trust Fund" or "CRTF").
  - The other collateral arrangements relate to collateral which the Companies provide to support either overseas liabilities (specifically European motor liabilities) or to support letters of credit provided via third party banks as additional security for some insureds.
- ILU Guarantees
  - Certain guarantees relating to River Thames and Mercantile policies written through the Institute of London Underwriters ("ILU"), and which are collectively referred to as the ILU Guarantees.

- EGL Guarantees
  - EGL has provided guarantees (the "EGL Guarantees") to both Mercantile and River Thames. These cover the performance of CBRe under the 75% quota share provided to Mercantile and the non-reinsured portion of Mercantile's liabilities (the "EGL Mercantile Guarantee"), and the funding obligations of both Mercantile and River Thames to the level of the required security in their respective SLTFs (the "EGL SLTF Guarantee").
- Letters of Credit
  - Individual letters of credit which have been issued for particular assureds.

4.342 There is a distinction between the US Trust Funds and other collateral arrangements on the one hand and the guarantees and individual letters of credit on the other. The US Trust Funds and other collateral arrangements represent portions of the assets which are ring fenced to be available for the business that they cover. The presence of such funds / collateral may mean that those assets are not available to pay other claims. This is very different from the guarantees and letters of credit, which represent additional security for certain policyholders above and beyond the assets of the company.

US Trust Funds and other collateral arrangements

4.343 As a condition of writing Surplus Lines business in the US, insurers are required to hold a SLTF to cover exposure to this business. Both River Thames and Mercantile have exposure to Surplus Lines business and so each have SLTFs. Previously, River Thames held two separate SLTFs for business originally written by Unionamerica Insurance Company Limited and Marlon Insurance Company Limited respectively. In March 2025 these were combined into a single SLTF.

4.344 In addition, River Thames has a CRTF which provides security for certain US insurers which River Thames reinsures.

4.345 River Thames also has other collateral arrangements in place. These arrangements provide collateral to support overseas liabilities (specifically European motor liabilities) and collateral to support letters of credit which have been provided as additional security for some insureds via third party banks.

4.346 When considering the impact of the Proposed Scheme on the US Trust Funds and other collateral arrangements the important questions are:

- Do any policyholders lose the additional protection which is currently provided by a trust fund or collateral arrangement as a result of the Proposed Scheme?
- Do the total trust funds and collateral arrangements in the combined entity disadvantage other policyholders due to a greater proportion of funds being unavailable to them?

Do any policyholders lose the additional protection which is currently provided by a trust fund or collateral arrangement as a result of the Proposed Scheme?

4.347 The existing SLTF, CRTF and other collateral arrangements in River Thames will not be directly affected by the Proposed Scheme. As such, the security and benefits provided by the

SLTF, CRTF and other collateral arrangements will remain in place in the Post Scheme position for the same River Thames Policyholders who benefit from the trust funds and collateral arrangements prior to the Proposed Scheme.

4.348 As part of the Proposed Scheme, it is proposed that the approval or non-objection of the International Insurers Department of the National Association of Insurance Commissioners is obtained for the transfer of Mercantile's US Surplus Lines business to River Thames, with the corresponding trust fund agreement being amended to reflect this. As such, the security and benefits provided by the SLTF will be replicated in the Post Scheme position for the same Mercantile Policyholders who benefit from the trust fund prior to the Proposed Scheme.

Do the total trust funds and collateral arrangements in the combined entity disadvantage other policyholders due to a greater proportion of funds being unavailable to them?

4.349 In the event of insolvency, the assets subject to restrictions would be ring-fenced to pay the policyholders who are covered by the additional protection which is provided by each arrangement. As such, an increase in the assets subject to restrictions could potentially result in those policyholders who are not covered by the additional protection of the arrangements being adversely affected by the Proposed Scheme. Once the protected policyholders are reimbursed in full, any excess assets may be released to general assets and be available for the benefit of all policyholders.

4.350 The current US Trust Funds and other collateral arrangements – together with the total assets – of each of the Companies is set out in the table below.

Table 4.25: Assets subject to restrictions as at 31 December 2023 (USD millions)

	No Scheme Position			Post Scheme Position
	Mercantile	Rombalds	River Thames	River Thames
US Surplus Lines Trust Fund	9.3	-	9.8	19.1
US Credit for Reinsurance Trust Fund	-	-	31.9	31.9
Total US Trust Funds	**9.3**	**-**	**41.7**	**51.0**
Collateral provided to secure overseas liabilities	-	-	2.4	2.4
Collateral provided to support letters of credit	-	-	24.1	24.1
Assets subject to restrictions	9.3	-	68.2	77.5
Total investment assets	274.2	11.8	262.0	548.0
Assets subject to restrictions as % total investment assets	**3%**	**0%**	**26%**	**14%**

4.351 As at 31 December 2023, the total value of the reserves covered by the SLTFs is $42.3 million for River Thames and $14.4m for Mercantile. However, the companies are only required to hold 30% of these figures in the SLTF. For River Thames the collateral requirement is satisfied by investment assets of $9.8 million and a guarantee provided by EGL which covers the remaining $2.9 million. This guarantee will remain in place in the Post Scheme Position.

4.352 As at 31 December 2023, the value of the reserves covered by the CRTF for River Thames is $4.2 million. However, River Thames is required to hold at least the value of the liabilities plus $20 million as collateral. As at 31 December 2023, River Thames held $31.9 million as collateral, which was $7.7 million above the minimum of $24.2 million.

4.353 River Thames also has other collateral arrangements in place. These arrangements provide collateral to support overseas liabilities (specifically European motor liabilities) and collateral to support letters of credit which have been provided as additional security for some insureds via third party banks.

4.354 As set out in the table above, these trust funds and other collateral arrangements result in restrictions on the use of assets for Mercantile and River Thames of 3% and 26% respectively. There are no encumbrances on the assets of Rombalds.

4.355 In the Post Scheme Position, this would result in assets which are subject to restrictions of $77.9 million out of total assets of $700.8 million, which represents 14% of the total.

4.356 For the River Thames Policyholders there is a reduction in the proportion of assets which are subject to restrictions as a result of the Proposed Scheme. I therefore consider that the Proposed Scheme will not adversely affect the River Thames Policyholders in respect of the change in the proportion of assets which are subject to restrictions.

4.357 For the Mercantile Policyholders and the Rombalds Policyholders there is an increase in the proportion of assets which are subject to restrictions as a result of the Proposed Scheme. This proportion increases from 3% to 14% for the Mercantile Policyholders and from 0% to 14% for the Rombalds Policyholders.

4.358 This increase in the proportion of assets which are subject to restrictions will only impact the Mercantile Policyholders and the Rombalds Policyholders in the event of the insolvency of River Thames in the Post Scheme Position. However, I have considered a number of scenarios in this Scheme Report and all of these scenarios (including two which I consider to be particularly extreme) result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote. As a result, I consider that the Mercantile Policyholders and the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme as a result of an increase in the proportion of assets which are subject to restrictions.

Impact of scenarios on US Trust Funds and other collateral arrangements

4.359 For some of the scenarios considered from paragraph 4.217 above the amounts held in the trust funds and other collateral arrangements would need to be increased, which would result in an increase in the proportion of assets which are subject to restrictions. However, I do not consider any such increases to be material for the reasons discussed below and therefore, after additionally considering the impact of the scenarios, I remain of the opinion that the Affected Policyholders will not be materially adversely affected by the Proposed Scheme as a result of an increase in the proportion of assets which are subject to restrictions.

4.360 To illustrate why I do not consider any such increases in the amounts held in the trust funds and other collateral arrangements to be material I have considered what the amounts in the trust funds and other collateral arrangements would be under Scenario 7, which is a 50% increase in reserves for all of the Companies and the most extreme reserve deterioration which I have considered. The assets subject to restrictions under this scenario are set out in the table below.

Table 4.26: Assets subject to restrictions as at 31 December 2023 (USD millions) under Scenario 7

	No Scheme Position			Post Scheme Position
	Mercantile	Rombalds	River Thames	River Thames
US Surplus Lines Trust Fund	9.3	-	9.8	19.1
US Credit for Reinsurance Trust Fund	-	-	31.9	31.9
Total US Trust Funds	**9.3**	**-**	**41.7**	**51.0**
Collateral provided to secure overseas liabilities	-	-	3.6	3.6
Collateral provided to support letters of credit	-	-	36.2	36.2
Assets subject to restrictions	9.3	-	81.5	90.8
Total investment assets	274.2	11.8	262.0	548.0
Assets subject to restrictions as % total investment assets	**3%**	**0%**	**31%**	**17%**

4.361 Under Scenario 7 the assets subject to restrictions would change as follows:

- For Mercantile, there is no impact on the assets subject to restrictions. Mercantile has a SLTF which has a guarantee provided by EGL in place. This guarantee covers the required increase in the SLTF as a result of the deterioration in reserves.
- For River Thames:
  - The SLTF would remain unchanged due to the guarantee provided by EGL in place, which would cover the required increase in the SLTF as a result of the deterioration in reserves.
  - For the CRTF the minimum amount required would increase from $24.2 million to $26.3 million. However, this remains below the actual amount held in the CRTF and hence there is no change in the amount held in the CRTF as a result of the deterioration in reserves.
  - For the other collateral arrangements I have assumed that the required assets would increase by 50%, in line with the deterioration in reserves. I consider this to be a conservative assumption since I understand that the required collateral would typically be a function of the case reserves held by River Thames, rather than the amount of the case reserves plus any IBNR.

4.362 As a result, under Scenario 7:

- For the River Thames Policyholders there is a reduction in the proportion of assets which are subject to restrictions as a result of the Proposed Scheme. This position is unchanged compared with the position discussed above and shown in Table 4.25. As a result, I remain of the opinion that the Proposed Scheme will not adversely affect the River Thames Policyholders in respect of the change in the proportion of assets which are subject to restrictions.

- For the Mercantile Policyholders and the Rombalds Policyholders there is an increase in the proportion of assets which are subject to restrictions as a result of the Proposed Scheme. This proportion increases from 3% to 17% for the Mercantile Policyholders and from 0% to 17% for the Rombalds Policyholders. Under Scenario 7 the assets subject to restrictions in the Post Scheme Position therefore increase from 14% to 17% for the Mercantile Policyholders and Rombalds Policyholders. I do not consider this increase material, particularly in the context that I consider Scenario 7 to be an extreme scenario, which I might expect to arise less frequently than once in every 200 years, and that this increase will only impact the Mercantile Policyholders and the Rombalds Policyholders in the event of the insolvency of River Thames in the Post Scheme Position (as discussed in paragraph 4.358 above). As a further illustration, for Scenario 6 (a reserve deterioration for all Companies of 25%, which I consider to be a less extreme scenario which I might expect to arise approximately once in every 50 to 200 years) there would be an increase from 14% to 15%. Given the above, I remain of the opinion that the Mercantile Policyholders and the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme as a result of an increase in the proportion of assets which are subject to restrictions.

ILU Guarantees

4.363 The ILU was a trade body for insurers writing marine, aviation and transportation insurance in the London market which required its members to arrange a guarantee for the business written, which was usually provided by the parent company. Predecessor companies of both River Thames and Mercantile wrote business through the ILU and so they have inherited these guarantees.

4.364 These guarantees represent additional security to the policyholders covered in the event of the insolvency of River Thames or Mercantile. River Thames has eight individual guarantees covering specific assureds for a total value of $0.8 million. Mercantile has one guarantee with a value of $5.0 million.

4.365 When considering the ILU Guarantees, the important question is whether the policyholders currently benefiting from the additional security provided by the guarantee will continue to do so in the Post Scheme Position.

4.366 In respect of the ILU Guarantees which cover some of the policies of River Thames, the existing ILU Guarantees will not be affected by the Proposed Scheme and hence the policyholders of River Thames who currently benefit from the additional protection afforded by the ILU Guarantees will retain that additional protection after the Proposed Scheme.

4.367 In respect of the ILU Guarantee which covers some of the policies of Mercantile, at the time of a previous Part VII transfer the original guarantee was released and replaced by a guarantee provided by EGL and CBRe. To ensure that the Mercantile Policyholders who currently benefit from the additional protection afforded by the ILU Guarantee do not lose that protection as a result of the Proposed Scheme, Mercantile is seeking an amendment to the ILU Guarantee, by way of a Deed of Variation, so that with effect from the Effective Date, it will apply to all policies signed and issued by the ILU on behalf of Mercantile and subsequently transferred to River Thames.

4.368 I have been informed that in respect of the Deed of Variation relating to the ILU Guarantee of Mercantile:

- EGL and Cavello Bay have each given their consent to the amendments.
- Mercantile has approached the ILU to inform them of the Proposed Scheme and the ILU has agreed to the proposed amendments.

4.369 Mercantile's ILU guarantee is also secured by a US$5 million letter of credit with Citibank Europe plc in favour of the ILU. This letter of credit will be amended to take account of the Proposed Scheme.

4.370 On the basis that the Deed of Variation is effected as expected and the letter of credit with Citibank Europe plc is amended as expected, all of the policyholders of Mercantile who currently benefit from the additional protection afforded by the ILU Guarantee will continue to retain that additional protection after the Proposed Scheme.

4.371 In my Supplementary Report I will provide an update on the progress made to effect the Deed of Variation and amend the letter of credit with Citibank Europe plc.

4.372 The Proposed Scheme is therefore intended to retain the same level of guarantee for all such policyholders. Consequently, I consider that the Proposed Scheme will not adversely affect the Affected Policyholders in respect of the protection afforded by any ILU Guarantees.

EGL Guarantees

4.373 EGL has provided a guarantee which covers the performance of CBRe under the 75% quota share provided to Mercantile and the non-reinsured portion of Mercantile's liabilities (i.e. the 25% portion that CBRe does not reinsure), to the extent that Mercantile has insufficient assets to meet its obligations (the "EGL Mercantile Guarantee"). The guarantee in relation to the non-reinsured portion is limited to £500 million. This EGL Mercantile Guarantee represents additional security to the Mercantile Policyholders in the event of the insolvency of Mercantile.

4.374 EGL has also provided a guarantee to cover the funding obligations of both Mercantile and River Thames to the level of the required security in their respective SLTFs (the "EGL SLTF Guarantee").

4.375 When considering the EGL Guarantees, the important question is whether the policyholders currently benefiting from the additional security provided by the guarantees will continue to do so in the Post Scheme Position.

4.376 The EGL Guarantees which are in place for River Thames will not be directly affected by the Proposed Scheme. As such, the security and benefits provided by the EGL Guarantees for the River Thames Policyholders will continue to be in place in the Post Scheme Position.

4.377 It is intended that the EGL Guarantees which are in place for Mercantile will be novated as part of the Proposed Scheme, with the EGL Mercantile Guarantee being novated as part of the Proposed Scheme (as set out in the Scheme Document) and the Deed of Novation and Variation which is required to novate the EGL SLTF Guarantee having already been put in place. As such in the Post Scheme Position the EGL Guarantees will continue to be in place for the Mercantile Policyholders. Consequently, I consider that the Proposed Scheme will not adversely affect the Mercantile Policyholders in respect of the EGL Guarantees.

Letters of Credit

4.378 For some clients, Enstar has organised additional security in the form of Letters of Credit provided by third party banks. The majority of these Letters of Credit relate to River Thames but each of the Companies have some in place.

4.379 The number of Letters of Credit as well as the total balance by entity as at 31 December 2023 is shown in Table 4.27 below.

Table 4.27: Letter of Credit numbers and balances (USD millions)

	Number	Total balance
River Thames	296	19,915
Mercantile	16	7,677
Rombalds	4	660
Total	**316**	**28,252**

4.380 As the Letters of Credit are provided by third party banks they will not be impacted by the Proposed Scheme and the policyholders will retain their additional protection. Consequently, I consider that the Proposed Scheme will not adversely affect any Affected Policyholders in respect of the loss of Letters of Credit.

Accounting approach

4.381 The Companies currently report under UK GAAP and this is not expected to change in either the No Scheme Position or the Post Scheme Position.

4.382 Preparation of the accounts for each of the Companies is outsourced to Enstar, and this arrangement is expected to continue in both the No Scheme Position and the Post Scheme Position.

4.383 I therefore consider that there will be no change in accounting approach for any of the Affected Policyholders as a result of the Proposed Scheme.

4.384 In the No Scheme Position River Thames and Rombalds use USD as their reporting currency whereas Mercantile reports in GBP. In the Post Scheme Position, River Thames is expected to continue to report in USD as this aligns with the Enstar Group reporting currency. As a result, there will be a change in reporting currency for the Mercantile Policyholders. I do not consider that there are any direct implications for the Mercantile Policyholders as a result of this change in reporting currency. I consider the second order implications of this change in reporting currency (including the implications on the capital requirements of River Thames) elsewhere in this Scheme Report.

Cost and tax implications of the Proposed Scheme

4.385 The costs of the Proposed Scheme will be split between Mercantile and River Thames, with Mercantile bearing 65% of the costs and River Thames covering the remaining 35%. I do not consider that the costs of the Proposed Scheme are such that they will affect the security of any of the Affected Policyholders.

4.386 I understand that there are not anticipated to be any material tax liabilities arising as a result of the Proposed Scheme.

Pension schemes

4.387 I understand that there are no defined benefit pension funds in operation for either current or former employees of any of the Companies. As such, I consider that there will be no impact on the Affected Policyholders as a result of the Proposed Scheme in relation to pension schemes.

Implications if Proposed Scheme is partially effected

4.388 Throughout this Scheme Report I refer to the Proposed Scheme as a single insurance business transfer scheme. I note, however, that there are actually two insurance business transfer schemes: the transfer of the Mercantile Policies to River Thames and the transfer of the Rombalds Policies to River Thames.

4.389 These transfers are the same in all material respects, are contained in a consolidated document and are intended to be effected simultaneously. Except for my considerations which are set out below, my opinions and conclusions set out throughout this Scheme Report are on the basis that both of the insurance business transfer schemes are effected simultaneously, or that neither of them are effected. It is possible, however, for only one of the insurance business transfer schemes to be effected. I consider the impact of this on my opinions and conclusions below.

Impact if only insurance business transfer scheme of Mercantile Policies is effected

4.390 If the insurance business transfer scheme of the Mercantile Policies is effected but the insurance business transfer scheme of the Rombalds Policies does not go ahead then I consider that none of my opinions and conclusions as set out in this Scheme Report will change given the low materiality of the Rombalds Policies in the overall context of the Proposed Scheme. In particular, the Rombalds Policies comprise only 0.6% of the gross Best Estimate Technical Provisions (and 2.0% on a net basis) of River Thames in the Post Scheme Position (based on the Best Estimate Technical Provisions on a Solvency II basis as at 31 December 2023, as set out from paragraph 4.198).

Impact if only insurance business transfer scheme of Rombalds Policies is effected

4.391 If the insurance business transfer scheme of the Rombalds Policies is effected but the insurance business transfer scheme of the Mercantile Policies does not go ahead then I consider that the Rombalds Policyholders will not be materially adversely affected by the Proposed Scheme for the reasons set out below.

- **Impact on Solvency Ratios**

  - When considering the impact of the Proposed Scheme on Solvency Ratios assuming that only the insurance business transfer scheme of the Rombalds Policies is effected then, as a proxy, I have assumed that the position of River Thames in the Post Scheme Position is equal to the sum of the River Thames and Rombalds positions in the No Scheme Position. I consider that this is a reasonable proxy given the low materiality of the Rombalds Policies and given that this is a conservative approach since I am not allowing for any additional diversification between the liabilities of the two companies. This results in the financial position as at 31 December 2023 as set out in the table below.

Table 4.28: Financial Position as at 31 December 2023 (USD thousands) – assuming that only the insurance business transfer scheme of the Rombalds Policies is effected

	No Scheme Position		Post Scheme Position
	River Thames	Rombalds	
Cash & Investments	262,010	11,793	273,803
Reinsurance	112,367	0	112,367
Other Assets	13,065	808	13,873
Total Assets	**387,442**	**12,602**	**400,043**
Best Estimate Technical Provisions	200,617	4,918	205,534
Risk Margin	11,548	596	12,145
Other Liabilities	134,519	283	134,802
Total Liabilities	**346,685**	**5,797**	**352,481**
Net Assets	**40,757**	**6,805**	**47,562**
SCR	40,701	2,649	43,350
MCR		4,248	
Eligible Own Funds	61,108	6,805	69,237
Solvency Ratio	**150%**	**160%**	**160%**
unapproved Enstar Capital Model Results	20,787	1,079	21,866
Structure of Eligible Own Funds ($ thousands)			
Tier 1	40,757	6,805	47,562
Tier 2	20,350	0	21,675
Tier 3	0	0	0
Structure of Eligible Own Funds (%)			
Tier 1	67%	100%	69%
Tier 2	33%	0%	31%
Tier 3	0%	0%	0%

  - If only the insurance business transfer scheme of the Rombalds Policies is effected then the Solvency Ratio for the Rombalds Policyholders would be 160% in the No Scheme Position and would remain at 160% in the Post Scheme Position. The unchanged Solvency Ratio reflects the fact that the SCR will no longer be set with reference to the MCR in the Post Scheme Position and that more of the Tier 2 Eligible Own Funds will become available (given that these are restricted to a maximum of 50% of the SCR).

- In terms of the tiering of the Eligible Own Funds available, the Rombalds Policyholders go from a reinsurer with 100% of Eligible Own Funds within Tier 1 in the No Scheme Position to a reinsurer with 69% of Eligible Own Funds within Tier 1 in the Post Scheme Position. However, I consider that this aspect is mitigated by the significant increase in the overall size of the available assets in the Post Scheme Position. In particular, the net assets in the No Scheme Position are $6.8 million which increases to $47.6 million in the Post Scheme Position.

- On balance, therefore, in my opinion, based on considering the impact of the Proposed Scheme on regulatory coverage ratios and the tiering of the Eligible Own Funds, the Rombalds Policyholders will not be materially adversely affected as a result of the Proposed Scheme should only the insurance business transfer scheme of the Rombalds Policies be effected.

■ **Consideration of scenarios**

- When considering the impact of the Proposed Scheme on the scenarios assuming that only the insurance business transfer scheme of the Rombalds Policies is effected then, as a proxy, I have assumed that the position of River Thames in the Post Scheme Position is unchanged from the position of River Thames in the No Scheme Position. I consider that this is a reasonable proxy given the low materiality of the Rombalds reserves in the overall context of the Proposed Scheme.

- For all of the scenarios which impact either River Thames or Rombalds, the Rombalds Policyholders see a reduction in their Solvency Ratio in the Post Scheme Position compared with the No Scheme Position. However, I note that in the Post Scheme Position River Thames still has a positive net asset position for all of the scenarios and hence River Thames would still be expected to be able to pay all liabilities after the scenarios without requiring additional funds.

- I also note that the scenarios were selected such that they are focussed on stressing the balance sheets of River Thames (and Mercantile) rather than Rombalds, given the low materiality of the Rombalds business, and therefore there are only a small number of scenarios which impact Rombalds (and none which impact Rombalds in isolation). As a result, the scenarios represent a more negative view of River Thames and a more optimistic view of Rombalds than the reality.

- In addition, as discussed above, I consider that in the Post Scheme Position the Rombalds Policyholders would benefit from the increase in the overall size of the available assets.

- Based on my consideration of the scenarios, I therefore remain of the opinion that the Rombalds Policyholders will not be materially adversely affected as a result of the Proposed Scheme should only the insurance business transfer scheme of the Rombalds Policies be effected.

■ **Priorities on winding up**

- I have considered the impact on the priorities on winding up from paragraph 4.331 of this Scheme Report. If only the insurance business transfer scheme of the Rombalds Policies is effected then the Rombalds Policyholders (all of which are reinsurance policyholders) will move from a company where they rank equally to all other policyholders to a company where 41% of policyholders rank before them. I consider that this disadvantages the Rombalds Policyholders in the event of the insolvency of River Thames after the Proposed Scheme.

- However, all of the scenarios I have considered (as discussed above) result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds.

- I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote. As a result, I consider that the Rombalds Policyholders will not be materially adversely affected as a result of changes impacting the priorities on winding up after the Proposed Scheme should only the insurance business transfer scheme of the Rombalds Policies be effected.

- I also note that, were the Proposed Scheme to go ahead in full, the Rombalds Policyholders would rank after 85% of policyholders and I am satisfied that the Rombalds Policyholders would not be materially adversely affected by the Proposed Scheme in this case.

■ **Increase in the proportion of assets which are subject to restrictions**

- I have considered the impact of an increase in the proportion of assets which are subject to restrictions from paragraph 4.349 of this Scheme Report.

- If only the insurance business transfer scheme of the Rombalds Policies is effected then for the Rombalds Policyholders there is an increase in the proportion of assets which are subject to restrictions as a result of the Proposed Scheme. This proportion increases from 0% to 25%.

- However, all of the scenarios I have considered (as discussed above) result in River Thames having a positive net asset position in the Post Scheme Position, such that it would still be expected to be able to pay all liabilities without requiring additional funds. I therefore consider that the risk of River Thames becoming insolvent after the Proposed Scheme is extremely remote. As a result, I consider that the Rombalds Policyholders will not be materially adversely affected as a result of an increase in the proportion of assets which are subject to restrictions after the Proposed Scheme should only the insurance business transfer scheme of the Rombalds Policies be effected.

4.392 All of my other considerations and conclusions in respect of the Rombalds Policyholders, as set out throughout this report, are not impacted if only the insurance business transfer scheme of the Rombalds Policies is effected but the insurance business transfer scheme of the Mercantile Policies does not go ahead.

Section 5: Non-Financial considerations

Introduction

5.1 In this section, I discuss the non-financial considerations arising from the Proposed Scheme under the following headings:

- Policyholder service levels;
- Comparison of regulatory regimes;
- Ombudsman services;
- Recognition of the Proposed Scheme in non-UK jurisdictions;
- Impact on outwards reinsurers; and
- Governance and management framework.

Policyholder service levels

5.2 The Companies all currently outsource their claims handling and policy administration to Enstar. Enstar further outsources the claims handling for around 80% of Mercantile's claims to Pro.

5.3 It is intended that the existing outsourcing agreements between Mercantile and Enstar and between Rombalds and Enstar will be novated as part of the Proposed Scheme. No other changes to these agreements are expected.

5.4 In addition, the outsourcing agreement with Pro is a contract between Enstar and Pro and I therefore understand that this agreement will not be impacted by the Proposed Scheme.

5.5 I therefore understand that the claims handling and policy administration of all the policies of the Companies will be handled by the same individuals, and in accordance with the same claims handling approach, in both the No Scheme Position and the Post Scheme Position.

5.6 As such, I consider that there will be no change to the claims handling and policy administration as a result of the Proposed Scheme.

Comparison of regulatory regimes

5.7 The Affected Policyholders will be subject to the conduct regulatory regime and the prudential regulatory regime in the UK both before and after the Proposed Scheme and so will not experience a change in regulatory regimes as a result of the Proposed Scheme.

Ombudsman services

5.8 The Financial Ombudsman Service provides policyholders of UK-domiciled insurance firms (subject to meeting certain specified criteria) with a free, independent service to help settle disputes with financial firms. The Financial Ombudsman Service can make awards that are binding upon insurance firms, although any such award does not preclude a policyholder from issuing legal proceedings against firms to seek further redress.

5.9 Given that the Proposed Scheme is between insurers which are all UK domiciled, access to the Financial Ombudsman Service will not be affected by the Proposed Scheme.

Recognition of the Proposed Scheme in non-UK jurisdictions

5.10 As a matter of English law, the English High Court has jurisdiction to transfer the Transferring Policies, irrespective of the governing law. For Transferring Policies which are not governed by English law, or are held by policyholders based in non-UK jurisdictions, there is a risk that the Proposed Scheme may not be recognised in the jurisdiction of the governing law, or of the policyholder's location.

5.11 I have been provided with a breakdown of the proportion of number of policies and proportion of reserves for Mercantile and Rombalds, split by governing law. The breakdown of the proportion of reserves is set out in the table below.

Table 5.1: Breakdown of Reserve by Governing Law

	UK	EEA	US	Other
Mercantile	94.24%	0.02%	5.74%	0.00%
Rombalds	15.26%	0.00%	79.27%	5.47%

5.12 Due to the age of the portfolios, I consider reserves a more useful metric for the exposure to non-UK jurisdictions than policy count. Only a small proportion of all policies written have active claims or are likely to generate future claims and I consider the reserves to be a good proxy for this.

5.13 As can be seen, the majority of policies which are not governed by UK law are governed by US law for both Mercantile and Rombalds. Previously, both entities had more material EEA exposure but the majority of this exposure was transferred to Alpha as part of the previous Part VII transfer in 2022.

5.14 For those policies which are not governed by UK law there is a risk that the Proposed Scheme is not recognised in the relevant non-UK jurisdiction. This risk is potentially increased for those Transferring Policies which are affected by sanctions, including those sanctions which have been put in place as a result of the conflict between Russia and Ukraine. Other than for those Transferring Policies which are subject to such sanctions, I am not aware of any reason why the Proposed Scheme would not be recognised in all jurisdictions.

5.15 I understand that there are a small number of Transferring Policies which are or may be subject to sanctions, although none of these policies currently have any outstanding claims reserves or unpaid claims attached to them. The Transferring Policies which are or may be subject to sanctions relate to eight Mercantile Policyholders and three Rombalds Policyholders. Enstar maintains effective sanctions related policies and procedures, which ensure compliance with the in-scope sanctions regimes. These policies and procedures will apply in both the No Scheme Position and the Post Scheme Position. To ensure that no transactions are executed on (re)insurance policies, claims, and payments which may be contrary to the sanctions regimes Enstar has implemented an externally sourced sanctions screening solution, and all claim payments are subject to sanctions screening prior to payment. Claims under Transferring Policies which are subject to sanctions would be handled in accordance with the applicable sanctions regulations and any relevant sanctions clauses in those Transferring Policies.

5.16 In respect of those policies which are governed by US law, Enstar has sought advice from US legal counsel who has provided an opinion which concludes that "we believe a US court would likely recognise and enforce an English Court's Order sanctioning the transfer of Mercantile's and Rombalds' respective business into River Thames. The English High Court would be considered a court of competent jurisdiction, and recognition and enforcement of the Order would not violate the laws and public policy of the US". In addition, I note that all of the business of Rombalds (which is dominated by policies which are governed by US law) successfully transferred into Rombalds by way of a previous Part VII transfer in 2017. As such I consider that the possibility that the Proposed Scheme is not recognised in the US to be extremely remote.

5.17 If the Proposed Scheme is not recognised in any jurisdiction in relation to certain policies or policyholders (whether as a result of sanctions or otherwise) then the affected policies would still be transferred under the Proposed Scheme. In this situation, a relevant policyholder would be able to take proceedings against Mercantile or Rombalds (as applicable) in the policyholder's home state. As Mercantile and Rombalds will not, after the Proposed Scheme takes effect, have any assets, the policyholder would not be able to enforce any judgment made against Mercantile or Rombalds (as applicable) either in its home state or in the UK. In order to protect such a policyholder, I understand that the Proposed Scheme contains provisions to the effect that any proceedings (including enforcement proceedings) brought against either Mercantile or Rombalds will be deemed to have been brought against River Thames without any further order being required. In addition, any judgment or order or award obtained against Mercantile or Rombalds will be enforceable against River Thames. Hence, in practice, a policyholder will be able to enforce payment of a claim without facing any more procedural barriers than it would currently face against Mercantile or Rombalds. Furthermore, I understand that the Proposed Scheme also contains provisions to the effect that (i) the Companies shall use reasonable endeavours to effect the substitution of River Thames for Mercantile or Rombalds in any proceedings outside the UK, and (ii) River Thames shall not assert in any proceedings that the Proposed Scheme is ineffective or invalid under the law of that jurisdiction.

5.18 I therefore consider that the Affected Policyholders will not be adversely affected by the possibility of the Proposed Scheme not being recognised for policies which are not governed by UK law, given that:

- The majority of policies which are not governed by UK law are governed by US law and I consider that the possibility that the Proposed Scheme is not recognised in the US to be extremely remote.
- If the Proposed Scheme is not recognised in any jurisdictions and such policyholders choose to bring a claim against Mercantile or Rombalds (as applicable) in their home state, they would be able to enforce against River Thames any judgment or order or award obtained against Mercantile or Rombalds (as applicable). As such, the conclusions which I have reached elsewhere in this Scheme Report would not be affected by this situation.

Impact on outwards reinsurers

5.19 Each of the Companies has outwards reinsurance programmes covering their policies – both with third parties and companies within the Enstar Group.

5.20 Mercantile assumes that the majority of its remaining external reinsurance will be collectible although this is regularly monitored with specific provisions where recoveries are considered complex or contentious.

5.21 I have set out my comments above (in the "Policyholder service levels" section from paragraph 5.2) on the potential effects of the Proposed Scheme on matters related to claims handling and policy administration. In this section I conclude that there will be no change to the claims handling and policy administration as a result of the Proposed Scheme and, as such, I consider that there will be no second order impacts for the outwards reinsurers of any such changes.

5.22 In addition, I note that management of the outwards reinsurance contracts for all the Companies is also outsourced to Enstar and, as such, I consider that the Proposed Scheme will have no impact on how the outwards reinsurance contracts are managed in either the No Scheme Position or the Post Scheme position.

5.23 I therefore conclude that the Proposed Scheme will have no effect on the outwards reinsurers who provide reinsurance in respect of the Affected Policies.

Governance and management framework

Current governance framework

5.24 The Companies are all wholly owned subsidiaries of CBRe, a Class 3B Bermudan reinsurer. In turn, CBRe is a wholly owned subsidiary of Kenmare Holdings Limited ("Kenmare"), a holding company based in Bermuda, which is ultimately owned by EGL. This structure will remain unchanged in the Post Scheme Position.

5.25 The Companies each have a Board with both executive and independent non-executive directors. Each Board has three committees reporting to it:

- Audit Committee;
- Executive Committee; and
- Management Risk Committee.

5.26 The Companies have outsourced their management functions to Enstar, a UK domiciled insurance service company, which is a wholly owned subsidiary of Enstar (EU) Holdings Ltd which is in turn a wholly owned subsidiary of Kenmare.

5.27 These outsourcing arrangements are monitored by the Executive Committee in line with the Companies' outsourcing policy and procedures.

5.28 The Executive Committee is a joint committee established by the Boards of each of the Companies, covering each of the Companies involved in the Proposed Scheme as well as other UK regulated entities within the Enstar Group. This joint Executive Committee is empowered by the respective Boards to ensure the effective performance of the Companies' principal activities, to avoid conflicts of interest and to assist the Directors of each of the Companies in discharging their fiduciary duties.

5.29 None of the Companies have any employees, with any required staff being employed by Enstar or other related service companies within the Enstar Group. This includes all Senior Manager Functions and Certified Key Function Holders for the Companies which are required by the PRA and FCA.

5.30 The majority of the Senior Manager Functions are fulfilled by the same individuals for each of the Companies. The exception to this is that River Thames has a different finance director to Mercantile and Rombalds.

Post Scheme governance framework

5.31 Following the Proposed Scheme, all Affected Policyholders will be (re)insured by River Thames.

5.32 I understand that there are no proposed changes to River Thames' governance and management framework as a result of the Proposed Scheme, which will remain largely outsourced to Enstar.

5.33 I therefore consider that the Proposed Scheme will have no impact on the River Thames Policyholders in relation to the governance and management framework.

5.34 Due to the existing high degree of commonality in the governance structure of each of the Companies and the high degree of overlap of Senior Management Functions, I consider that there will only be minimal changes to the governance and management framework for the Transferring Policyholders.

5.35 Consequently, I am satisfied that that the Transferring Policyholders will not be materially adversely affected as a result of the Proposed Scheme in relation to the management and governance framework.

Section 6: Communication strategy

Introduction

6.1 The Companies are required to notify policyholders, and other potentially affected parties, as well as advertise notice of the Proposed Scheme. Set out below is a summary of the proposed approach to communication by the Companies and my conclusions on its appropriateness.

Notification of Mercantile Policyholders

6.2 The Mercantile Policyholders represent two different populations – with the policies having transferred into Mercantile from either Royal & Sun Alliance Insurance Limited (formerly Royal & Sun Alliance Insurance plc) ("RSAI") or The Marine Insurance Company Limited ("MIC") under a previous Part VII transfer (referred to as the "Project Silver Transfer"). I understand that the Companies are proposing to follow the same approach to the notification of policyholders under the Proposed Scheme which was approved in 2019 as part of the Project Silver Transfer.

Policyholders who previously transferred into Mercantile from RSAI

6.3 RSAI notified the following recipients as part of the Project Silver Transfer:

- Policyholders with either (1) open claims/unpaid balances and/or reserves; or (2) claims activity (i.e. closed claims/reserve movements) within the preceding 10 years (excluding policyholders in respect of closed claims which relate to non-disease claims) – referred to as the "RSAI Active Policyholders".

- Claimants (who are not themselves policyholders) with open claims – referred to as the "RSAI Claimants".

6.4 These two groups of recipients were considered the most relevant to contact because they are most likely to have an interest in the Scheme – either because they have open claims or because they are within the cohort from whom future claims are most likely to emerge.

6.5 The policyholders with non-disease claims which closed in the preceding 10 years (but no open claims/unpaid balances and/or reserves) were excluded on the basis that the business is short tail such that the likelihood of future claims activity on those policies was (and remains) remote.

6.6 At the time of the Project Silver Transfer, RSAI identified 16,288 RSAI Active Policyholders out of a total policyholder population of 1,588,728, and all RSAI Active Policyholders were notified for whom it was possible to locate contact details (being 7,328 policyholders, of which 2,687 had open claims on their policies) together with the 828 RSAI Claimants.

6.7 It is proposed that an equivalent approach to policyholder notifications is carried out for the Proposed Scheme using the mailing lists that were used by RSAI for the notification exercise in the Project Silver Transfer but subject to the necessary updating to those mailing lists having been undertaken, which is described below.

Policyholders who previously transferred into Mercantile from MIC

6.8 At the time of the Project Silver Transfer, recognising the long-tail nature of the majority of the business which was transferring from MIC (where claims may not emerge until a long time after the end of the policy period), all policyholders transferring from MIC for whom it was possible to locate contact details were notified (other than policyholders who had short-tail policies where the coverage is hull, cargo, specie or transit and who do not have open claims/unpaid balances and/or reserves).

6.9 In total, for the Project Silver Transfer, 2,502 policyholders out of a total policyholder population for MIC of 35,224 (of which only 205 had open claims on their policies) were notified.

6.10 It is proposed that an equivalent approach to policyholder notifications is carried out for the Proposed Scheme using the mailing lists that were used by MIC for the notification exercise in the Project Silver Transfer but subject to the necessary updating to those mailing lists having been undertaken, as described below.

Update of mailing list for RSAI and MIC

6.11 At the time of the Project Silver Transfer, it was not possible to locate name and address details for all applicable transferring policyholders due to the age of the business.

6.12 For the purposes of the Proposed Scheme, the mailing lists that were prepared for the Project Silver Transfer have been refreshed and updated by:

- Adding policyholders with open claims/unpaid balances or reserves on their policies plus claimants with open claims, in each case since those mailing lists were prepared;
- Amending policyholder name and address details to reflect changes of name or address;
- Removing policyholders that have ceased to exist as a result of liquidations or dissolutions;
- Removing policyholders to reflect the effect of commutations or the equivalent since those mailing lists were prepared; and
- Removing certain EEA policyholders who were transferred to Alpha as part of a previous Part VII transfer in 2022.

6.13 This updating of the mailing lists was carried out by various Enstar personnel plus an external consultant, over several months during 2024 and 2025.

6.14 As a result of this exercise the Companies will notify all those who were notified as part of the Project Silver Transfer (subject to the updating work referred to in the previous paragraph) including all policyholders with open claims/unpaid balances and/or reserves on their policies and all claimants with open claims, who have emerged, in each case, since the Project Silver Transfer. Hence, the Companies will notify:

- 7,944 RSAI Active Policyholders and RSAI Claimants; and
- 2,504 policyholders whose policies previously transferred from MIC.

Notification of Rombalds Policyholders

6.15 The business of Rombalds comprises solely policies originally written by Nisshin which were transferred to Rombalds in 2017 under a previous Part VII transfer (the “Nisshin Transfer”).

6.16 At the time of the Nisshin Transfer, a total of 218 transferring policyholders were notified, relating to 61 policies with open claims or reserves attached and 157 policies being the only other policyholders for whom Nisshin had name and address details.

6.17 It is proposed that an equivalent approach to policyholder notifications is carried out for the Proposed Scheme using the mailing lists that were used by Nisshin for the notification exercise in the Nisshin Transfer but subject to the necessary updating to those mailing lists having been undertaken, using the same process described in paragraphs 6.12 and 6.13 above.

6.18 As a result of this exercise, the Companies will notify all those who were notified in the Nisshin Transfer (subject to the updating work referred to above) including all policyholders with open claims/unpaid balances and/or reserves on their policies and all claimants with open claims, who have emerged, in each case, since the Nisshin Transfer. Hence, the Companies will notify 206 policyholders of the business originally written by Nisshin.

Notification of River Thames Policyholders

6.19 Due to the number of transfers that have previously taken place into River Thames, Enstar has considered two separate populations of Existing Policyholders for the notification of the Existing Policyholders:

- Those policyholders of River Thames who were policyholders prior to a Part VII Transfer which took place in 2017 (the “Pre-2017 Policyholders”); and
- Those policyholders of policies that transferred to River Thames as part of the Part VII Transfer which took place in 2017 (the “2017 Transferred Policyholders”).

6.20 The Companies are proposing to follow the approach to the notification of policyholders which was approved in the Part VII Transfer which took place in 2017.

6.21 With regards to the Pre-2017 Policyholders, I understand that, due to the age of the underlying policies as well as much of the business being though intermediates, only incomplete policyholder information is available.

6.22 A review of the information available for the 2017 Transferred Policyholders was undertaken as part of the Part VII Transfer in 2017. These policyholders were grouped into three categories: Active Policyholders, Potentially Active Policyholders and Inactive Policyholders.

- Active Policyholders represent those with policies with reserves or where there had been a claim movement in the prior ten years.
- Potentially Active Policyholders represent those with policies where, although there were no reserves, there was limited claims activity in the prior ten years or where a subjective assessment considered that there was a remote chance of claims in the future.

- Inactive Policyholders represent the remaining policyholders where there were no remaining reserves or claim movement in the prior ten years and they do not fall into another category.

6.23 The Company intends, where possible, to contact the identified Pre-2017 Policyholders and the Active and Potentially Active 2017 Transferred Policyholders. I understand that this is consistent with the communication approach approved for the Part VII Transfer which took place in 2017.

6.24 As at 31 December 2023, 13,208 of the 37,511 Pre-2017 Policyholders have been identified. Of the 134,295 2017 Transferred Policyholders, 21,975 have been identified as either Active or Potentially Active Policyholders.

6.25 An extensive exercise was undertaken to establish full contact details for all Pre-2017 Policyholders as part of a previous Part VII Transfer in 2014 and for all Pre-2017 Policyholders and 2017 Transferred Policyholders for the purposes of the Part VII Transfer which took place in 2017.

6.26 For the purposes of this Proposed Scheme I understand that the mailing lists that were prepared for the Part VII Transfer in 2017 have been refreshed and updated by various Enstar Group personnel, plus an external consultant, over several months during 2024 and 2025, by doing the following:

- Adding policyholders with open claims/unpaid balances or reserves on their policies since 30 September 2015 (being the reference date for the exercise for the purposes of the Part VII Transfer in 2017);
- Amending policyholder name and address details to reflect changes of name or address;
- Removing policyholders that have ceased to exist as a result of liquidations or dissolutions;
- Removing policyholders to reflect the effect of commutations or the equivalent since 30 September 2015, releasing River Thames from liability;
- Removing certain EEA policyholders who were transferred to Alpha as part of the previous Part VII transfer in 2022; and
- Removing those Employer’s Liability policyholders whose policies have never given rise to any claims activity who were notified as part of the Part VII Transfer in 2017, but in respect of which there was a disproportionate number of returns.

6.27 As a result of this exercise the Companies will notify a total of 11,253 policyholders. This represents all those notified in the 2017 Transfer (subject to the updating work referred to above) including 100% of policyholders with open claims/unpaid balances and/or reserves on their policies who have emerged since the Part VII Transfer in 2017.

Notification of other parties

6.28 In addition to contacting policyholders and claimants directly, I also understand that Enstar will undertake the following to publicise the Proposed Scheme:

- Notify brokers who underwrote policies included in the Transferring Policies on behalf of the original underwriters under delegated underwriting authorities, or who placed such business with any of them, and for whom up to date contact details can be identified. Brokers will be requested to pass on notice of the Proposed Scheme to any of their clients who they believe may be affected by the Proposed Scheme.

- For Mercantile in particular, notify EIROS and Global Aerospace Underwriting Management Limited ("GAUM") in their capacities as the managers of the Associated Insurers (British Electricity) Management Committee and London Aviation Insurance Group and British Aviation Insurance Group pools respectively. EIROS and GAUM will be requested to pass on notice of the Proposed Scheme to policyholders of the respective pools.

- Notify all reinsurers of Mercantile and Rombalds where either company has current unpaid and outstanding claims.

- Notice of the Proposed Scheme will also be advertised in the following publications:
  - The Times;
  - The Financial Times;
  - The international edition of the Financial Times;
  - Insurance Day;
  - The international edition of Insurance Day;
  - The Economist;
  - The Wall Street Journal; and
  - Business Insurance.

6.29 I understand that the selected publications, as listed above, are intended to provide a range of different coverages with a focus on the UK and US, as these locations represent the vast majority of the domiciles of the Transferring Policyholders.

Waivers sought

6.30 As explained above, the Companies intend to notify the following recipients where contact details are available:

- RSAI Active Policyholders and RSAI Claimants in respect of the business which transferred from RSAI to Mercantile as part of the Project Silver Transfer;

- Policyholders of the business which transferred from MIC to Mercantile as part of the Project Silver Transfer, other than those with short tail policies;

- Policyholders of the business which transferred from Nisshin to Rombalds under the Nisshin Transfer; and

- All identified Pre-2017 Policyholders of River Thames as well as the Active and Potentially Active 2017 Transferred Policyholders, to the extent possible.

6.31 The Companies are seeking a waiver from the requirement to notify all the Affected Policyholders for the following reasons:

- The Companies consider that it is highly unlikely that Affected Policyholders falling outside the categories referred to above will be affected by the Scheme and the costs of notifying these policyholders would be considerable and disproportionate to the benefit to them of receiving notice; or

- The Companies are unable to locate contact details for all the Affected Policyholders due to the age of the business.

6.32 The Companies also intend to notify all reinsurers of Mercantile and Rombalds where either of the companies has current unpaid and outstanding claims against those reinsurers. The Companies are seeking a waiver from the requirement to notify all other reinsurers, where neither Mercantile or Rombalds has a current unpaid and outstanding claim against them as they are considered to be unlikely to be the subject of further claims for reinsurance recoveries.

6.33 The Companies are not planning to notify the reinsurers of River Thames given that the Proposed Scheme will have no impact on the liabilities being covered by these reinsurers, and there is no statutory requirement to notify any reinsurers other than those whose reinsurance policies are transferring.

Content of the notification pack

6.34 I have been provided with draft copies of the letters which will be sent as part of the communication process, together with the draft Circular which will be enclosed with each letter. The Circular includes:

- Background information in relation to each of the Companies and the decision to implement the Proposed Scheme;

- An explanation of the Proposed Scheme and how it will be implemented;

- An explanation of who will be affected by the Proposed Scheme and a summary of the Proposed Scheme's main provisions and effects;

- A summary of this Scheme Report; and

- An explanation of what action policyholders and other interested parties may take if it is believed that they will be adversely affected by the Proposed Scheme.

Conclusions on communication strategy

6.35 I have reviewed a draft of the letters and Circular which will be sent as part of the communication process and I consider that the level of information contained in these documents to be appropriate and its presentation to be clear, fair and not misleading.

6.36 In my opinion, the proposed waivers being sought are proportionate and reasonable.

6.37 I am therefore satisfied that the proposed material to be presented to policyholders, claimants, reinsurers and other potentially affected parties is appropriate and the Companies' approach to communication is appropriate, reasonable and proportionate.

6.38 In my Supplementary Report I will comment on the implementation of the communication approach, including any objections received to the Proposed Scheme and whether these objections impact my conclusions on the Proposed Scheme.

Section 7: Statement of Truth

Duty to the Court and statement of truth

7.1 I can confirm that I understand that my overriding duty is to the Court and that this duty overrides any obligation to any party from whom I have received instructions or by whom I am paid. I have complied and will continue to comply with that duty.

7.2 I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules and the Guidance for the Instruction of Experts in Civil Claims 2014.

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

7.4 I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Kate Angell
Independent Expert
Fellow of the Institute and Faculty of Actuaries

21 July 2025

WTW
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix A: Glossary of terms

Affected Policies	The collective term for the Transferring Policies and the Existing Policies
Affected Policyholders	The collective term for the Transferring Policyholders and the Existing Policyholders
AFR	Actuarial Function Report, a written report required to be submitted at least annually by an insurer's actuarial function to the board
Alpha	Alpha Insurance NV, a Belgian sister company of the Companies
Ancillary Own Funds	Assets which are contingent, and therefore do not reside on the Solvency II balance sheet, but can be called upon to absorb losses if needed
APSs	Actuarial practice standards, as issued by the Institute and Faculty of Actuaries in the UK
Asbestos Working Party	A group of members of the Institute and Faculty of Actuaries who carry out market surveys of insurance company UK asbestos-related claims in order that they can estimate the future cost of UK asbestos-related claims to the insurance industry
Bermuda Solvency Capital Requirement	The level of capital required to be held by an insurer under the Bermuda regulatory regime, which is calculated according to a standard formula
Best Estimate Reserves	A reasonable view as to the level of insurance liabilities on a statutory basis
Best Estimate Technical Provisions	A component of the Solvency II Technical Provisions intended to reflect the expected discounted cost of paying all claims
BMA	Bermuda Monetary Authority, the insurance industry regulator in Bermuda
BSCR	Bermuda Solvency Capital Requirement
Capital Risk Appetite	The target level of Eligible Own Funds expressed in the form of a Solvency Ratio
CBRe	Cavello Bay Reinsurance Limited, the immediate parent of the Companies
Certified Key Function Holders	Certain roles that are crucial to the sound and prudent management of an insurer and which are subject to regulation by the PRA and the FCA, but which are not Senior Manager Functions
Circular	The information enclosed with each letter which is sent as part of the communication process of the Proposed Scheme
Companies	The collective term for Mercantile, Rombalds and River Thames
Counterparty Default Risk	The risk of possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings
Court	The High Court of Justice in England and Wales
CRTF	Credit for Reinsurance Trust Fund, a trust fund required when writing reinsurance business covering United States reinsureds
Currency Risk	The risks associated with movements in foreign exchange rates due to currency differences between assets and liabilities

Diversification	The spreading of risk (such as across a variety of different policies, types of insurance and/or geographies) such that the aggregate risk is less than the sum of the underlying individual risks. This arises from the fact that an adverse outcome from one part of the business may be offset by a favourable outcome from another part of the business.
Effective Date	The intended effective date of the Proposed Scheme, which is 1 January 2026
EGL	Enstar Group Limited, the ultimate parent company of the Enstar Group
EGL Guarantees	The combination of the EGL Mercantile Guarantee and the EGL SLTF Guarantee
EGL Mercantile Guarantee	The guarantee provided by EGL to Mercantile to cover the performance of CBRe under the 75% quota share provided to Mercantile and the non-reinsured portion of Mercantile's liabilities
EGL SLTF Guarantee	The guarantee provided by EGL which relates to the funding obligations of both Mercantile and River Thames to the level of the required security in their respective SLTFs
EIROS	Electricity Industry Run Off Services Limited
EL	Employer's Liability
Eligible Own Funds	The surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds
ENIDs	Events not in data, a component of the TPs which allows for the possibility of events outside the experience of the company
Enstar	Enstar (EU) Limited
Enstar Group	All of the companies within the Enstar group, the ultimate parent company of which is Enstar Group Limited
ETF	Exchange traded fund, this is a type of investment fund which is traded on a stock exchange. ETFs own financial assets such as equities and bonds.
Existing Policies	The current policies of River Thames. Also referred to as the River Thames Policies.
Existing Policyholders	The current policyholders of River Thames. Also referred to as the River Thames Policyholders.
FCA	The Financial Conduct Authority, one of the insurance industry regulators in the UK (the other being the PRA)
FRC	Financial Reporting Council
FSCS	The Financial Services Compensation Scheme - the UK's statutory compensation scheme which compensates customers of authorised financial services firms in the event that they are unable pay claims against them
FSMA	The Financial Services and Markets Act 2000, an Act of Parliament to make provision for the regulation of financial services which details the legal basis for the transfer of an insurance business in the UK
GAUM	Global Aerospace Underwriting Management Limited

GLOs	Group litigation orders, a form of collective claim in the UK, being orders made under UK civil procedure rules providing for the management of cases that give rise to common or related issues of fact or law
Health Underwriting Risk	The risk of loss or of adverse changes in the value of insurance liabilities arising from health insurance policies, due to inadequate pricing or reserving assumptions. For the Companies, underwriting risk comprises solely of the Reserve Risk component.
IBNER	Incurred but not enough reported. A provision for additional amounts to be paid for claims which have already been reported to the insurer.
IBNR	Incurred but not reported. A provision for additional reserves above the current incurred claims, to cover both IBNER and future claims which have not yet been reported to the insurer.
ICT	The Insurance Consulting and Technology business line within WTW
IFoA	Institute and Faculty of Actuaries
ILU	Institute of London Underwriters
Incurred claims	Paid claims plus case reserves
Independent Expert	The person approved to opine on the Proposed Scheme, pursuant to section 109(2)(b) of FSMA
Life Underwriting Risk	The risk of loss or of adverse changes in the value of insurance liabilities arising from life insurance policies, due to inadequate pricing or reserving assumptions. For the Companies, underwriting risk comprises solely of the Reserve Risk component.
Kenmare	Kenmare Holdings Limited
Market Risk	The risks arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the undertaking
MCR	Minimum Capital Requirement, the absolute minimum capital required to be held by insurers under Solvency II or Solvency UK
Mercantile	Mercantile Indemnity Company Limited, an indirect wholly-owned subsidiary of EGL. A non-life (re)insurance company in run-off and domiciled in the UK.
Mercantile Policies	The policies of Mercantile all of which are transferring to River Thames
Mercantile Policyholders	The policyholders of Mercantile whose insurance policies are transferring to River Thames
MIC	Marine Insurance Company Limited
NIHL	Noise induced hearing loss, sometimes referred to as deafness
Nisshin	Nisshin Fire & Marine Insurance Company Limited
Nisshin Transfer	A previous Part VII transfer into Rombalds in 2017
No Scheme Position	The position should the Proposed Scheme not proceed
Non-Life Underwriting Risk	The risk of loss or of adverse changes in the value of insurance liabilities arising from non-life insurance policies, due to inadequate pricing or reserving assumptions. For the Companies, underwriting risk comprises solely of the Reserve Risk component.
Operational Risk	Risks relating to the failure of internal processes, policies or procedures

ORSA	Own Risk and Solvency Assessment, an assessment of an insurers risk profile required under Solvency II and Solvency UK
Partial Internal Model	A model used to assess solvency capital that is a combination of a bespoke capital model and the Standard Formula
PFAS	Perfluoroalkyl and polyfluoroalkyl substances
PIM	Partial Internal Model
Post Scheme Position	The position should the Proposed Scheme proceed as planned
PPOs	Periodic Payment Orders, a type of settlement of a claim where payments are made on an ongoing basis rather than as a one-off payment
PRA	The Prudential Regulation Authority, one of the insurance industry regulators in the UK (alongside the FCA)
Pro Insurance Solutions Limited, or Pro	Pro Insurance Solutions Limited, an outsourced service provider for Mercantile
Project Silver Transfer	A previous Part VII transfer into Mercantile in 2019
Proposed Scheme	The proposed transfer of policies from Mercantile and Rombalds to River Thames as described in this Scheme Report
Regulatory basis	The basis for valuing assets and liabilities, and assessing capital requirements, as set out under Solvency II
Risk Margin	The amount of funds over the Best Estimate Technical Provisions required by a knowledgeable third party to assume the known insurance obligations of an undertaking in an arm’s length transaction
River Thames	River Thames Insurance Company Limited, an indirect wholly-owned subsidiary of EGL. A non-life (re)insurance company in run-off and domiciled in the UK.
River Thames Policies	The current policies of River Thames, also referred to as the Existing Policies
River Thames Policyholders	The current policyholders of River Thames, also referred to as the Existing Policyholders
Reserve Risk	The risk of loss or of adverse changes in the value of insurance liabilities due to inadequate reserving assumptions
Rombalds	Rombalds Run-Off Limited, an indirect wholly-owned subsidiary of EGL. A non-life reinsurance company in run-off and domiciled in the UK.
Rombalds Policies	The policies of Rombalds all of which are transferring to River Thames
Rombalds Policyholders	The policyholders of Rombalds whose insurance policies are transferring to River Thames
RSAI	Royal & Sun Alliance Insurance Limited (formerly Royal & Sun Alliance Insurance plc)
Scheme Report	The Independent Expert's report on the Proposed Scheme
SCR	Solvency Capital Requirement
Senior Management Functions	Certain roles for the management of insurance companies subject to regulation by the PRA and the FCA
SLTF	Surplus Lines Trust Fund, a trust fund required when writing Surplus Lines business in the United States

Solvency Capital Requirement	The level of capital required to be held by an insurer under the Solvency II regime, calculated according to the Standard Formula under Solvency II
Solvency II	An EU directive which applies to all EU-domiciled insurance and reinsurance companies and was implemented on 1 January 2016. Solvency II sets out wide-ranging requirements on firms and supervisors relating to financial resources, risk and governance and reporting requirements. For simplicity, throughout this Scheme Report the term "Solvency II" is used to refer to both Solvency II and Solvency UK.
Solvency II Technical Provisions	The reserves required by an undertaking to meet its existing insurance obligations as specified under Solvency II. It comprises the Best Estimate Technical Provisions and the Risk Margin.
Solvency Ratio	A measure of financial strength, which equals the Eligible Own Funds divided by the SCR
Solvency UK	The new regulatory regime, which was implemented by the PRA with effect from 31 December 2024. For simplicity, throughout this Scheme Report the term "Solvency II" is used to refer to both Solvency II and Solvency UK.
Standard Formula	A calculation prescribed under Solvency II for calculating the required regulatory capital at a 99.5th percentile level over a one-year time horizon
Statutory basis	The basis for valuing assets and liabilities in accordance with the accounting requirements of the undertaking, which for the Companies is UK GAAP
Summary	The summary of the Scheme Report
Surplus Lines business	Insurance that is unavailable through admitted carriers in the US state but can instead legally be placed with eligible non-admitted companies (which may be located in other US states or in other countries)
TASs	Technical actuarial standards, as issued or adopted by the Financial Reporting Council in the UK
Tier 1	The highest quality of Eligible Own Funds. It includes items such as paid-up share capital and surplus assets. At least 50% of the SCR must be met by Tier 1 Own Funds.
Tier 2	The intermediate quality of Eligible Own Funds which are unable to meet the requirements of Tier 1. It includes items such as Letters of Credit. Tier 2 Eligible Own Funds are restricted to a maximum of 50% of the SCR.
Tier 3	The lowest quality of Eligible Own Funds which are unable to meet the requirements of either Tier 1 or Tier 2. It includes items such as deferred tax assets. Tier 3 Eligible Own Funds must be less than 15% of the SCR, and the sum of Tier 2 and Tier 3 Eligible Own Funds cannot exceed 50% of the SCR.
TPs	Solvency II Technical Provisions
Transferring Policies	The collective term for the Mercantile Policies and the Rombalds Policies
Transferring Policyholders	The collective term for the Mercantile Policyholders and the Rombalds Policyholders
TWL	Towers Watson Limited, a part of WTW

unapproved Enstar Capital Model	A partial internal model which each of the Companies use in their ORSA, including to validate the results of the Standard Formula calculation. The unapproved Enstar Capital Model has not received regulatory approval to be used for regulatory reporting requirements.
US APH	Asbestos, Pollution and Health claims from the United States

Appendix B: Curriculum vitae

Relevant experience / specialisation

Kate has over 25 years' experience in non-life actuarial work and has been involved in the provision of all aspects of actuarial advice to non-life insurers, having gained broad experience of the general insurance sector in a variety of roles. Kate has worked extensively in the London Market, UK and Europe, providing advice to (re)insurance companies, Lloyd’s syndicates, government entities, corporations and captives.

Kate’s wide-ranging experience throughout the insurance and reinsurance industry includes the following:

- Involvement in a number of insurance business transfers, for both business in run-off and live business, covering a variety of lines of business and including business transferring within the UK and overseas, including acting as the Independent Expert for three Part VII transfers. Kate has spoken on the topic of insurance business transfers at a number of conferences, together with writing articles on the subject and drafting new education material for the Institute of Actuaries on the topic of “Exit Strategies”. She was also a member of an Institute of Actuaries Working Party on the topic of business transfers.

- Acting as an expert witness or peer reviewer for a number of expert witness / litigation support assignments, including giving testimony in court.

- Undertaking due diligence in connection with M&A transactions.

- Regularly leading reserve reviews for (re)insurance companies, corporates, captives and Lloyd’s syndicates, covering both ongoing business and business in run-off. Kate’s experience includes providing Statements of Actuarial Opinions for Lloyd’s syndicates, a Bermuda reinsurer and Irish non-life insurance companies.

- The reserve reviews led by Kate have covered a wide variety of lines of business including APH liabilities, aviation, cargo, construction, contingency, creditor, D&O, employers’ liability, energy, E&O, excess of loss, kidnap & ransom, legal expenses, liability business, marine, medical insurance, motor (both personal and commercial), personal accident, political risks, professional liability, property, public liability, travel and warranty.

- Assisting clients with meeting the requirements of Solvency II across a number of areas. Her experience includes assessing capital requirements according to the SCR / MCR Standard Formula, undertaking Technical Provisions calculations, calculation of Undertaking Specific Parameters, assisting clients with ORSA submissions (including assessing the appropriateness of the Standard Formula and considering risks which are not included within the Standard Formula), providing assistance with the Pillar 3 requirements under Solvency II (including completion of the QRTs), assisting clients to fulfil the requirements of the Actuarial Function (including with respect to the required underwriting and reinsurance opinions) and providing training on Solvency II.

- Kate has acted as an outsourced Chief Actuary (SMF 20) under the Prudential Regulation Authority’s Senior Managers Regime in the UK and as the Head of the Actuarial Function for Irish insurance companies under the Central Bank of Ireland’s PCF regime. Kate has also acted as the Reviewing Actuary for the purpose of undertaking peer reviews of Technical Provisions in accordance with the requirements of the Central Bank of Ireland.

Kate joined WTW’s general insurance team in January 2009 and is a Senior Director within WTW’s Insurance Consulting and Technology division. Prior to joining WTW, Kate has worked as a consultant, as Syndicate Actuary for a Lloyd's Syndicate, for a (re)insurance broker and as an actuary at GE's financial services division.

Education and Credentials

Kate qualified as a Fellow of the Institute of Actuaries in 1998. She is also a Fellow of the Society of Actuaries in Ireland and an Associate of the Chartered Insurance Institute.

Kate holds the required practising certificates for the purpose of providing Statements of Actuarial Opinion relating to Lloyd's syndicates, and to perform the Chief Actuary function in accordance with the Prudential Regulation Authority's requirements in the UK.

Kate has previously been a member of the Institute and Faculty of Actuaries' General Insurance Board and the cross-practice Professional Affairs and Consultation Committee.

Appendix C: Information considered

For the purposes of this Scheme Report I have reviewed various items of data and information, including the following.

Documents relating to the Proposed Scheme

- Draft Scheme Document dated 24 October 2024
- Draft witness statement from Ann Slade (v7, received on 11 March 2025)
- Draft witness statement from Ruth McDiarmid (v7, received on 11 March 2025)
- Communications strategy document (v3, received on 31 March 2025)
- Draft copies of the letters which will be sent as part of the communication process, together with the draft Circular which will be enclosed with each letter (all received on 24 February 2025)
- Independent Expert reports from previous Part VII transfers which involved the Companies

Financial information

- Balance sheets as at year-end 2021 to 2023 and as at 30 June 2024 for each of the Companies
- Annual Accounts as at year-end 2021 to 2023 for each of the Companies
- ORSA reports for 2022 to 2024 for each of the Companies
- Solvency and Financial Condition Reports at year-end 2021 to 2023 for each of the Companies
- Actuarial Function reports for 2023 for each of the Companies
- Details of outwards reinsurance protections which are in place for each of the Companies
- Details of guarantees and Trust Funds which are in place for each of the Companies
- The Loss Reserve Specialist Opinion and the BSCR regulatory return for CBRe as at 31 December 2023

Reserving information

- Enstar internal reserve review reports as at 30 June 2023, 30 September 2023, 30 June 2024 and 30 September 2024 for Mercantile
- Enstar internal reserve review reports as at 30 June 2023 and 30 June 2024 for Rombalds and River Thames
- Enstar internal reserve updates as at 31 December 2023 for each of the Companies
- Individual reserving models and projections for each of the Companies
- Details of individual PPOs in the course of payment for River Thames
- Details of underlying claims and exposures for each of the Companies
- Breakdown of Solvency II Technical Provisions by class and currency for each of the Companies

Capital information

- Standard Formula SCR as at 31 December 2023 for each of the Companies
- unapproved Enstar Capital Model Results as at 31 December 2023 for each of the Companies
- Copies of communication with the PRA surrounding proposed dividends for Mercantile and River Thames
- Projected balance sheets and capital requirements for each of the Companies in both the No Scheme Position and the Post Scheme Position for the 2024 to 2028 year-ends
- Balance sheets and capital requirements for each of the Companies in both the No Scheme Position and the Post Scheme Position as at 31 December 2023 for a number of shock scenarios

Non-financial information

- Details of the outsourcing agreements which are in place with Enstar and Pro
- Enstar's Liquidity Risk Policy
- Details of Enstar's current investment management strategy, and expected Post Scheme position
- Details of any material ongoing litigations or disputes for each of the Companies

The above information and various other information (including information provided verbally) has been provided by Enstar. I have relied upon the accuracy and completeness of the data and information provided without independent verification. However, I have reviewed the data and information for general consistency and overall reasonableness, and based on my wider experience this gives me no cause for concern.

I have received a statement of data accuracy which confirms the accuracy and completeness of the information provided to me in performing my Independent Expert role. This statement was provided by Michael Heap, Chief Financial Officer of Enstar (EU) Limited.

Appendix D: Compliance with PRA and FCA requirements

This section sets out a mapping from the PRA requirements set out in paragraphs 2.27 to 2.40 of the "PRA's Statement of Policy: The PRA's approach to insurance business transfers" and the FCA requirements set out in paragraphs 18.2.31 to 18.2.41 of SUP18 to this Scheme Report. The right column of the table below contains paragraph references from this Scheme Report. Note that it does not necessarily include all relevant paragraphs but, in some cases, only includes selected examples of relevant paragraphs to demonstrate that the PRA and FCA requirements have been met.

PRA Document	FCA SUP18	Independent Expert Report
2.27 – Under section 109 of FSMA, a scheme report must accompany an application to the court to approve an insurance business transfer scheme . . .	18.2.31	Whole report
2.28 – When the PRA has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect	18.2.31 A	Paragraph 1.37
2.29 – There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators	18.2.32	Paragraph 1.37
2.30 (1) – Who appointed the independent expert and who is bearing the costs of that appointment	18.2.33 (1)	Paragraphs 1.2 and 4.385
2.30 (2) – Confirmation that the independent expert has been approved or nominated by the PRA	18.2.33 (2)	Paragraph 1.4
2.30 (3) – A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	18.2.33 (3)	Paragraph 1.9 and Appendix B
2.30 (4) – Whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest	18.2.33 (4)	Paragraphs 1.38 to 1.40
2.30 (5) – The scope of the report	18.2.33 (5)	Paragraphs 1.14 to 1.24
2.30 (6) – The purpose of the scheme	18.2.33 (6)	Paragraph 3.5
2.30 (7) – A summary of the terms of the scheme in so far as they are relevant to the report	18.2.33 (7)	Paragraphs 3.1 to 3.3, and paragraphs 3.38 to 3.45
2.30 (8) – What documents, reports and other information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided	18.2.33 (8)	Paragraph 1.50 and Appendix C

PRA Document	FCA SUP18	Independent Expert Report
2.30 (8A) – Any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible	n/a	Not applicable, as there is no firm-specific information which has been omitted from the Scheme Report which the Independent Expert considers should be included
2.30 (9) – The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	18.2.33 (9)	Paragraphs 1.48 to 1.50
2.30 (10) – The people the independent expert has relied on and why, in their opinion, such reliance is reasonable	18.2.33 (10)	Paragraphs 1.48 to 1.50
2.30 (11) – Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	18.2.33 (11)	Sections 4 and 5, and summarized in Section 2
2.30 (12) – Their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme	18.2.33 (11A)	Paragraph 2.55
2.30 (12A) – Their definition of 'material adverse' effect;	n/a	Paragraphs 3.64 to 3.71
2.30 (13) – What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme	18.2.33 (12)	No such matters exist
2.30 (14) – For each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons	18.2.33 (13)	Paragraphs 2.13 to 2.54, with detailed reasons in Sections 4 and 5
2.30 (15) – An outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	n/a	Paragraph 4.388. There are no other concurrent or linked schemes
2.31 – The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However, reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances	18.2.34	Paragraphs 1.45 and 7.1

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2.31A – The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	n/a	Paragraphs 1.48 to 1.50
2.32 – The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and (2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	18.2.35	Paragraphs 3.39 to 3.44
2.33 – The independent expert's opinion on the likely effects on policyholders should be assessed at both firm and policyholder level and should: (1) - include a comparison of the likely effects if it is or is not implemented;	18.2.36 (1)	Paragraphs 3.46 to 3.48, throughout Sections 4 and 5, and summarized in Section 2
2.33 (2) – state whether the firm(s) considered alternative schemes and, if so, what were the arrangements and why were they not proceeded with;	18.2.36 (2)	Paragraph 1.20
2.33 (2A) – analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion; and	18.2.36 (3)	Sections 4 and 5
2.33 (3) – include the independent expert's views on: (a) - the effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s);	18.2.36 (4a)	Sections 4 and 5 Consideration of scenarios is set out in paragraphs 4.217 to 4.319 The effects of insolvency are considered in paragraphs 4.331 to 4.338
(aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the event there is a material deterioration of their balance sheets;	n/a	Paragraphs 5.24 to 5.35
(aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	n/a	Section 4

PRA Document	FCA SUP18	Independent Expert Report
(a) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	n/a	Paragraph 4.190
(b) – the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to how they may affect: (i) the security of policyholders' contractual rights (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and	18.2.36 (4b)	Sections 4 and 5
(c) - the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	18.2.36 (4c)	Paragraphs 4.385 and 4.386
(d) - the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.		Throughout Sections 4 and 5
2.34 – The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer	18.2.37	Paragraph 1.22
2.35 – For any mutual company involved in the scheme . . .	18.2.38	Not applicable, as no mutual companies are involved in the Proposed Scheme
2.36 – For a scheme involving long-term insurance business . . .	18.2.39	Not applicable, as the Proposed Scheme does not involve any long-term insurance
2.37 – Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run.	18.2.40	Paragraphs 1.25 to 1.27
2.38 – A transfer may provide for benefits to be reduced for some or all of the policies being transferred . . .	18.2.41	Not applicable, as no benefits are to be reduced
2.39 – The PRA expects the independent expert to provide a supplementary report for the final court hearing . . .	n/a	Paragraphs 1.32 to 1.36
2.40 – The purpose of the supplementary report . . .	n/a	Paragraphs 1.32 to 1.36, with more detail to be included in the supplementary report

Appendix E: Impact of scenarios

The table below is an expanded version of Table 4.22, which additionally includes the Eligible Own Funds and SCR for each of the scenarios.

Impact of Scenarios (USD thousands)

			No Scheme Position												Post Scheme Position			
			River Thames				Mercantile				Rombalds				River Thames			
Scenario	Category	Expected Return Period	Eligible Own Funds	SCR	Solvency Ratio	Impact	Eligible Own Funds	SCR	Solvency Ratio	Impact	Eligible Own Funds	MCR*	Solvency Ratio	Impact	Eligible Own Funds	SCR	Solvency Ratio	Impact
Base	-	-	61,108	40,701	150%		153,111	81,610	188%		6,805	4,248	160%		221,286	117,169	189%	
1	Reserve Risk	Low	61,108	40,701	150%	-	134,012	95,335	141%	(47pp)	6,805	4,248	160%	-	206,092	130,911	157%	(31pp)
2	Reserve Risk	High	61,108	40,701	150%	-	80,357	131,690	61%	(127pp)	6,805	4,248	160%	-	154,262	168,638	91%	(97pp)
3	Reserve Risk	Low	45,786	46,873	98%	(52pp)	153,111	81,610	188%	-	6,805	4,248	160%	-	206,610	122,288	169%	(20pp)
4	Reserve Risk	Medium	21,854	57,807	38%	(112pp)	153,111	81,610	188%	-	6,805	4,248	160%	-	187,357	130,735	143%	(46pp)
5	Reserve Risk	Low	60,540	40,784	148%	(2pp)	152,539	82,113	186%	(2pp)	6,805	4,248	160%	-	220,210	117,855	187%	(2pp)
6	Reserve Risk	High	38,261	49,423	77%	(73pp)	109,048	111,647	98%	(90pp)	5,426	4,248	128%	(32pp)	156,896	155,243	101%	(88pp)
7	Reserve Risk	Extreme	12,577	60,622	21%	(129pp)	60,627	145,446	42%	(146pp)	4,048	4,248	95%	(65pp)	82,935	199,621	42%	(147pp)
8	Latent claim	Medium	61,108	40,701	150%	-	129,954	97,870	133%	(55pp)	6,805	4,248	160%	-	203,311	133,543	152%	(37pp)
9	Latent claim	Medium	11,344	58,655	19%	(131pp)	153,111	81,610	188%	-	6,805	4,248	160%	-	177,134	132,112	134%	(55pp)
10	Market Risk	High	35,241	41,462	85%	(65pp)	95,697	100,369	95%	(92pp)	4,535	4,248	107%	(53pp)	142,594	134,168	106%	(83pp)
11	Market Risk	Medium	43,995	40,574	108%	(42pp)	114,956	94,416	122%	(66pp)	5,174	4,248	122%	(38pp)	168,780	128,301	132%	(57pp)
12	Market Risk	Medium	40,738	38,451	106%	(44pp)	112,544	84,035	134%	(54pp)	5,625	4,248	132%	(28pp)	158,093	115,615	137%	(52pp)
12a	Market Risk	High	16,167	38,451	42%	(108pp)	74,084	84,035	88%	(99pp)	5,052	4,248	119%	(41pp)	94,490	115,615	82%	(107pp)
13	Reinsurer default	High	68,892	74,507	92%	(58pp)	195,635	270,237	72%	(115pp)	6,805	4,248	160%	-	277,977	322,023	86%	(103pp)
14	Reserve risk & reinsurer default	Extreme	24,807	90,596	27%	(123pp)	35,338	325,153	11%	(177pp)	5,426	4,248	128%	(32pp)	73,665	404,225	18%	(171pp)

* For Rombalds, the SCR remains below the MCR in all scenarios and therefore the MCR remains the binding capital constraint.