PKF Littlejohn LLP

Accountants &
business advisers

Proposed Part VII Insurance Business transfer relating to certain Members of Lloyd's for any and all of the 1993 to 2020 (inclusive) years of accounts to

Lloyd's Insurance Company S.A.

Supplementary Independent Expert Report of Carmine Papa

Dated: 10 November 2020

Contents

1 Introduction

1.1 Background

1.1.1 I have prepared an Independent Expert (IE) report for the Court dated 1 May 2020 entitled “Proposed Part VII Insurance transfer of certain insurance business relating to certain Members of Lloyd’s for any and all of the 1993 to 2020 (inclusive) years of accounts to Lloyd’s Insurance Company S.A.”.

1.1.2 In the above report, I describe the proposed transfer of certain policies (Transferring Policies) to Lloyd’s Insurance Company S.A. (LIC) in order to continue to service those policies which fall within the jurisdiction of the EEA regulators without potentially breaching those EEA regulations. A copy of my report is available, free of charge, and has been available since 15 June 2020, on the following website: https://www.lloyds.com/brexit-transfer/independent-expert. Hard copies were also made available on request free of charge.

1.1.3 This supplementary report has been prepared to update the Court with more relevant information on certain matters and to provide an update of my conclusions.

1.1.4 This supplementary report should be read together with my IE report as reading this report in isolation may be misleading. Unless otherwise stated in this report, the basis of my assumptions, sources of uncertainty, and limitations set out in my IE report also apply to this supplementary report.

1.1.5 Throughout this supplementary report I refer to financial items or events which have no material adverse effect. I consider an event or outcome to not have a material adverse effect if, in my opinion, the expected impact of the event is very small, such that it would not influence the decisions of a reader either on its own or in conjunction with other similar defined events. In assessing whether an event impact is very small, I have considered the following:

- the very low probability of the event occurring
- a very low financial impact of the event
- a combination of the two conditions above.

Similarly, I consider an event to have low probability if, in my opinion, the chance of it occurring is so small that it would not influence the decisions of a reader of this report. I consider an event to be unlikely if it has a low probability of occurring.

1.2 Scope of this Report

1.2.1 My understanding is that copies of my supplementary report will be made available to the Court, the PRA and the FCA, the NBB (the Belgium Prudential Regulator), the board of LIC and to Lloyd's. I also understand a copy of this report will be available to Policyholders and other members of the public as required by the relevant legislation and will be made available on a dedicated website: https://www.lloyds.com/brexit-transfer

1.2.2 In preparing this report, where applicable, my team has complied with TAS 100: Principles for Technical Actuarial work and TAS 200: Insurance as issued by the UK Financial Reporting Council. My team has also complied with the Institute and Faculty of Actuaries professional standards APSX1 and APSX2.

1.2.3 The additional data made available to me since I prepared my IE report is set out in Appendix 2. I have not independently verified the additional data and information made available to me by Lloyd's and LIC, or any other parties. Accordingly, my work does not constitute an audit of the financial data or information. Where I believe it was appropriate, I have applied certain review procedures to satisfy myself that the information provided is reasonable and consistent based on my experiences and knowledge of the Lloyd's and wider insurance market. I have also met in person, or conducted telephone and video conference calls, with representatives of Lloyd's and LIC and their professional advisors.

1.2.4 In preparing this report, I have been assisted by my team, however, any review or analysis from my team has been carried out under my supervision. Accordingly, this report has been written in the first person singular and opinions expressed therein are my own.

1.2.5 Throughout this report sections highlighted in bold reflect my opinion on the subject matter. Definitions for capitalised terms may be found in the Glossary.

1.2.6 The report has been prepared in accordance with the PRA's statement of policy – the PRA's approach to Insurance business transfers dated April 2015 and the FCA's approach to the review of Part VII insurance business transfers published on 29 May 2018.

1.3 Key changes to the scheme and other developments

1.3.1 In my IE report the Effective Date for this proposed Part VII transfer was assumed to be 29 October 2020. The Effective Date is now expected to be 30 December 2020. The delay in the Effective Date is to ensure that all parties involved in this proposed Part VII transfer have sufficient time to be ready to implement the Scheme operationally. The additional time was required to:

- implement new operating systems and processes for the submission of data relating to the Transferring Liabilities to LIC;
- establish claims payment facilities; and
- prepare for changes to financial, regulatory and business reporting following the proposed Part VII transfer.

1.3.2 **In my opinion the revised Effective Date does not have a material impact on Lloyd's, LIC, non-Transferring or Transferring Policyholders; nor does the change have any material impact on the effectiveness of the Scheme.**

1.3.3 The definition of Excluded Policies has been changed since my IE report was finalised. Excluded Policies now include "Sanctions Policies" which are any policies: (i) under which amounts are payable (directly or indirectly) to a "designated person" (being a person or entity that is included on any list that is subject to financial sanctions or equivalent measures in the UK, the European Union, Belgium or any asset freeze list maintained by the United Nations Security Council or any list maintained by the US Treasury Department Office of Foreign Assets Control); (ii) where any amount has arisen under or in connection with such Policy required to be blocked under US sanctions laws; or (iii) under which the provision of (re)insurance or payment of any claim would expose the Transferee to any sanction prohibition or restriction under sanctions laws and regulations. Lloyd's estimates that the number of Sanctions Policies is extremely small (by number and value). **This change in the definition of Excluded**

Policies does not affect the opinions I have expressed in my IE report.

1.3.4 The data used to estimate the insurance liabilities, and to notify Policyholders, has been amended. Details of the changes and my conclusion on the revised data are set out in Section 3. This change was anticipated in my IE report.

1.3.5 Lloyd's had, at the time my IE report was finalised, assumed that the total estimated cost to be incurred by LIC to administer the insurance liabilities transferred would be funded by Lloyd's as part of the capital provided to LIC prior to the Effective Date. Lloyd's and LIC have now agreed that the cost to administer the transferred insurance liabilities should be funded on an annual basis. Both parties have entered into a "Costs Agreement" to give effect to this arrangement. My comments on the Costs Agreement are set out in Section 6.4.

1.3.6 Lloyd's and LIC have now agreed that the funds provided by Lloyd's to LIC to meet its Solvency Capital Requirement following the proposed Part VII transfer will be in the form of cash of €207m and a Letter of Credit (LOC) of €200m which totals €407m. My comments on this change are set out in Section 5.6.

1.3.7 As set out in Section 4.5 the estimate of the insurance liabilities associated with the Transferring Policies is subject to several uncertainties. As agreed by Lloyd's and LIC, the total capital injection of €407m includes €40m to cater for this uncertainty. See Section 4.7 for further details.

2 Executive Summary

2.1 Significant matters

2.1.1 When I completed my IE Report on 1 May 2020, there were certain matters that I said I would revisit in this Supplementary Report. These matters were as follows.

- The change in methodology to extract the data necessary to notify Policyholders of this proposed Part VII transfer, and to estimate the insurance liabilities attaching to the Transferring Policies;
- The LIC operating model, which was being developed when my IE report was completed; and
- An update on the COVID-19 pandemic and how it impacts on both the Lloyd's market and the insurance liabilities attaching to the Transferring Liabilities.

2.1.2 In addition to the above a number of changes have been made to the way by which the Scheme will be implemented since my IE report was completed. In my opinion the principal changes are as follows:

- The costs to be incurred by LIC to administer insurance liabilities to be transferred will now be funded annually rather than by a one-off upfront payment.
- The capital injection to fund LIC consists of a combination of cash and a Letter of Credit and includes a margin to cater for the uncertainties surrounding the estimate of the value of the Transferring Liabilities.

2.2 Approach

2.2.1 My approach to both the matters I have revisited and the changes to the Scheme, was to seek additional information from Lloyd's and from LIC, to review this new information and to make an assessment on whether it impacts the opinions I arrived at in my IE report.

2.2.2 As a result of the revision, made by Lloyd's, to the data used to support this proposed Part VII transfer, I have reassessed Lloyd's calculation of the estimated insurance liabilities transferring to LIC.

2.2.3 I have received all the information I requested from both LIC and Lloyd's and I have considered the impact, if any, of this additional information on the conclusions and the analysis set out in my IE Report.

2.3 Findings

2.3.1 **The revision to the data extraction process used to support this proposed Part VII transfer is, in my opinion, a sensible change to make, and has identified additional Policyholders, who have been included in a second direct notification exercise. The revision to the data has also reduced the uncertainty associated with estimating the insurance liabilities transferring to LIC. My actuarial team has reviewed the revised calculation of the insurance liabilities, and I have concluded that the methodology and assumptions used by the Chief Actuary of Lloyd's in the calculation of the Transferring Liabilities at the Assessment Date are reasonable.**

2.3.2 **The design of LIC's operating model is now complete and has been subject to testing by LIC and LIC's advisors. I am now satisfied that Transferring Policyholders do not have to negotiate any new or unfamiliar processes once the Transferring policies are transferred to LIC.**

2.3.3 **As the majority of the underwriting losses arising from COVID-19 will fall primarily on the 2019 and 2020 underwriting years and the majority of the Transferring Policies relate to the 2018 and prior underwriting years, I have concluded that COVID-19 will have no material impact on the gross insurance liabilities transferred to LIC (the impact on the net insurance liabilities is nil).**

2.3.4 Although, based on the current and plausible future impacts, the underwriting loss from COVID-19 is a significant loss to the Lloyd's Market and is comparable to previous losses suffered by the Market. **Lloyd's has been able to cope with similar losses in the past and based on my experience and knowledge of the market, Lloyd's will be able to cope with a loss of this magnitude.** Lloyd's has, or intends to take, actions which will mitigate the impact of the estimated COVID-19 underwriting loss on its Regulatory Solvency Capital Requirement, see Section 5.1.6 for further details.

2.3.5 Following the capital injection into LIC to support the proposed Part VII transfer, and before any mitigating actions Lloyd's intends to take, the Central Fund is projected to still have assets of £3.8bn. After the mitigating actions the MWSCR and the CSCR are projected to remain in excess of the targeted Lloyd's Solvency Ratios. **Therefore, in my opinion, Members through a combination of their own resources and recourse to the Central Fund if needed are likely to be able to meet their obligations under their QS Reinsurance Contracts with LIC. Further, I have concluded that Lloyd's will be able to meet Members liabilities to LIC, to pay valid claims, should Members' own funds not be sufficient to meet those liabilities in full**. Accordingly, the views I have expressed in my IE report have not changed as result of the impact of COVID-19 on the Lloyd's market.

2.3.6 The change on how funds have been provided to LIC, and the use of the Letter of Credit, does not impact on the opinions I expressed in my IE report. **The inclusion of a margin of €40 million in the funds to be provided is a sensible arrangement to cater for the uncertainty associated in estimating the insurance liabilities. The inclusion of this margin will have no material adverse effect on either the Transferring or non-Transferring Policyholders, although it provides additional comfort to LIC that it will be able to meet its solvency capital requirement should the Reserves transferred show any deterioration.**

2.3.7 Further, a number of non-material changes have been made to the Scheme document since the Directions Hearing. **In my opinion the changes to the Scheme document are not material and there is no material adverse effect on any Policyholder group which is affected by these changes.**

2.4 Communications and notifications

2.4.1 I have been kept informed and have reviewed the progress of the Policyholder communication exercise, including the publicity arrangements. **I am satisfied that the communication and engagement with Policyholders, and other relevant parties, are consistent with my expectations when I finalised my IE report. None of the Policyholder objections have caused me to revise the conclusions I arrived at in my IE report.**

2.5 Overall conclusions

2.5.1 **I have considered the proposed changes to the Part VII transfer and their likely effects on both the Transferring Policyholders and non-Transferring Policyholders. I have concluded that there are no material adverse effects on any Policyholder groups which are affected by these changes. Accordingly, I am satisfied that the opinions I expressed in my IE Report still remain valid.**

2.6 Expert's declaration

2.6.1 I confirm that I fully understand my overriding duty to the Court, and that I must help the Court on matters within my expertise. My duties to the Court override any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied, and will continue to comply, with this duty.

2.6.2 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 Instruction of Experts and Civil Claims 2014.

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

3 Data availability

3.1 Revision to data

3.1.1 In my IE Report, I reported on the challenges Lloyd's had to resolve in connection with the lack of data which is held centrally by the market. This is due to Lloyd's unique structure where the Lloyd's market underwriting is undertaken by the Syndicates and not by Lloyd's centrally (as Lloyd's is not an insurer).

3.1.2 Reliable data is required in relation to this proposed Part VII transfer in order to:

- identify Transferring Policies;
- identify those Policyholders which are to be notified in connection with this proposed Part VII transfer; and
- provide data on premiums and claims attaching to the Transferring Policies to enable the insurance liabilities associated with the Transferring Policies to be calculated.

3.1.3 Lloyd's maintains certain data centrally for regulatory reporting purposes. This database is referred to in this report as the Regulatory Reporting Database (RRD).

3.1.4 From the RRD, Lloyd's had undertaken a data extraction exercise to identify and extract data for those policies which are in scope for this proposed Part VII transfer. In order to verify the data extracted from the RRD, Lloyd's undertook a validation exercise to agree the centrally held data to the data held by the Syndicates and submitted to Lloyd's by the Managing Agents. Full details of this validation exercise are set out in Section 4.4 of my IE report.

3.1.5 Based on this validation exercise, Lloyd's concluded:

- The data from the Managing Agents contained more detailed geographical information than can be extracted from the RRD.
- The financial data submitted by Managing Agents, such as premiums, outstanding, paid claims, is of a lower quality than the data held in the RRD. Further there are significant

inconsistencies between the way Managing Agents present this data.

3.1.6 The previous approach adopted was to source the policy-level information from the Managing Agents and then to attempt to match the history of premiums and claims associated with these policies to the Lloyd's RRD. This approach was fraught with difficulties and led to several delays and a lack of clarity over how to deal with the resulting issues encountered. The issues arose for two main reasons:

- The RRD was designed as a tool to support Lloyd's financial reporting requirements and holds information at a lower level of granularity than is required to determine whether individual policies are relevant to the proposed Part VII transfer.

- The quality of some of the Managing Agents' data and the reference fields used to match the Managing Agents' data with the RRD were not sufficiently reliable.

3.1.7 Lloyd's has therefore adopted the following revised approach:

- The data supplied by the Managing Agents (which contains more detailed geographic information) has been used, in conjunction with the data held in the RRD, to identify those Policies which are in scope for this proposed Part VII transfer by using certain selection parameters. This process is referred to in this report as Segmentation.

- Once the Transferring Policies have been identified, details of claims (both paid and outstanding) and premiums attached to the Transferring Policies have been extracted from the RRD held centrally by Lloyd's.

The data extracted from the above process has been used to project and estimate the insurance liabilities attaching to the Transferring Policies and to identify the Policyholders who should be directly notified of this proposed Part VII transfer.

3.1.8 The revised approach starts from the premise that the RRD represents Lloyd's most comprehensive data source of premiums and claims attaching to the Transferring Policies and therefore should form the basis of estimating the insurance liabilities attaching to those Transferring Policies. **In my opinion this is a more sensible approach and provides a known starting position which was not**

the case with the previous approach. I believe that this revised approach provides a more robust, accurate and complete data set on which to estimate the Transferring Liabilities than the previous approach.

3.1.9 As a result of the change in approach set out above, the Segmentation process used in order to ascertain whether a policy is transferring under this Part VII has been modified from those which I reported upon in my IE report. The modification was required to incorporate the more detailed geographical information contained within the data provided by the Managing Agents, such as Policyholder domicile and risk location data fields. The Segmentation was also applied at a more granular basis than previously applied in order to improve the identification of the Transferring Policies.

3.1.10 The previous calculation of the Transferring Liabilities attaching to the Transferring Policies was based on the data held in the RRD as at 31 December 2018 and certain supplementary data supplied by the Managing Agents at 30 September 2019 (non-XIS data only). These dates were collectively referred to in my IE report as the Assessment Date.

3.1.11 In order to arrive at the insurance liabilities as at the initial Effective Date (assumed at the time to be 29 October 2020), Lloyd's actuarial team estimated the rate at which the Transferring Policies insurance liabilities would reduce (i.e. settle) between the Assessment Date and the Effective Date.

3.1.12 For the purpose of the court hearing now expected to be in November 2020, Lloyd's has revised the Assessment Date as follows:

- Lloyd's RRD as at 31 December 2019.
- Non-XIS data supplied by the Managing Agents as at 30 June 2020.

3.1.13 In order to estimate the Insurance liabilities attaching to the Transferring Policies at the revised Effective Date (which is now scheduled to be 30 December 2020), the Lloyd's actuarial team has estimated the rate at which liabilities on Transferring Policies will reduce between the revised Assessment Date and the new Effective Date. My comments on the Reserves attaching to the Transferring Policies as at the new Effective Date are set out in Section 4.

3.2 Review of data

3.2.1 In order to validate the data extraction exercise undertaken by Lloyd's, my team has engaged in walkthroughs of the processes Lloyd's has undertaken to:

- source the Managing Agents' data
- match the Managing Agents' data to the RRD
- apply the Segmentation process to the population of matched data
- validate the final answer.

3.2.2 I have also reviewed the relevant documentation provided by the Lloyd's data team and examined samples of the data files sent to the Managing Agents for their validation. Lloyd's actuarial department has also reviewed the data for internal consistency and the Managing Agents' have provided independent certification that the proposed data submitted to Lloyd's is materially accurate and complete.

3.2.3 I have reviewed the individual data validation and the Segmentation processes at a detailed technical level and find them to be sensible and robust. I have also reviewed the testing carried out by an "arms'-length" team within Lloyd's to check the accuracy of the data extraction exercise and I believe that this testing has been thorough and appropriate. I have reviewed the data extracts sent to the Managing Agents for their certification against their own datasets and find them to be clear, detailed and appropriate.

3.3 Conclusion on data extraction exercise

3.3.1 **Based on the work I have undertaken, and the discussions I have had with representatives and the management of Lloyd's, I have concluded the following:**

- **I agree with the Lloyd's conclusion that the data supplied by the Managing Agents is a more reliable source of data to use, when combined with the RRD, to identify from the total population of policies those Transferring Policies being transferred by this proposed Part VII transfer.**

- **I agree with the revised approach of Lloyd's to use the RRD as the starting point to ascertain the premiums and claims history attaching to the Transferring Policies.**

- **The revision to the original Assessment Date is a sensible change to make as it will reduce the uncertainty associated with the estimate of the transferring insurance liabilities as:**

  - **It uses more up to date information in respect of premiums and claims arising on Transferring Policies.**
  - **The period between the revised Assessment Date and the new Effective Date is substantially reduced compared to the period between original Assessment Date and Effective Date. Therefore, the estimate of the insurance liabilities that will settle, between the revised Assessment Date and the new Effective Date, will be subject to less uncertainty than the previous estimate.**

- **The modification in the Segmentation process used to identify Transferring Policies is required as a consequence of using Managing Agents' data rather than data available to Lloyd's centrally. I have reviewed the modification made to the Segmentation process applied to the Managing Agents' data to identify the Transferring policies and in my opinion, the changes made are reasonable.**

4 Liabilities attaching to Transferring Policies

4.1 Calculation of liabilities

4.1.1 I reported in Section 5.11 of my IE Report that I would need to revisit the calculation of the Transferring Liabilities as the data used for that Report was based on the centrally held data as at 31 December 2018,and the additional data supplied directly by Managing Agents as at 30 September 2019.

4.1.2 For this Supplementary Report, the data used to arrive at the value of the Transferring Liabilities is the Lloyd's centrally held data as at 31 December 2019 and the additional data supplied by the Managing Agents as at 30 June 2020 (non-XIS data only). These dates are collectively the Assessment Date.

4.1.3 The insurance liabilities attaching to the Transferring Policies have been calculated, by the Lloyd's Market Reserving & Capital Team (MRC), as at the Assessment Date. In order to arrive at the liabilities as at the Effective Date, Lloyd's has estimated the rate at which the liabilities on Transferring Policies will reduce between the Assessment Date and 30 December 2020 (the Effective Date), on a class by class basis. The estimate by Lloyd's incorporated actual settlements between 1 January 2020 and 31 May 2020. Some 24%, in aggregate, of the liabilities attaching to the Transferring Policies are expected to be settled from 1 January 2020 to the Effective Date.

4.1.4 The insurance liabilities have been calculated on an individual class of business basis based on 72 business classes. In order to calculate the gross liabilities transferring the Lloyd's actuarial team has used a number of standard actuarial techniques to project both the ultimate premiums and the ultimate claims (net of acquisition costs). The overall approach to the valuation of the Transferring Liabilities is described in Section 5 of my IE Report.

4.2 Transferring Liabilities

4.2.1 Lloyd's best estimate of the insurance liabilities transferring under the proposed Part VII transfer, on a high-level class of business basis is set out in the table below:

Estimated Reserves by High Level Class of Business – Gross of reinsurance Total - All Figures 000s - Converted EUR - by High Level Reserving Class				
	Ultimate Signed Premium	Ultimate Reserves as at Assessment Date	Ultimate Reserves as at the Effective Date	Reserves as % of Total as at the Effective Date
Accident & Health	2,286,652	313,578	222,557	5%
Aviation	4,741,834	263,373	188,096	4%
Casualty FinPro	5,311,617	1,813,771	1,520,679	32%
Casualty Other	4,422,794	1,533,509	1,309,476	27%
Casualty Treaty	372,220	131,183	116,773	2%
Energy	3,383,333	326,270	169,087	4%
Marine	11,454,386	907,400	578,925	12%
Property (D&F)	2,990,065	126,337	59,940	1%
Property Treaty	1,914,995	240,624	191,657	4%
Specialty Other	4,204,818	607,450	407,266	9%
TOTAL	**41,082,716**	**6,263,495**	**4,764,456**	**100%**

4.2.2 A small proportion of the Transferring Liabilities is expected to remain unearned at the Effective Date, leading to a slightly lower earned reserves estimate of €4.49bn at the Effective Date. Including the provision for unallocated loss adjustment expenses (ULAE) of €61m total earned reserves and the unearned premium reserve of €302m are estimated to be €4.9bn at the Effective Date.

4.2.3 For the purposes of my analysis and comments I have considered the Ultimate Reserves of €4.76bn being transferred.

4.2.4 In order to calculate LIC's Solvency Capital Requirement the Ultimate Reserves amount of €6.26bn at the Assessment Date has been used. LIC has then projected this amount forward resulting in best estimate undiscounted Reserves of €4.76bn (as per the table above) at the Effective Date. Under Solvency II valuation rules for Technical Provisions the €4.76bn is discounted, adjusted for the inclusion of an allowance for Events Not In Data (ENID) and a provision for additional expenses leading to projected Technical Provisions included in LIC's Solvency II balance sheet of €4.83bn at 31 December 2020 (refer to Section 5.4.6).

4.3 Approach taken to reviewing the Transferring Liabilities

4.3.1 The approach I have taken to satisfy myself that the revised liabilities calculated by Lloyd's are reasonable is as follows:

- A review of the Chief Actuary's Report dated April 2020 prepared for the Directions Hearing;

- A review of the final draft of the Supplementary Chief Actuary's Report for the Sanction Hearing to understand the changes in methodology and approach adopted by Lloyd's to value the Transferring Liabilities on a gross basis. **I have reviewed the major changes and I believe them to be reasonable.**

4.3.2 I have also selected the following ten classes of business on the basis of materiality of gross written premiums or gross outstanding claims or due to the need for special consideration. These ten classes were selected based on the analysis of change (AOC) summary that Lloyd's provided to me which shows a roll-forward of previously selected assumptions and reserves for the Transferring Liabilities. For these classes, I have reviewed the assumptions and methodology in more detail and reviewed the results of the valuation of the Transferring Liabilities on a gross basis for reasonableness. Details of my selection criteria are as follows:

Class of Business	Rationale for Selection
Marine Hull	Top 5 by gross written premium and gross outstanding claims and large unknown/investigative outstanding claims
Financial Institutions (non-US)	This is a material class that has been relatively stable but is likely to be exposed to any recessionary factors.
Professional Indemnity (non-US)	One of the largest classes by transferring reserves.
Political Risks, Credit & Financial Guarantee	Top 5 by gross written premium
Property CAT XL (Non-US)	This class has the largest transferring RRD reserves for the 2020 underwriting year.
Non-Marine General Liability (non-US direct)	Top 5 by gross outstanding claims
Medical Malpractice (non-US)	Top 5 by gross outstanding claims and potential for latency
Overseas Motor Other	Top 5 by gross outstanding claims and potential for latency

Class of Business	Rationale for Selection
Directors & Officers (US)	Significant developments in the incurred movement
Directors & Officers (Non-US)	Significant developments in the incurred movement

4.3.3 These ten classes represent 64% in value of the overall Transferring Liabilities at the Effective Date.

4.3.4 For each of the above classes, I have undertaken a review of the assumptions and methodology used by Lloyd's to determine the value of the Transferring Liabilities. I have also sense-checked the results for reasonableness as follows:

- The selected development patterns (including benchmarked development patterns)
- The selected Initial Expected Loss Ratio ("IELR") including the Technical Provisions Data returns ("TPD") from the Syndicates and Syndicate Business Forecast ("SBF") loss ratios or other benchmarks used
- The results of the projection of ultimate claims and ultimate premiums
- The projection methods used
- The adjustments made (or lack thereof) for special features, such as for the potential for latent or annuity claims
- The benchmarks used where there are data limitations
- The stability of business mix within the data used to derive development patterns
- The appropriateness of applying methodology and assumptions, derived from analysing Transferring Business, to Unclear business and Non-XIS business
- A comparison of the appropriateness of the valuation of the Transferring Policies as held against the Global market
- The appropriateness of the segmentation of data for projection.

4.3.5 **As a result of my work I have concluded that the methodology and assumptions used by the Chief Actuary of Lloyd's in the calculation of the Transferring Liabilities at the Assessment Date are reasonable.**

4.4 Uncertainties

4.4.1 Lloyd's has identified a number of inherent uncertainties in arriving at their best estimate of the value of the Transferring Liabilities. In order to ascertain the impact these uncertainties may have on the Transferring Liabilities Lloyd's has applied certain stress tests. Details of these uncertainties and results of the application of the stress tests are set out below:

Uncertainty	Stress test applied	Increase in Transferring Liabilities
Part VII data uncertainty	Doubling of Assumed Transferring and Remaining Unknown data from RRD Unclear EEA Indication segment, and doubling of the proportion of Remaining Unknown RRD reserves assumed to transfer	4.7%
Appropriateness of payment pattern for reserve projection between May 2020 and Effective Date	50% reduction in the estimated reserves paid over the first quarter of projection of reserves to Effective Date	4.0%
Uncertainty with 2019 and 2020 premium estimates given change in business mix	Increase in 2019 and 2020 ultimate premium by 20% and 50%	1.5%
Application of RRD projection methods and assumptions to Non-XIS data	Increase in IELR by 50% and pattern tail by 5% for Non-XIS business across all classes and underwriting years	1.0%

Uncertainty	Stress test applied	Increase in Transferring Liabilities
Uncertainty around direct losses resulting from COVID-19 and associated secondary impact of COVID-19 due to a global recession	Increase in COVID-19 loss estimates by 50% and secondary losses due to a global recession following the pandemic assuming a 35% uplift on IELRs for selected classes applied to unearned premium reserve as at 2019 year end	3.1%
Delayed incurred tail factor scenario test	Slow the incurred development pattern by a 5% tail factor	12.4%
Increased Initial Expected Loss Ratios (IELR) scenario test	Increase IELRs across all classes by 10%	4.1%
Increased reserves for back years (2008 and prior underwriting years) scenario test	Increase Incurred but not reported claims (IBNR) to claims outstanding ratios by 50%	0.4%
Increased catastrophe IBNR scenario test	Increase CAT IBNR by 50%	2.2%

Note:

(i) Some of the uncertainties could result in a reduction of the estimate of Transferring Liabilities.

(ii) The uncertainty associated with the COVID-19 pandemic is set out in more detail in Section 4.5.

4.4.2 The table above is not an exhaustive list of the uncertainties relating to the valuation of the Transferring Liabilities, but Lloyd's has selected the above uncertainties as they consider these to have the most material impact on the Transferring Liabilities.

4.4.3 In order to mitigate the potential impact on LIC's solvency requirements both LIC and Lloyd's have agreed that a capital buffer would be appropriate. Further details are set out Sections 4.7.4 to 4.7.7.

4.5 Uncertainty relating to the COVID-19 pandemic

4.5.1 Insurance claims arising from the COVID-19 pandemic will result in a significant loss for the insurance industry and will impact both the Lloyd's market and the insurance liabilities attaching to the Transferring Policies. The insurable losses from COVID-19 will arise on policies on risk at the time the pandemic arose, i.e. early 2020. This will impact mainly on insurance policies still on risk incepting in the calendar years 2019 and 2020. Multiyear policies written prior to 1 January 2019 and still on risk in 2020 will also respond to losses arising from the COVID-19 pandemic.

4.5.2 For Transferring Policies, the COVID-19 claims will arise from the following three sources:

- Policies written by those coverholders who were not able to set up procedures in time to write EEA business through LIC with an inception date in 2019. Lloyd's granted an extension to allow some 300 coverholders to continue to write EEA business during the early part of 2019. The last such extension expired on 12 April 2019.

- Any multiyear policies written prior to 1 January 2019 which were still on risk in 2020. Based on my review of the loss development patterns extracted from the RRD, **I am of the opinion that multiyear policies are not significant to the classes of business that are impacted by COVID-19 losses.**

- Transferring German reinsurance business which members continue to underwrite in 2020.

4.5.3 **Therefore, in my opinion, the impact of COVID-19 insurance related claims on Transferring Policies will be limited in number, particularly as 94% of the Transferring liabilities relate to policies written prior to 2019**.

4.5.4 In order to assess the impact of COVID-19 losses on the Lloyd's market, all Lloyd's Managing Agents were requested to provide an estimate of their ultimate liability to COVID-19 related claims for all Syndicates under their management. The Managing Agents were requested to provide details of their estimated loss on a gross and net basis (i.e. after estimated recoveries from their reinsurers). Managing Agents were requested by Lloyd's to base their initial assessment on the assumption that the restrictions due to COVID-19 would end on 30 June 2020. Subsequent to this initial assessment Managing Agents have updated their estimate of the losses from COVID-19, for the syndicates under their management, as at 30 June 2020.

4.5.5 Further the Managing Agents were requested to analyse their initial loss estimate by geographical regions (one of which was Europe), year of account and classes of business. The Europe region will include countries outside the jurisdiction of the EEA regulators and includes policies directly written by LIC in 2019 and 2020.

4.5.6 Where the potential loss extended across more than one of the geographical regions, specified by Lloyd's, the loss was captured within a "worldwide" region. This category was then re-allocated to the European and non-European region based on the proportion of the gross loss allocated originally to those regions.

4.5.7 The gross expected percentage loss split by underwriting year, estimated by Managing Agents as at 30 June 2020, was as follows:

Underwriting Year	**%**
2018	14.74
2019	59.12
2020	26.14
	100.00

The bulk of the Lloyd's market loss (approximately 85%) arises on the 2019 and 2020 years. However as stated earlier some 94% of the Reserves transferring relate to policies that incepted prior to 1 January 2019. **In my view this shows the impact of the COVID-19 loss on the liabilities attaching to the Transferring Policies will not only be limited in number but also in quantum.**

4.5.8 Lloyd's has based their estimate of the COVID-19 liabilities relating to the Transferring Policies on the Manging Agents initial estimate of the loss falling within the European region after allowing for an element of the loss analysed to the worldwide region as explained above. The initial estimate of the liabilities was split between Transferring and non-Transferring Policies using a mixture of unearned and ultimate premiums. This initial estimate was then scaled up to reflect the increase in the Managing Agents estimate of the COVID-19 loss as at 30 June 2020. In order to carry out this exercise the ultimate premium for policies incepting in 2020 was all considered to be unearned.

4.5.9 The impact of COVID-19 on LIC from the Transferring Policies will be mitigated by the 100% quota share reinsurance (“QS Reinsurance Contracts”) entered into between LIC and Lloyd’s. This will result in the economic liabilities of COVID-19 related claims being ultimately borne by those Members who originally wrote the underlying policies giving rise to those liabilities, or subsequently assumed those liabilities through the Reinsurance to Close process. **Therefore, I have concluded that there will be no material adverse effect on the Transferring Policyholders as a result of claims arising from COVID-19.** The COVID-19 loss will impact on LIC’s solvency requirements as any increase in the gross Transferring Liabilities will increase LIC’s counterparty risk. However, based on the current and plausible future impact of the COVID-19 loss effecting the Lloyd’s market, only 3% of the estimated gross loss is expected to impact the Transferring Policies. **Therefore, in my opinion, even a significant increase of 50% in the COVID-19 Lloyd’s market loss will not material adversely affect LIC’s Solvency Ratio. In any event the results of any such increase will be mitigated by the additional capital injection of €40m made available to LIC by Lloyd’s to cover uncertainties associated with calculating the insurance liabilities attaching to the Transferring Policies** (See Sections 4.7.4 to 4.7.7).

4.5.10 The impact of COVID-19 on the Lloyd’s market is set out in Section 5.2.

4.6 Review of Quarter 3 2020 data

4.6.1 Lloyd’s has undertaken an exercise to review the value of liabilities attaching to Transferring Policies based on the latest available information. The following areas were reviewed by Lloyd’s:

- A review of the data segmentation as at 30 September 2020 following revisions to the draft Master List.
- A review of the recent experience of premiums and claims attaching to the Transferring Policies as at 30 September 2020.

- The aggregate value of liabilities attaching to the Transferring Polices, which have been paid during the three month period ended 30 September 2020.
- The movement of foreign exchange rates between the Assessment Date and 30 September 2020.
- The latest Managing Agents estimates of the COVID-19 loss impacting the syndicates under their management.
- The latest market information on major claims events that may impact the value of Transferring Liabilities.

4.6.2 Based on their review, Lloyd's has concluded that their estimate of the Ultimate Claims liabilities attaching to the Transferring Policies calculated at the Assessment Date and the Transferring Policies calculated as at the Effective Date do not require adjustment in light of the developments since the calculation was completed.

4.6.3 **I have reviewed the above exercise that Lloyd's has undertaken, and based on my review I concur with the Lloyd's conclusion that the Transferring Liabilities calculated at the Assessment Date and the Transferring Liabilities calculated as at the Effective Date do not require adjustment as a result of the data as at 30 September 2020, which is the most up to date data available to Lloyd's.**

4.7 LIC's own review of the liabilities

4.7.1 LIC's actuarial team has carried out an independent review of certain parts of the valuation of the Transferring Liabilities. Their own high-level analysis indicated a best estimate value of the Transferring Liabilities €216m (4.5%) lower than that calculated by the Lloyd's MRC team, driven by an alternative valuation approach (see below). In addition to this Lloyd's MRC have included in their valuation specific IBNR provided by the Syndicates and additional amounts relating to the Unclear Data of the Reserves totalling €241m (refer to 4.7.2.1 and 4.7.2.2). LIC has also concluded that there remained significant uncertainties in calculating the value of the Transferring Liabilities.

4.7.2 The key drivers of why Lloyd's estimate of the Transferring Liabilities is higher than LIC's estimate are as follows:

4.7.2.1 Specific IBNR's of €138m provided to the Lloyd's MRC team by the Syndicates which has not been included by LIC;

4.7.2.2 Lloyd's has included an additional reserve of €103m relating to the Unclear Data arising from the Segmentation process, including €26m of IBNR relating to this element, which has not been included by LIC;

4.7.2.3 €186m due primarily to the difference in the ultimate claims estimate of the RRD transferring segment; and

4.7.2.4 €30m due to the uncertainty in the payment projection from the Assessment Date to the Effective Date.

4.7.3 This review was not meant by LIC to be used for the actual valuation of the Transferring Liabilities but provides assurance that the MRC valuation of the calculation is acceptable to LIC. Overall the MRC valuation being higher by €457m and used for the Transferring Reserve valuation is considered reasonable by LIC as €241m of the difference is driven by elements not included in the LIC calculation, and the remaining difference of €216m is driven by an alternative valuation approach and projection.

4.7.4 In arriving at their own estimate of the Reserves LIC identified their own uncertainties surrounding their independent calculation of the Transferring Liabilities. In order to mitigate against these uncertainties Lloyd's has provided LIC with a capital buffer which means that LIC's solvency position should be strong enough to support the proposed Part VII transfer even if there was a relatively significant deterioration in the estimate of the Transferring Liabilities.

4.7.5 To estimate the volatility in the Transferring Liabilities, LIC and Lloyd's agreed on certain scenario tests to determine a possible upper limit to the capital buffer. The four tests related to:

- Payment patterns. Lloyd's has modelled a 50% reduction in the estimated reserves paid in the period from the Assessment Date to the Effective Date which leads to a 4.0% increase in the Transferring Liabilities.

- Unclear Transferring Status. Lloyd's has modelled a doubling of Assumed Transferring and Remaining Unknown Data from RRD Unclear EEA Indication element of the Segmentation process, and a doubling of the proportion of Remaining Unknown Data assumed to transfer which leads to a 4.7% increase in the Transferring Liabilities.

- Ultimate Claims Projection. LIC has selected the 70th percentile of the reserve distribution as an estimate of a reasonable worst case scenario. The 70th percentile of the distribution indicates an increase in the Transferring Liabilities of 9.5%.

- Foreign Exchange Risk. LIC has assumed that there is a deterioration of 5% in the Euro in comparison to the 31 December 2019 rate, against all other currencies by 30 December 2020. The impact on the Transferring Liabilities is an increase of 1.7%.

4.7.6 Lloyd's and LIC have assumed that correlation between the above events is expected to be minimal. Accordingly, LIC and Lloyd's have agreed to apply a diversification credit to the aggregate result of the above scenarios. This credit has been calculated by taking the square root of the sum of the squares of the increase in the Transferring Liabilities resulting from applying the above scenarios.

Uncertainty Scenario	Increase in Transferring Liabilities %	Increase in Transferring Liabilities €m
Payment Patterns	4.0	191
Unclear Data	4.7	224
Ultimate Claims Projection	9.5	453
Foreign Exchange Risk	1.7	81
Combined Scenario (assuming independence)	**11.4**	**545**

4.7.7 The capital injection into LIC to support the proposed Part VII transfer has been calibrated to incorporate the impact of these uncertainties on the Transferring Liabilities and ensure a Solvency Ratio above the risk appetite of 125% is maintained. As a result, the capital injection into LIC is €40m higher due to this uncertainty buffer.

4.8 Results of my review of the Transferring Liabilities

4.8.1 **The approach used by the Chief Actuary of Lloyd's to determine the best estimate Reserves as described in the Supplementary Chief Actuary's report are appropriate and consistent with market practice. Standard techniques have been consistently applied and where they are likely to be unsuitable, alternative approaches have been adopted.**

4.9 Conclusions

4.9.1 Transferring Policyholders

4.9.1.1 I have concluded that an appropriate level of Reserves has been calculated in respect of the Transferring Policies and the Transferring Policyholders will not be materially adversely affected by the reserving aspects of the proposed Part VII transfer.

4.9.1.2 I have also concluded the overall reserving approach used by the Chief Actuary of Lloyd's to determine the best estimate Reserves is reasonable.

4.9.2 Non-Transferring Policyholders

4.9.2.1 I have concluded that the non-Transferring Policyholders will not be materially adversely affected by the Reserving aspects of the proposed Part VII transfer.

4.9.2.2 I have reached this conclusion for the following reasons:

4.9.2.2.1 The reserving process to assess the value of Reserves for the non-Transferring Policyholders will be unchanged following the Transfer;

4.9.2.2.2 The economic effect of the Transferring insurance liabilities will be fully reinsured back to Lloyd's Syndicates from LIC under the 100% QS Reinsurance Contracts. The only impact of this is to change the insurance type from direct (or reinsurance business) to reinsurance (or retrocession) business underwritten

4.9.2.2.3 Overall, the risk profile of the Lloyd's Syndicates, individually and the market in aggregate, for the non-Transferring Policyholders, remains unchanged.

5 Capital

5.1 The Lloyd's Internal Model

5.1.1 As outlined in Section 6.2 of my IE Report Lloyd's uses an approved internal model to calculate its regulatory solvency requirements.

5.1.2 The Lloyd's Internal Model ("LIM") is a purpose built model designed to address all the types of risk that the Syndicates and Lloyd's are exposed to through the business written. It also addresses the assets and liabilities of the Syndicates and their aggregation and link to Lloyd's. This is used to calculate the SCR for the Lloyd's Market as a whole.

5.1.3 As at 31 December 2019 Lloyd's had a Market Wide SCR (MWSCR) Solvency Ratio of 156% and a Central SCR (CSCR) Solvency Ratio of 238% and for 30 June 2020 the Market Wide Solvency Ratio was 155% and the Central Solvency Ratio was 250%. The Market Wide Solvency Ratio and the Central Solvency Ratio noted above were based on Lloyd's audited financial statements as at 31 December 2019 and on its interim financial statements as at 30 June 2020 which was subject to a limited assurance report from its auditors. Lloyd's has however identified that it should make an adjustment to allow for the current economic conditions and the impact the COVID-19 pandemic has had on the corporate bonds spread and equity valuations. Lloyd's are of the opinion that this will lead to reduced future investment returns and this results in a significantly greater market risk capital charge in its SCR. Therefore, Lloyd's decided to change its MWSCR and CSCR, as calculated by the LIM, to recognise this higher risk. Two adjustments (Capital Add-ons) were made to the LIM, one to the MWSCR and the other to the CSCR. These were approved by the PRA on 26 August 2020. These Capital Add-ons only come into effect when approved by the PRA. They are required to remain in place until their removal by the PRA. Had these Capital Add-ons been applied retrospectively it would reduce the 30 June 2020 Market Wide Solvency Ratio by 11% and Central Solvency Ratio by 50% to 144% and 200% respectively. The above Solvency Ratios are both compliant with a risk appetite of at least 125% for Market Wide Solvency Ratio and 200% for the Central Solvency Ratio.

5.1.4 The revised pro-forma Solvency Ratio as at 30 June 2020, as if the Capital Add-on had been applied retrospectively, was then used to project forward the solvency results to the Effective Date. Initially, as part of the Scheme, there will be a capital injection to LIC from the Central Fund of €253m, of which €46m is to cater for future underwriting and €207m is to support the proposed Part VII transfer, and a provision of a Letter of Credit facility of €200m. The provision of a Letter of Credit will not reduce the capital available to the Central Fund as although the Letter of Credit is a contingent liability for Lloyd's it is not material as the expected present value of the contingent liability is estimated to be less than £1m. The table below shows the pro-forma MWSCR and CSCR following the capital injection in October 2020:

October 2020	MWSCR £bn A	CSCR £bn B
Pre capital injection to LIC but after adjustment to LIM		
SCR	**20.0**	**2.0**
Available capital	28.7	4.0
Solvency surplus	8.7	2.0
Solvency Ratio (Available capital/SCR as %)	144%	200%
Impact of capital injection to LIC		
SCR	**0**	**0**
Available capital	-0.2	-0.2
Solvency surplus	-0.2	-0.2
Post capital injection to LIC		
SCR	**20.0**	**2.0**
Available capital	28.5	3.8
Solvency surplus	8.5	1.8
Solvency Ratio	**143%**	**188%**
Change in Solvency Ratio	**-1%**	**-12%**
Lloyd's risk appetite	**125%**	**200%**

Note that €253m capital injection has been converted to £230m in the table above.

5.1.5 As shown in column B of the table above, the October 2020 capital injection from Lloyd's to LIC has led to a small reduction to Lloyd's Market Wide Solvency Ratio of 1% but a temporary depression to Lloyd's Central Solvency Ratio to 188%, below its risk appetite of 200% although still well above the minimum regulatory requirement of 100%.

5.1.6 Lloyd's has or intends to carry out the following mitigating actions to decrease the MWSCR and the CSCR or increase the available capital:

- Lloyd's has de-risked the Central Fund assets which has the effect of decreasing the SCR (by approximately 4%); and

- Lloyd's will collect further Tier 1 capital in the form of syndicate loans to bring the eligible Central assets for solvency back from £3.8bn post the October capital injection to £4.0bn.

5.1.7 As shown in the table below, following the mitigating actions Lloyd's Market Wide Solvency Ratio and Central Solvency Ratio increase to 144% and 207% at 31 December 2020.

5.1.8 The table below shows the pro-forma MWSCR and CSCR before and after the proposed Part VII transfer (including the capital injection to LIC and the mitigating actions outlined in Section 5.1.6) as at 31 December 2020:

31 December 2020	MWSCR £bn A	CSCR £bn B
Pre transfer and after mitigating actions		
SCR	**20.0**	**1.9**
Available capital	28.9	4.2
Solvency surplus	8.9	2.3
Solvency ratio (Available capital/SCR as %)	145%	219%
Impact of capital injection to LIC		
SCR	**0**	**0**
Available capital	-0.2	-0.2
Solvency surplus	-0.2	-0.2

31 December 2020	MWSCR £bn A	CSCR £bn B
Post transfer		
SCR	**20.0**	**1.9**
Available capital	28.7	4.0
Solvency surplus	8.7	2.1
Solvency ratio	**144%**	**207%**
Change in Solvency ratio	**-1%**	**-12%**
Lloyd's risk appetite	**125%**	**200%**

5.1.9 There is no impact on the gross or net claims Reserves, as the gross liabilities attaching to the Transferring Policies are replaced, on a like for like basis, with liabilities under the QS Reinsurance Contracts with LIC.

5.1.10 The estimated scale of the ultimate claims Reserves that are being transferred to LIC is €4.76bn which on a net basis reduces to nil after taking into account the 100% QS Reinsurance Contracts which economically transfers the gross liabilities back to the Members.

5.1.11 The reduction of 1% in the Market Wide Solvency Ratio, column A of the above table, as a result of the transfer is due to the capital injection of €253m into LIC. At 144% the revised Solvency Ratio is still well above Lloyd's risk appetite of 125% for the Market Wide Solvency Ratio. The future projections by Lloyd's show the ratio remaining steady into 2021 and 2022.

5.1.12 For the CSCR (column B) there is a 12% decrease in its Solvency Ratio to 207%. This reduction also arises as a result of transferring €253m of capital, from the Central Fund, to LIC in order to maintain LIC's Solvency Ratio following the transfer of liabilities to LIC. Even after this reduction, the Central Solvency Ratio is above the Lloyd's risk appetite of 200% as set out in their latest ORSA. After this the Central Solvency Ratio is forecast by Lloyd's to increase to 215% and 224% for December 2021 and 2022 respectively.

5.2 Impact of COVID-19 on the Lloyd's market

5.2.1 Lloyd's latest estimate of the impact on the Lloyd's Market of the COVID-19 pandemic is consistent with the earlier forecast mid-range net underwriting loss of around £3.0bn on the basis of a large amount of global businesses being shut-down until around 30 June 2020. However, there remains uncertainty about how much ultimate liability will arise in respect of disputed coverage relating to certain types of business such as business interruption coverage within some property policies. This level of loss, as currently estimated, is similar to the underwriting losses Lloyd's incurred in 2017 from the Harvey, Irma and Maria hurricanes.

5.2.2 Initially the major impact of COVID-19 was on the value of investments held at the time the pandemic came to light. Since then the investment values have mainly recovered but longer term the returns on these investments are likely to be supressed. Lloyd's has recognised this increased risk by modifying its LIM as explained above.

5.2.3 Lloyd's has obtained the latest available projections of the Syndicates' estimates of ultimate losses arising from the COVID-19 pandemic (i.e. as at the 30 September 2020) and based on the information received from the Syndicates there has been no material deterioration in the Syndicates' estimate of the ultimate projected losses since 30 June 2020.

5.2.4 As set out in section 9.1.7 of my IE Report:

"The impact on the Lloyd's market of COVID-19 is much more difficult to assess at this early stage. Much will depend how the loss develops over the next 12 months. There are several significant unknowns which cannot be quantified, at this stage, with any degree of accuracy including the following:

- The impact, if any, on the Central Fund of underwriting losses arising from COVID-19
- The appetite of the Members to continue to underwrite in 2021 and beyond given the COVID-19 loss and any losses they experience outside the Lloyd's market
- The appetite for new investors to enter the Lloyd's market or to replace any Members which cease to underwrite in 2021 (Members are already committed for the rest of 2020)."

5.2.5 **There is still significant uncertainty surrounding the potential impact of COVID-19 on the Lloyd's Market. However the uncertainty referred to above has somewhat reduced for the following reasons:**

- A larger percentage of the losses arising from COVID-19 will have been reported to the Syndicates than at the time my IE Report was completed. This will result in Syndicates having more data on which to project their ultimate loss arising from COVID-19. Therefore their current projected COVID-19 ultimate losses are less uncertain.

- The latest two syndicate Capacity Auctions for 2020 indicate that there is still a significant appetite for Members to underwrite in 2021.

- The projected Members' funds to meet losses, as set out in Section 5.1.8, are £28.7bn and the Central Fund assets are projected to be £4.0bn. Accordingly, in my opinion, both the Members and Lloyd's centrally have significant assets available to meet any plausible future deterioration in the estimate of the COVID-19 projected ultimate loss.

5.2.6 Although the projected underwriting loss from COVID-19 is a significant loss to the Lloyd's Market it is comparable in size to previous losses suffered by the Lloyd's Market. **Lloyd's has an established history of being able to cope with similar losses in the past and therefore, based on my experience and knowledge of the market, I have concluded that Lloyd's will be able to cope with a loss of this magnitude.**

5.3 Impact of Capital Injection

5.3.1 Following the capital injection into LIC to support the proposed Part VII transfer, and before any mitigating actions, the Central Fund is projected to still have assets of £3.8bn and the MWSCR and the CSCR are projected to remain in excess of the minimum required under the Solvency II regulations. **Therefore, in my opinion, Members through a combination of their own resources and recourse to the Central Fund if needed are likely to be able to meet their obligations under their QS Reinsurance Contracts with LIC. Further, I have concluded that Lloyd's will be able to meet Members liabilities to LIC, to pay valid claims, should Members own funds not be sufficient to meet those liabilities in full**. Accordingly, the views I have expressed in my IE report have not changed as result of the funding made available to LIC to fund the proposed Part VII transfer.

5.4 LIC Balance Sheet

5.4.1 LIC has prepared updated Solvency Capital calculations to assess the effects of the proposed Part VII transfer on its solvency position. The overall intention is that there should be no material change in LIC's Solvency Ratio. Lloyd's has increased LIC's Own Funds in order to mitigate against any adverse impact on LICs Solvency II capital requirement as a results of the proposed Part VII transfer.

5.4.2 LIC's starting point to project the impact of the proposed Part VII transfer was the audited Solvency and Financial Condition Report for the year end 31 December 2019. The balance sheet included within this report has been projected to 31 December 2022. The table below presents LIC's assets and liabilities on a Solvency II basis for the period ends 31 December 2019 to 31 December 2022 excluding the proposed Part VII transfer:

LIC Balance Sheet (excluding Part VII transfer)	31/12/2019 €m	31/12/2020 €m	31/12/2021 €m	31/12/2022 €m
Investments	249	295	351	380
Reinsurers' share Technical Provisions	1,281	2,601	3,614	4,400
Insurance/reinsurance receivables	837	1,603	1,603	1,603
Cash & cash equivalents	47	43	65	97
Deferred tax asset	18	13	15	18
Other assets	1	1	1	1
Total assets	**2,433**	**4,556**	**5,649**	**6,499**
Technical Provisions - best estimate	1,305	2,604	3,624	4,415
Technical Provisions- risk margin	31	61	73	84
Payables	830	1,567	1,567	1,567
Other liabilities	21	22	22	22
Total liabilities	**2,187**	**4,254**	**5,286**	**6,088**
Own funds (net assets)	**246**	**302**	**363**	**411**

5.4.3 The main increase in own funds and investments for 2020 in the table above is a €46m capital injection. Further capital injections totalling €85m are projected in 2021 and 2022 to cater for future underwriting should the proposed Part VII transfer not occur.

5.4.4 The significant investment assets, at 31 December 2019, consist of 65% sovereign bonds and 35% corporate bonds. The rating of these investment portfolios was AAA 19%, AA 41%, A 19% and BBB 21%. LIC is expected to retain a similar ratio of assets and security for future years.

5.4.5 Reinsurers' share of Technical Provision, which reflects the QS Reinsurance Contracts between syndicates and LIC for LIC's ongoing business, will increase or decrease in line with any increase or decrease in LIC's assessment of its Technical Provisions.

5.4.6 Following the capital injection of €46m to support LIC's ongoing business outlined in Section 5.4.3 above, LIC has estimated the following impact on its balance sheet as at 31 December 2020 as a result of the proposed Part VII transfer:

LIC Balance Sheet	Before Transfer €m	After Transfer €m	Movement €m
Investments	295	502	207
Reinsurers' share Technical Provisions	2,601	7,183	4,582
Insurance/reinsurance receivables	1,603	1,604	1
Cash & cash equivalents	43	261	218
Deferred tax asset	13	31	18
Other assets	1	1	0
Total assets	**4,556**	**9,582**	**5,026**
Technical Provisions - best estimate	2,604	7,433	4,829
Technical Provisions- risk margin	61	120	59
Payables	1,567	1,568	1
Other liabilities	22	22	0
Total liabilities	**4,254**	**9,143**	**4,889**
Own funds (net assets)	**302**	**439**	**137**
Ancillary own funds from Letter of Credit	**0**	**200**	**200**

Note the Before Transfer balances in the table above includes the €46m capital injection required in 2020 as outlined in Section 5.4.3.

5.4.7 The above table also highlights that there is an increase in Technical Provisions – best estimate of €4,829m as a result of the proposed Part VII transfer and a risk margin of €59m. These liabilities are reinsured back to Lloyd's syndicates hence the €4,582m increase in the reinsurers' share of the Technical Provisions; this is net of the €218m paid into the settlement accounts from the Syndicates as referred to in Section 5.4.8 below. The €4,829m represents the best estimate of the Technical Provisions of €4,805m and an additional expense provision other than for direct claims fees of €24m as required under Solvency II as at 31 December 2020.

5.4.8 The increase of €207m for investments reflects the capital injection to increase LIC's Tier 1 capital as calculated under the Solvency II rules in respect of the proposed Part VII transfer. The €218m increase in cash is from the receipt of funds from the Syndicates into their Part VII settlement accounts in LIC to fund the claims payments. The receivables and payables remain unchanged as they only relate to the incepting business in 2020 and post.

5.4.9 One significant change since my IE Report is that Lloyd's has provided an irrevocable ancillary own funds standby Letter of Credit of €200m to LIC instead of Tier 1 capital to meet the Solvency Capital requirements. Further information regarding the provision of this Letter of Credit to LIC by Lloyd's is given in Section 5.6.4. Note also the own funds requirement has increased by €104m of which €61m relates to the current ongoing business of LIC. The majority of the remaining increase relates to an uncertainty buffer of €40m (refer to Section 4.7.7). Since my IE report the Technical Provisions attaching to the proposed Part VII transfer have increased by €457m from the original estimate of €4,372m mainly driven by the following:

- Specific IBNR information of €164m in respect of the Transferring Liabilities has been provided by the Managing Agents;

- An explicit allowance for losses related to COVID-19 of €124m which has been derived based on the global loss estimates estimated by the Managing Agents (refer to Section 4.5); and

- Changes in methodologies and assumptions in the reserving process as a result of the availability of more recent data of €169m.

5.4.10 Following the capital injection and Letter of Credit provided to LIC, LIC's projections show that no further capital is required over the period of the projections which end on 31 December 2022.

5.5 Review of the solvency calculations for LIC after the proposed Part VII transfer

5.5.1 In order to calculate its solvency requirement, LIC uses the standard formula.

5.5.2 The board of LIC has modelled the company's solvency position based on the forecast profit and loss and balance sheets to 31 December 2022. The result of their modelling is set out below:

LIC Solvency	2020 €m	2021 €m	2022 €m
Market risk	20	20	20
Underwriting risk	12	11	11
Counterparty default	357	350	350
Operational risk	111	108	108
Diversification	-21	-20	-20
Total SCR	**479**	**469**	**469**
Own funds	**439**	**460**	**491**
Ancillary own funds from Letter of Credit	**200**	**200**	**200**
Solvency Ratio	**133%**	**141%**	**147%**
Target Ratio	**125%**	**125%**	**125%**

5.5.3 The most significant change in the solvency capital requirement from before the proposed Part VII transfer arises on the assessment of counterparty risk. Counterparty risk is the risk of a counterparty not settling amounts fully when due. The increase is due to the additional gross liabilities transferred to LIC under the proposed Part VII transfer and the recoverability of those liabilities from the Members under the QS Reinsurance Agreement.

5.5.4 In arriving at the above Solvency Ratio of 133% LIC has incorporated the capital buffer of €40m which was included within the capital injections made by Lloyds on 9 October 2020. The projected Solvency Ratios are estimated to be above the target Solvency Ratio of 125% for at least the period to 31 December 2022.

5.5.5 **The capital injection by Lloyd's of €207m, to support the proposed Part VII transfer, and the provision of Ancillary own funds from a Letter of Credit of €200m will, in my view, cater for any currently reasonably foreseeable underestimation in the calculation of insurance liabilities being transferred to LIC. In arriving at the above opinion, I have also considered Lloyd's current intention to provide enough funding to LIC to enable it to operate and meet its Solvency Capital Requirement going forward.**

5.6 Capital injection

5.6.1 Prior to the transfer of the Transferring Policies to LIC, LIC will enter into a series of 100% QS Reinsurance Contracts with Syndicates, whereby the insurance liabilities attaching to the Transferring Policies will be fully reinsured back to the Members of those Syndicates. The net effect of the QS Reinsurance Contract is that the economic effect of the transferred EEA business will be passed back to the Members that originally underwrote the policies or assumed the liabilities through the Reinsurance to Close process.

5.6.2 Although, the net effect of the QS Reinsurance Contract is that the net liabilities transferred to LIC are zero, LIC's balance sheet, immediately after the Effective Date, will show gross Technical Provisions of €7.4 billion and an asset of the same amount (net of the €218m paid into the settlement accounts from the Syndicates as referred to in Section 5.4.8 above and an allowance for reinsurance bad debt) which represents the recoveries from syndicates under the QS Reinsurance Contracts. This asset, under the Solvency Regulations, will be subject to a solvency charge of €357 million to reflect the counterparty risk. This is the risk of a counterparty (in this case the Members) not settling amounts fully when due. This risk is calculated formulaically under the Solvency II regulations.

5.6.3 In order to counter to the above risk, Lloyd's has, on 9 October 2020, made a capital injection to LIC of €253m and has arranged with Barclays Bank plc / Barclays Bank Ireland plc an irrevocable Letter of Credit (LOC) to the benefit of LIC of €200m. The cash injection was in return for the issue by LIC of non-preferential shares to Lloyd's and to Lloyd's Finance Company Limited (a wholly owned subsidiary of Lloyd's) in line with LIC's existing shareholdings.

5.6.4 The LOC is effective on 3 November 2020 and will expire on 3 November 2025. LIC has received approval from the NBB that the LOC can be used to support the capital requirement of LIC under the Solvency II regulations. Lloyd's has entered into an agreement with the issuer of the LOC to indemnify them against any demands made by LIC under the LOC.

5.6.5 **I have reviewed the documentation surrounding both the cash injections and the issue of the LOC and I am satisfied that both have been correctly issued. I have also reviewed the correspondence from the NBB in connection with the LOC and I have satisfied myself that the LOC can be used to support LIC's capital requirements.**

5.6.6 The LOC is due to expire on 3 November 2025 and therefore I have requested the management of LIC to project their solvency requirements to 31 December 2025 with and without the Part VII transfer in order to assess whether further funding will be required specifically to support the counter party risk associated with the proposed Part VII transfer. LIC's management estimates that approximately 70% of the transferred insurance liabilities will settle by this date. **I have reviewed the settlement patterns associated with the Transferring Liabilities and I have concluded that 70% settlement of liabilities is a reasonable estimate.**

5.6.7 Based on the above 70% settlement assumption, LIC's projections show that €10m of the €200m Letter of Credit will still be required at the date of the Letter of Credit is due to be released in order for it to meet its 125% Solvency Ratio Target. In view of this, Lloyd's has confirmed that they will provide LIC with sufficient funding to meet its Solvency Ratio target when the Letter of Credit expires. Lloyd's has reserved the right to review the way that any capital is provided to LIC in order to provide the capital in the most efficient manner.

5.7 LIC's exposure to potential future risks

5.7.1 As set out at Section 7.5 in my IE Report the board of LIC, in their latest available ORSA, carried out the following stress tests on its solvency capital requirement and Solvency Ratios following the proposed Part VII transfer:

- Decrease in gross premium written
- Increase in expenses (including Part VII expenses)
- Increase in exchange rate
- GDPR breach fine
- Rating down grade of the Lloyd's market to BBB.

5.7.2 The above risks together with the risk of the liabilities attaching to the proposed Part VII transfer proving to be under reserved have been recalculated by my team for this Supplementary Report, excluding the zero-diversification credit scenario which would require a change in the EIOPA's regulations and which is now considered highly unlikely to occur and will not be included in LICs next ORSA. The results of this exercise are set out below:

Scenarios	2020	2021	2022	2023
Risk appetite minimum SCR ratio	125%	125%	125%	125%
Risk tolerance minimum SCR ratio	115%	115%	115%	115%
Baseline Pillar I	133%	141%	147%	153%
30% decrease in gross written premium	143%	158%	170%	178%
30% increase in expenses (incl. Part VII)	128%	134%	139%	143%
25% exchange increase against Euro	122%	130%	137%	143%
€1bn extra claims (incl. €0.5bn Part VII)	119%	125%	131%	137%
€20m GDPR breach fine	130%	138%	144%	150%
Rating downgrade for Lloyd's to BBB	57%	61%	64%	67%

5.7.3 The above table shows that in most of the scenarios, highlighted in green, LIC's solvency ratio remains above the minimum SCR and the risk appetite. In the scenario highlighted in yellow the Solvency Ratio is still above the minimum SCR but below the risk appetite. The scenarios where LIC falls below the minimum SCR requirement are in red and solely relate to a ratings downgrade for Lloyd's to BBB, which I consider to be highly unlikely and was discussed in detail in my IE Report at Section 7.5.

5.7.4 The €1bn extra claims scenario assumes that the liabilities transferred under the proposed Part VII transfer are understated by €0.5bn and that a further €0.5bn reserve deterioration following a significant EEA catastrophic loss in 2020. The result of this combined €1bn impact scenario is a drop below the risk appetite level for 2020 but this then improves to a Solvency Ratio back above this level from 2021. This is also the case in respect of 25% increase of all currencies against the Euro which was used to assess the sensitivity of the liabilities transferred under the proposed Part VII transfer to foreign exchange rates.

5.7.5 As can be seen from the above table the proposed Part VII transfer potentially increases the risk for LIC in many scenarios. **However, there is no major solvency impact created by any of the stress scenarios modelled by LIC that I considered likely. The greatest impact, although I consider it to be unlikely, is that arising from a downgrading of Lloyd's credit risk.**

5.7.6 In my IE report I concluded that "***in my opinion, ultimately whether a Policyholder's valid claim is met will depend on the strength of Lloyd's Central Fund rather than a downgrade in Lloyd's credit***

risk. Lloyd's modelling shows that it would need a Lloyd's market wide loss of £20.2bn which the LIM predicts to be equivalent to a 1 in 450 years event (see section 6.4.16) for the Central Fund to come under significant pressure. Although should the Central Fund come under pressure as a result of the matters set out in paragraph 6.4.16, this would likely lead to a downgrade of Lloyd's credit rating. Should the proposed Part VII transfer not occur and the Lloyd's market suffer a future loss as set out above the Transferring Policyholders would still face the impact of a depleted Central Fund. Accordingly, the Transferring Policyholder's ability to recover any claim from the Central Fund in the event of such a loss would be no worse off than before the proposed Part VII transfer."

5.7.7 My view, arrived at the time my IE report was completed, has not changed as result of the additional analysis I have undertaken in the preparation of this supplementary report.

6 Lloyd's Insurance Company S.A.

6.1 LIC's Operating Model

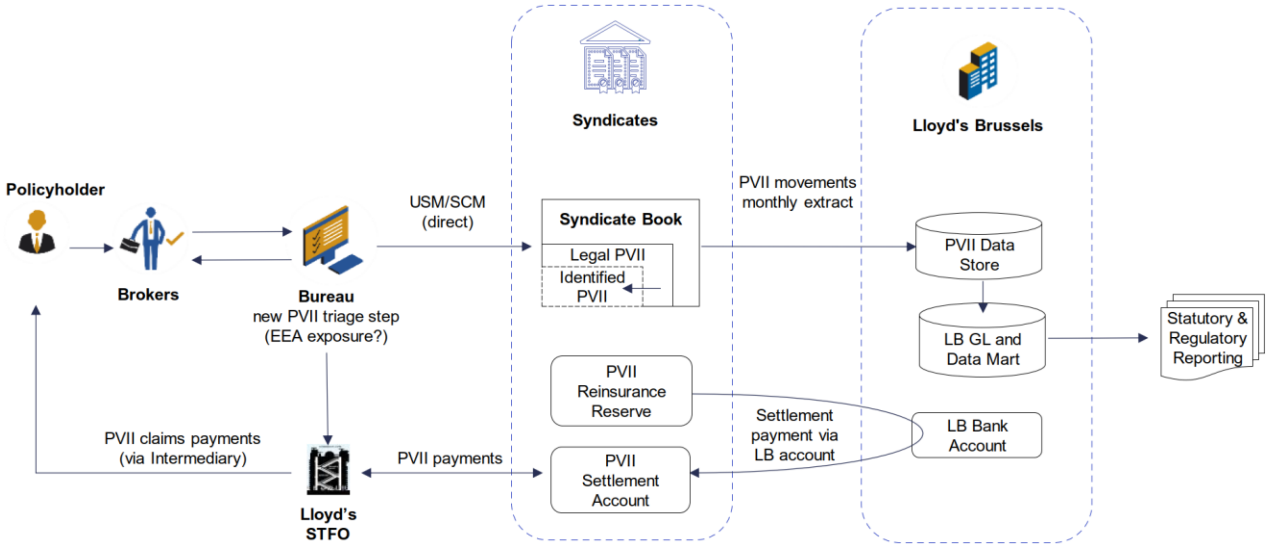
6.1.1 LIC is authorised in Belgium and regulated by the National Bank of Belgium (NBB) together with the Belgium Financial Services and Market Authority. LIC was established by Lloyd's to allow EEA Policyholders continued access to Lloyd's market expertise in a manner compliant with EU regulation post Brexit. LIC was authorised to write new insurance business incepting from 1 January 2019.

6.1.2 In my IE report I indicated that the detailed systems relating to the handling of the Part VII book of business were still under development but that the principles underlying the design of the operational framework were well advanced and that I would review the progress made by Lloyd's, LIC and the Lloyd's market for this Supplementary Report.

6.1.3 The new operational process for LIC has been designed with input from LIC, Lloyd's as well as regular consultation with market participants (Managing Agents and Brokers) with the intention of minimising any disruption to Policyholders and to adhere to the following standards:

- Consistency with the current operating model for the Lloyd's market
- Compliance with expected changes in regulation after the end of the Transition Period
- Continuance of Claims payments to all existing Policyholders after the end of the transition period.

6.1.4 The operational framework LIC (described as Lloyd's Brussels in the diagram below) has adopted is outlined below:



Key: **GL** – General Ledger, **LB** – Lloyd's Brussels (LIC), **PVII** – Part VII, **SCM** – Syndicate Claim Message, **STFO** – Settlement and Trust Funds Office, **USM** - Underwriters Signing Message.

6.1.5 The key aspects of the operational framework are:

- There are no fundamental changes to current pre-Part VII market processing activities for Policyholder transactions.
- Policyholders, including claimants, will largely be serviced through the same channels, in the same way as pre-transfer.
- LIC back office Operations and Finance activity is designed to avoid impacting Policyholder transaction processing time.
- Current central processing and settlement processes, handled by the Bureau, Xchanging, are largely unchanged.
- All Part VII transactions for premiums and claims are paid into and out of LIC Bank accounts.
- There will be no noticeable difference in the timing of when claims will be paid pre and post the proposed Part VII transfer.
- Each Syndicate will update its records to change Transferring Policies from direct to reinsurance.
- Managing Agents (on behalf of Syndicates) will administer the transferred business as a service provider to LIC.

- Managing Agents (on behalf of Syndicates) will report all Part VII transactions to LIC on a monthly basis for statutory and regulatory reporting purposes.

6.1.6 Overall, as a result of the design of this operational framework the Transferring Policyholder does not need to navigate any new or unfamiliar processes. As outlined in Section 3.2 of my IE Report Policyholders are currently introduced to Lloyd's Members through intermediaries. Following the end of the Transition Period, as long as that intermediary has the necessary regulatory authorisations to service EEA insurance business where required under the European Insurance Distribution Directive (IDD), the Transferring Policyholder will continue to interact with the same intermediaries as before the Effective Date. Where an intermediary connected to the Transferring Policies does not have the requisite authorisation after Brexit to service that business, LIC and Managing Agents have confirmed to us that they will ensure alternative arrangements for LIC's servicing of the business through an authorised intermediary under the IDD.

6.1.7 Since my IE report I have met with representatives of LIC and Lloyd's to understand any significant changes to the operating model and in particular to determine whether there is likely to be any detrimental impact on the Policyholder service levels. There continue to be refinements to the operating model. However there are no significant changes which would affect my conclusion in the IE report "**that the proposed Part VII transfer will have no material adverse effect on the Transferring Policyholders in respect of matters such as new business strategy, management, administration, claims handling, expense levels and valuation bases in relation to how they may affect the security of Policyholders' contractual rights and levels of service provided to Policyholders, particularly as the outsourcing agreements between LIC and the Managing Agents mean that the Transferring Policyholders will see no material change in the handling of their claims following the transfer.**"

6.2 Quota share reinsurance contracts

6.2.1 As set out in Section 4.1 of my IE Report, prior to the Effective Date of the Scheme, LIC and, in each case, the Members of each relevant Syndicate will enter into 100% quota share reinsurance contract agreements to cover the business transferred to LIC (together, referred to as the QS Reinsurance Contract).

6.2.2 Since my IE Report, together with my legal advisers, I have had meetings with Lloyd's regarding changes to the drafting of the QS Reinsurance Contract. There have been certain modifications to the terms of the QS Reinsurance Contract, for example to the collateral arrangements, following feedback from the regulators and Lloyd's Market. My opinion remains unchanged from my IE Report: ***I have concluded that the QS Reinsurance Contract is drafted in a manner which should give effect to its intended purpose***.

6.2.3 The collateral arrangements referred to above allows LIC to call collateral from individual Members for their share of any liability under the Quota Share Reinsurance Contract in certain circumstances. Lloyd's has received legal advice on the effects of the collateral clause on the Transferring and non-Transferring Policyholders in the event of the insolvency of either Lloyd's, LIC or both Lloyd's and LIC. Based on the legal advice, as long as the Members remain solvent, there is no advantage to either Transferring or Non-Transferring Policyholders resulting from the collateral arrangements as all claims will ultimately be met. If a Member is insolvent and there has already been a call for collateral, the Transferring Policyholders might have an advantage if Lloyd's doesn't deploy the central fund to stand behind the insolvent member; **in my opinion this scenario is unlikely.**

6.2.4 In a scenario where Lloyd's as a whole is insolvent, and if there is no further collateral available and collateral has already been called and received by LIC, the Transferring Policyholders might again have an advantage over the non-Transferring Policyholders. **In section 6.4 of my IE Report I have considered the solvency of Lloyd's and the possibility of Lloyd's exhausting its Central Fund as a result of significant market wide losses which may give rise to Lloyd's becoming insolvent. Lloyd's modelling shows that it would need a Lloyd's market wide loss of £20.2bn, which the LIM predicts to be a 1 in 450 years event, for the Central Fund to come under significant pressure (see section 6.4.17 of my IE Report). I believe this is not a material risk and therefore the security for non-Transferring Policyholders is not materially adversely affected by the collateral arrangements.**

6.3 LIC's Outsourcing Agreements

6.3.1 As I outlined in Section 7 of my IE report, for the operational model to be implemented, Lloyd's will require Managing Agents to enter into updated outsourcing agreements with LIC. These will be entered into prior to the Effective Date so that they are in place before the Sanction Hearing and triggered on the Effective Date. Under these agreements Managing Agents will be engaged to provide services in relation to the Transferring Business, including the administration relating to claims management services and appointment of Coverholders on behalf of LIC.

6.3.2 With my legal advisers, I have met with representatives of Lloyd's and their external legal advisers to understand the key terms of the outsourcing agreements to ensure that they provide operational continuity and consistency of administration as between Transferring Policies and those which are not transferred.

6.3.3 As a result of my discussions with Lloyd's, together with my legal advisers, I have made several recommendations for how the wording of the outsourcing agreements could be strengthened. Lloyd's has adopted my recommendations and changed the original draft of the outsourcing agreements accordingly.

6.3.4 The revised outsourcing agreements include adequate provisions for the servicing of the Transferring Policies including schedules dealing with endorsements (for premium), claims handling, complaints handling and any other ad-hoc services (for example credit control and policy-level tax information) together with Service Level requirements. **I have concluded that the outsourcing agreements provide appropriate safeguards for LIC, the Managing Agents and for the Transferring Policyholders and they give effect to the operating model for the Transferring Business.**

6.4 Costs Agreement

6.4.1 The proposed Part VII transfer will not confer any significant benefits on LIC (other than increased investment return from the funds provided for the €207m capital injection), with all profits (or losses) from the Transferring Liabilities being passed back to the Syndicates under the QS Reinsurance Contracts.

6.4.2 LIC will incur additional systems maintenance and other administration costs as a result of the proposed Part VII transfer. Without compensation for these additional administrative costs the proposed Part VII transfer would be loss-making for LIC.

6.4.3 At Section 7.2.8 of my IE Report I detailed that LIC would receive a cash injection of €75m from Lloyd's to cover the administrative expenses over the period the Transferring Liabilities are expected to be settled. This has now been revised such that, in consideration for LIC agreeing to enter into the proposed Part VII transfer, Lloyd's and LIC have agreed to enter into a Costs Agreement under which Lloyd's will make certain payments to LIC as reimbursement for the costs associated with running off the Transferring Liabilities, as they arise.

6.4.4 LIC management have re-performed an independent estimate of the forecast incremental costs LIC will incur as a result of the proposed Part VII transfer. The upper estimate of these costs is €45m, with the costs expected to be incurred over the next fifteen years. LIC management has projected that the Transferring Liabilities will decrease by 98% over the fifteen years to 31 December 2034. **I have reviewed these projections and, in my view, €45m will be sufficient to cover the costs in dealing with the Transferring Liabilities.**

6.4.5 **In my opinion, the total aggregate cost that LIC is likely to incur in administering the Transferring Liabilities over the next 15 years will be covered by the Costs Agreement entered into. The cost of settling the remaining 2% of the Transferring Liabilities after 15 years will have no material adverse effect on LIC's financial resources.**

7 Conversion of Syndicates of Outwards Reinsurance to Retrocessional Cover

7.1 Update

7.1.1 As I reported in my IE report, as part of the scheme, Lloyd's intends to seek court approval to convert the current Syndicate Outwards Reinsurance cover to retrocessional cover. In that report I discussed the risk that non-UK courts are likely not to recognise the court order in respect of reinsurers not domiciled in the UK (see section 4.1.29 to 4.1.39 of my IE report). In order to mitigate this risk, Lloyd's has obtained legal opinions from the three jurisdictions (excluding the UK) in which they estimate Lloyd's syndicates have the largest exposure.

7.1.2 In order to assess the exposure by syndicates to reinsurers not domiciled in the UK, I used, as a proxy, the aggregate reinsurance recoverable by the syndicates as at 30 June 2019. Since my report was finalized, Lloyd's has now completed an analysis of the syndicates' exposure to reinsurers in different jurisdictions. This analysis was based on data syndicates provided to Lloyd's centrally and used the experience of the Lloyd's Outward Reinsurance team to estimate the following:

- The scale of the reinsurance recoverables applicable to the Transferring Liabilities
- An analysis of reinsurers, for the above reinsurance recoverables, by country of domicile
- The likely legal jurisdictions in which any disputed cover under the above reinsurance contracts will be subject to.

7.1.3 Based on the above analysis, Lloyd's has estimated the exposure of the syndicates, in aggregate, to reinsurers by country of domicile, in respect of the Transferring Liabilities is as follows:

	Exposure on Transferring Liabilities	Based on Reinsurer Recoveries per IE report
	%	%
Bermuda	37.3	35.0
United Kingdom	21.2	23.4
United States	15.4	14.0
Germany	9.5	10.8
	83.4	83.2
Switzerland	4.0	4.1
Barbados	2.7	2.0
Others	9.9	10.7
	100	100

7.1.4 Lloyd's has also estimated that the aggregate total recoveries due on the Transferring Liabilities that are due from reinsurers, domiciled outside the UK (other than Bermuda, USA and Germany) are as follows:

	£m
Switzerland	58
Barbados	39
Other	145

No single jurisdiction included within 'Other' represents more than £34 million of Outward Reinsurance recoveries.

In respect of Barbados 85% of the above exposure arises from a single syndicate under a single reinsurance contract with a single related party reinsurer and is subject to England and Wales law and jurisdiction.

7.1.5 Lloyd's estimate that 43% of the exposure to reinsurers domiciled in Switzerland is due from a single reinsurer who represents the 5th largest external reinsurer to the Lloyd's market and has a longstanding and active relationship with the Lloyd's market**. Given this relationship, I do not believe it is likely they will challenge the Court Order to convert their outward reinsurance to retrocessional cover in respect of the Part VII transferring liabilities.**

7.1.6 Lloyd's has reviewed a selection of reinsurance contracts for a number of selected syndicates and has concluded that the dominant contractual choice of law jurisdiction are as follows:

- England and Wales
- United States
- Bermuda

For reinsurers domiciled in Bermuda Lloyd's estimates, based on a review of a sample of reinsurance contracts of twelve syndicates representing 46% of the estimated Bermuda reinsurance recoveries, that the majority of the reinsurance contracts are subject to English law and jurisdiction.

7.1.7 As set out in my IE report, as result of the significant exposure to Bermuda, United States and Germany, Lloyd's obtained legal opinions from those jurisdictions on whether the courts in those countries would recognise the UK Court Order. Further analysis of this matter is set out in Sections 4.1.30 and 4.1.34 of my IE report.

7.1.8 Since the completion of my IE report Lloyd's, at the request of the UK regulators, has sought additional clarifications from their legal advisers in Bermuda, the United States and Germany. In conjunction with my own legal adviser, I have reviewed this further advice, **and I have concluded that this additional advice adds support to my original conclusion that the courts in Bermuda, Germany and the United States would likely recognise the UK Court Order to convert the Outward Reinsurances to retrocessional cover.**

7.1.9 **I have not asked Lloyd's to obtain legal advice from any other jurisdictions as I consider the amount recoverable from any other single jurisdiction is, in my opinion, not material.**

7.1.10 I have reviewed the work Lloyd's has undertaken to ascertain the country of domicile of the reinsurers associated with the Transferring Liabilities. Based on my review and the other procedures I have undertaken, as set out in paragraph 4.1.37 of my IE report, I am still of the opinion that

"the risk that a reinsurer in an overseas jurisdiction will succeed in challenging the Court Order which converts the existing syndicate Outwards Reinsurance to retrocessional cover, is unlikely to be a material risk."

7.1.11 My opinion as set out above has not changed and was based on the following analysis:

- Any reinsurer who successfully challenges the Court Order to convert Outward Reinsurance to retrocessional cover would be unlikely to continue to trade with the Lloyd's Market as they would be perceived by the Lloyd's Market not to have met valid claims. **This should, in my opinion, discourage those reinsurers who currently trade with the Lloyd's Market of launching such a challenge.**

- In order to challenge the Court Order the reinsurer would have to persuade the courts in their country of domicile to ignore the Court Order contrary to the legal opinions obtained by Lloyd's in those jurisdictions where Lloyd's exposure is material. **In my opinion this scenario is unlikely.**

7.1.12 **Should a reinsurer be able to avoid a claim based on challenging the Court Order, in my view based on the above analysis, it is unlikely to have a material impact on the Lloyd's Market. In arriving at my opinion, I have also considered that Lloyd's has historically paid all valid claims and it is likely that the Central Fund will step in to ensure Policyholders' valid claims continue to be met if the result of any single reinsurer successfully challenging the Court Order leads to Members being unable to meet their liabilities to Policyholders.**

8 Status of Brexit negotiations

8.1 Developments

8.1.1 The proposed Part VII transfer assumes that following the exit of the UK from the European Union the freedom of establishment and freedom of services passporting rights will be withdrawn.

8.1.2 As at the date of this Report there are just under two months until the end of the Transition Period. There continues to be significant uncertainty as to whether a deal will be agreed between the UK and the European Union before 31 December 2020.

8.1.3 Without the Transfer there is a significant risk that Lloyd's could be prevented by law from paying claims and servicing policies. This would be detrimental to all Policyholders as valid claims may not be legally settled and is the key reason for the proposed Part VII transfer to be enacted now. Delaying this proposed Part VII transfer until such time as the trading arrangements between the EU and UK have been finalised may not provide sufficient time to complete the proposed Part VII transfer should the passporting arrangements not be included in the future agreement between the two parties.

8.1.4 Under certain Brexit scenarios, a legal route for paying claims and servicing policies may be agreed by the UK Government and the European Union. **Notwithstanding this, I am still of the opinion that this proposed Part VII transfer would be a more certain, complete and cost effective solution to the problems resulting from Brexit and therefore better overall for Policyholders.**

9 Policyholder communication

9.1 Update

9.1.1 I have been kept informed of the communication and publicity arrangements surrounding the proposed Part VII transfer and I am satisfied that the communications and engagement with Policyholders, and other relevant parties, are consistent with my expectations when I completed my IE Report dated 1 May 2020.

9.1.2 I have reviewed a sample of the documents sent to Policyholders and included on the Lloyd's dedicated Brexit website and I am satisfied that both the Policyholder communication and the content of the Lloyd's Brexit website fairly reflect the details of the proposed Part VII transfer. I have also reviewed the publication strategy and I am satisfied that it is in line with my expectations when I completed my IE report.

9.1.3 Based on the review of the documents made available to me, I agree with Lloyd's assessment that the COVID-19 pandemic has not caused any major impact on the way that the notifications strategy and response management programme were implemented.

9.2 Change in Effective Date

9.2.1 I am aware of the changes to the sanctions hearing date from October 2020 to 18 November 2020 and the change of Scheme Effective Date from 29 October 2020 to 30 December 2020. I am satisfied that the reason for this change is valid and that the steps taken by Lloyd's to inform Policyholders of this change and the revised publication timetable are appropriate. Further details of the actions taken by Lloyd's are set out in the first witness statement of Robert Alexander Murtagh. This delay in the date when the proposed Part VII transfer becomes effective has not led me to change any of my conclusions regarding the proposed Part VII transfer.

9.3 Outward reinsurers and collateral and security counterparties

9.3.1 Given the circumstances of this proposed Part VII transfer where Lloyd's will seek court approval to convert, as part of the terms of the scheme, the Syndicate's Outwards Reinsurance to retrocessional cover (see section 4.1.5 to 4.1.7 of my IE report and section 7 of this Report) I have paid particular attention to the process of notifying the Syndicate's Outward Reinsurance and collateral and security counterparties.

9.3.2 I have been informed that all reinsurers who are currently involved in the in-force reinsurance programmes of the syndicates at 1 January 2020 have been directly informed of the proposed Part VII transfer. Further, reinsurers who represent 99.9% of the global reinsurance asset reported by syndicates at 31 December 2019 have also been directly informed of the proposed Part VII transfer. The addresses for the remaining 0.1% have not been verified but they have been notified at the best address that Lloyd's can identify. I am informed by Lloyd's that they believe that the remaining 0.1% are entities that are largely considered to be legacy reinsurers who have not participated on a reinsurance of a Lloyd's Syndicate for many years. I have no reason to doubt this assertion. Lloyd's has estimated the 0.1%, where the addresses could not be fully verified, represents approximately £250,000 of the reinsurance recoveries in respect of the Transferring Liabilities.

9.3.3 Details of the syndicate collateral and security counterparties are captured by Lloyd's centrally in a periodic return made by Managing Agents. Accordingly, Lloyd's has been able to directly notify all the syndicate collateral and security counterparties of the proposed Part VII transfer.

9.3.4 **Based on the above, together with the steps Lloyd's has taken to publicise the proposed Part VII transfer, I am satisfied that a high percentage of the Syndicates' reinsurers and collateral and security counterparties have been made aware of the proposed Part VII transfer.**

9.4 Policyholders notification

9.4.1 Policyholders were notified of the proposed Part VII transfer in two batches. The first batch of Policyholders were identified from the data extraction exercise carried out at the time of my IE Report was completed. The second batch of Policyholders represent additional Policyholders identified as a result of the revision to the data extraction exercise details of which is set out in Section 3.1.

9.4.2 The total number of Policyholders directly notified of the proposed Part VII transfer were as follows:

Batch	No. of letters / emails sent	Date notified
1	269,479	July/August
2	28,895	October
Note: 6% of the letters/emails have been returned as gone away.		

9.4.3 In addition, the proposed Part VII transfer was advertised in 83 publications and the dedicated Lloyd's website has had 21,500 hits at 30 October 2020.

9.4.4 Included within batch 2 is data from a number of Managing Agents representing some 7,000 Policyholders where the data was not received in time to notify these Policyholders six weeks in advance of the expected date of the Sanction Hearing. Of these Policyholders 58% were notified on 7 October 2020. The remaining Policyholders were notified at varying dates between 20 and 27 October 2020. **Based on the low numbers of Policyholders not notified six weeks prior to the proposed date of the Sanction hearing , the publicity surrounding the proposed Part VII transfer, the fact the majority of these Policyholders would still have between 2 to 5 weeks to register any objections and the low number of objections received from Policyholders in general, in my opinion, the lateness of these notifications does not change the effectiveness of Lloyd's communication strategy.**

9.5 Objections and other Policyholder's issues raised

9.5.1 As at 30 October 2020, Lloyd's has had approximately 1,500 enquiries which related to ongoing business queries, or enquiries of a general or technical nature. Lloyd's has either responded to these enquiries appropriately or requested the enquirer to contact their normal service provider.

9.5.2 In addition to the above queries, Lloyd's has received three objections as follows:

Objection	Lloyd's response
Policyholder raised concern that the scheme will reduce the amount of tax paid in the UK, and therefore have a detrimental effect on healthcare, education, justice and infrastructure.	Lloyd's has responded that as the liabilities will be transferred back to the members, under the QS reinsurance contracts, economically the underwriting profits/losses attributable to the transferring business will ultimately be taxable in the hands of the members, who are all UK tax resident.
A UK based Policyholder challenged why their policy is transferring. States that without cogent reasons, they would object to their policy transferring and would seek new cover within the "London Lloyd's" market	Lloyd's has clarified to the Policyholder that they were notifying holders of historic policies with elements of EEA cover. The Policyholder was notified as an associated EEA company was named on the policies in prior years The Policyholder indicated that he will not object to the Scheme as the current UK policy continues to be underwritten by syndicates at Lloyd's.
Policyholder challenges why their policy is transferring. States his concern that, should his policies transfer, he would lose the right to have disputes settled via English law	Lloyd's has recommended that the individual contact the broker who deals with their affairs to confirm if the policy, or part thereof, needed to be underwritten by an EEA regulated insurer and therefore needs to be transferred under the Scheme. Lloyd's also confirmed that if any of the policies (or parts thereof) do transfer, then they will continue to be governed by English law.

9.5.3 One complaint was received which was of a general nature which did not specify either that they were objecting to the transfer or the nature of their objection.

9.5.4 Some EEA regulators have raised queries on the proposed Part VII transfer via the PRA. Lloyd's has responded to these queries and supplied any additional information requested. My understanding is that none of the EEA regulators have raised any objections to the proposed Part VII transfer.

9.6 Conclusion

9.6.1 **I have considered the above objections raised by Policyholders and I am satisfied with Lloyd's responses to the matters raised. None of the objections have caused me to perform any additional**

work or have led me to alter the conclusions I arrived at, as set out in my IE report.

9.6.2 **I am satisfied that the communication plan adopted by Lloyd's, as set out in my IE report, has been materially executed.**

10 Other matters

10.1 Update on FOS and FSCS

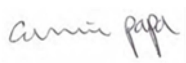
10.1.1 In section 7.11 of my IE report, I described the protections some of the Transferring Policyholders currently receive under the Financial Services Compensation Scheme (FSCS) and Financial Ombudsman Service (FOS) and the impact the proposed Part VII transfer will have on those protections.

10.1.2 As I set out at section 7.11.4 of my IE Report, LIC currently has a passported branch in the UK. We understand that the relevant notifications have been made such that the branch will fall within the Temporary Permissions Regime (TPR) after 31 December 2020. Post Brexit, and once the Temporary Permission Regime ends, certain of the protections under the FSCS and FOS will continue to apply if LIC establishes a fully UK authorised branch. I sought and received reconfirmation from LIC that they still intend to seek full UK authorisation for the branch and that they know of no reason why it will not be fully authorised by the UK Regulators.

10.1.3 **Based on the above, I have satisfied myself that there are no adverse changes to my conclusions, set out in my IE report, in respect of eligible Policyholder protection under the FSCS and FOS.**

10.2 Approval of Report

10.2.1 This report was approved on 10 November 2020.



Carmine Papa

Partner

PKF Littlejohn LLP
15 Westferry Circus
London
E14 4HD
www.pkf-littlejohn.com

Appendix 1

Glossary of Terms

Assessment Date means 31 December 2019 for data held on the **RDD** and 30 June 2020 for **Non-XIS data**.

Category 1 policies means those policies included in the **Policy File** which have been identified prior to the **Effective Date** and it is possible to determine with sufficient certainty that they are **Transferring Policies**.

Category 2 or **Category 3** policies means those policies included in the **Policy File** which have been identified prior to the **Effective Date** but it has not been possible to determine with sufficient certainty that they are **Transferring Policies**.

Capacity Auction means the auction process that participates on Syndicates in 2020 may be able to realise any value attaching to the disposal of all or part of their capacity for the 2021 year of account. The auction may also enable participants to gain access to Syndicates on which capacity is available.

Costs Agreement means the agreement to be entered into between LIC and Lloyd's for Lloyd's to make certain payments to LIC as effective reimbursement of the costs up associated with running-off the Transferring Liabilities up to a maximum of €45m in the aggregate.

Court means the High Court of Justice in England and Wales.

EEA means the European Economic Area as constituted by the Agreement on the European Economic Area (94/1/ECSC, EC), as amended from time to time, excluding the United Kingdom.

EEA Policy means a **Policy** or part thereof, effected or carried out by or on behalf of any of the Members as insurer, co-insurer, reinsurer or retrocessionaire on or prior to the applicable Cut-Off Date and originally allocated to a Relevant Year of Account, which will immediately after the Transition End Date require an insurer authorised by an EEA regulator (including, for these purposes, with respect to Monaco) to carry out or service that Policy (or the relevant part thereof, in each case whether by reason of its terms or the subject matter of the policy or by reason of the identity or location, domicile or residency of the Policyholder, insured or claimant or for any reason whatsoever), in order to ensure no legal or regulatory insurance authorisation requirements in the EEA are breached. For the purposes of determining whether a Policy (or part thereof) is an EEA Policy for the purposes of this Scheme, the application of, or any permission granted by, any Temporary Run-off Regime shall be ignored in respect of that Policy.

EEA Policyholder means a policyholder resident in an EEA State.

EEA Risk means any risk in respect of which an EEA State is the state in which the risk is situated.

EEA State has the meaning given to it in Schedule 1 to the Interpretation Act 1978.

Effective Date means the time and date on which this Scheme shall become effective in accordance with the Court Order made under Section 111 of the FSMA sanctioning the Scheme on or before the effective date.

EIOPA means the European Insurance and Occupational Pensions Authority.

EU means the European Union.

Excluded Assets means any asset or property of the Members which is not expressly provided for in this Scheme as a Transferring Asset, including:

(a) the Existing Outwards Reinsurance Agreements,

(b) the Tax Recoveries;

(c) the Sundry Assets; and

(d) any other asset or property which Lloyd's and the Transferee agree in writing prior to the Effective Date shall be classified as an Excluded Asset on the Effective Date provided the PRA and the FCA have given their prior consent to such asset or property being an Excluded Asset.

Excluded Jurisdiction means Australia, Canada, Hong Kong, Singapore, South Africa and/or Switzerland.

Excluded Liabilities means:

(a) any liability to a person who is not or was not:

(i) a Policyholder under the terms of the Transferring Policies; or

(ii) an assignee or a pledgee entitled to claims resulting from the Transferring Policies, and any Costs in relation to the same;

(b) any liabilities of the Members not attributable to, or arising from or in connection with, the Transferring Assets or the Transferring Liabilities and any Costs in relation to the same;

(c) any liabilities of the Members under or relating to the Excluded Policies and any Costs in relation to the same;

(d) any Non-Insurance Liabilities of the Members arising in connection with the Transferring Assets including, for the avoidance of doubt, any Conduct Liabilities;

(e) any Tax liabilities arising, or relating to the period, prior to the Effective Date in connection with the Transferring Business; or

(f) any other liability which Lloyd's and the Transferee agree in writing prior to the Effective Date shall be classified as am Excluded Liability on the Effective Date provided the PRA and the FCA have given their prior consent to such liability being an Excluded Liability.

Excluded Policy means:

(a) a Policy that is a Long-Term Insurance Contract;

(b) a Non-EEA Policy;

(c) a Policy or part thereof which would otherwise fall within the definition of "EEA Policy" but the Policy or part thereof is subject to the requirements of a local regulatory licence or other insurance approval granted to Lloyd's in an Excluded Jurisdiction ("**Excluded Jurisdiction Policy**");

(d) an Inwards Reinsurance Policy;

(e) a **Sanctions Policy**; and/or

(f) any other Policy or part thereof, including any class of Policy, under which any liability remains unsatisfied or outstanding at the Effective Date:

(i) which is not capable of being transferred pursuant to section 111 of FSMA;

(ii) which the Court for any reason determines not to transfer by virtue of the Order; or

(iii) which Lloyd's and the Transferee agree in writing prior to the Effective Date shall not be transferred on the Effective Date provided the PRA and the FCA have given their prior consent to such liability being an Excluded Liability.

FCA means the United Kingdom's Financial Conduct Authority and its successors from time to time.

Financial Services and Market Authority or **Belgium FSMA** is Belgium's Conduct Regulator.

FSMA means the Financial Services and Markets Act 2000.

IDD means the European Insurance Distribution Directive.

Independent Expert (or **IE**) **report** means the report dated 1 May 2020 headed "Proposed Part VII Insurance transfer of certain insurance business related to certain Members at Lloyd's for any and all of the 1993 to 2020 (inclusive) years of accounts to Lloyd's Insurance Company SA".

LIC means Lloyd's Insurance Company SA, a company incorporated in Belgium, with its registered office at Place du Champ de Mars 5, 1050 Bruxelles, Belgium.

Lloyd's means the Society of Lloyd's incorporated by Lloyd's Act 1871 by the name of Lloyd's, with its head office at One Lime Street, London EC3M 7HA.

Managing Agent means a managing agent is a company set up to manage one or more syndicates on behalf of the members. Managing agents have responsibility for employing underwriters, overseeing their underwriting and managing the infrastructure and day-to-day operations.

Master List means the **Policy File.**

Members means the underwriting members, former underwriting members and estates of former underwriting members of Lloyd's comprising the Syndicates and Closed Year Syndicates, in their capacity as members of such syndicates.

NBB or National Bank of Belgium is Belgium's Prudential Regulator.

Non-EEA Policy means a Policy or part thereof, effected or carried out by or on behalf of any of the Members as insurer, co-insurer, reinsurer or retrocessionaire and originally allocated to a Relevant Year of Account, which immediately after the Transition End Date does not require an insurer with authorisation from an EEA regulator to carry out or service that Policy (or part thereof). For the purposes of determining whether a Policy (or part thereof) is a Non-EEA Policy for the purposes of this Scheme: (a) the application of, or any permission granted by, any Temporary Run-off Regime shall be ignored in respect of that Policy; and (b) no Policy (or relevant part thereof) which is identified on the Policy File shall be treated as a Non-EEA Policy.

Non-XIS data means the premiums and claims data not appearing in the **RRD data**.

Outward Reinsurers means, in respect of any Syndicate or Closed Year Syndicate, any contract of reinsurance to which the Members comprising the Syndicate or Closed Year Syndicate are parties to as the reinsured, together with any collateral, letter of credit facilities or other security arrangements which have been arranged by the relevant reinsurer for the benefit of the Syndicate, which attaches to any part or all of any of the Transferring Policies and under which any obligations remain to be performed in whole or in part at the Effective Date.

Proposed Part VII transfer means **Scheme**.

Policy and **Policyholder** have the meaning ascribed to "policy" and "policyholder" by the Financial Services and Markets Act 2000 (Meaning of Policy and Policyholder) Order 2001, and shall include any expired, surrendered, lapsed, matured or reinstated policies and all treaties, slips and other contracts of insurance, reinsurance and retrocession, binding quotations, supplements, endorsements, notices, assignments, novation's and riders thereto and all ancillary agreements in connection therewith.

Policy File means the file having the name "The Part VII Master List", as provided by Lloyd's to LIC prior to the Effective Date through a secure file transfer portal. A Policy may be included in the Policy File under the column headed "Category 1" or "Category 2" or "Category 3".

PRA means the United Kingdom's Prudential Regulation Authority and its successors from time to time.

QS Reinsurance Contract means the 100% reinsurance contract agreement between the transferee (as cedent) and each syndicate by which the insurance liabilities attaching to the Transferring Policies are reinsured back into the Lloyd's market.

Reinsurance to close (RITC) means the process to describe the transfer of risks from one underwriting year to a later year of the same syndicate, or another syndicate.

Relevant Year of Account means any or all of the 1993 to 2020 (inclusive) years of account;

Reserves means **Technical Provisions**.

RRD data means the premiums and claims data contained in the Xchanging (XIS) and Lloyd's Direct Reporting (LDR) database.

Sanctions Policy means a Policy or part thereof effected or carried out by or on behalf of any of the Members as insurer, co-insurer, reinsurer or retrocessionaire and originally allocated to a Relevant Year of Account:

(a) under or in connection with which any amount has arisen which is or was directly or indirectly payable by, to, through or for the benefit of a Designated Person or in which a Designated Person has a direct or indirect interest of any nature;

(b) which is, or where any amount has arisen under or in connection with such Policy is, required to be blocked (or treated as blocked) pursuant to US Sanctions; or

(c) under which the provision of (re)insurance, the payment of any claim or the provision of any benefit would expose the Transferee or any service provider to, or bank of, the Transferee, to any sanction, prohibition or restriction or the risk thereof under Sanctions Laws.

Scheme means the way which the liabilities attaching to relevant Years of Account are transferred to LIC as approved by the Court in accordance with Part VII of Schedule 12 to the FSMA.

SCR or **Solvency Capital Requirement** means a measure of the regulatory capital requirement insurers are required to maintain by the appropriate Solvency II regulations and is an estimate of the capital required to ensure that an insurer is able to meet its obligations over the next 12 months.

Segmentation means the process used by Lloyd's to identify Transferring Policies.

Solvency II means the Solvency II Directive (EU Directive 2009/138/EC) and any regulations, directive, enactment, statutory provision or other applicable law implementing that directive.

Solvency Ratio means a quantitative measure of an entity financial resources and is calculated as follows:

$$\text{Solvency Ratio \%} = \frac{\text{Entities own funds}}{\text{Solvency II capital requirement}}$$

Syndicate means a group of underwriting members of Lloyd's, to which a particular number is assigned by or under the authority of the Council, for whose account an active underwriter accepted or accepts insurance business at Lloyd's.

Technical Provisions means the amounts set aside by insurance entities, at a given date, to pay for all potential future cash-flows that would be incurred in meeting liabilities to policyholders from existing insurance and reinsurance contracts. The principles which are followed to calculate these provisions will differ depending on their purpose e.g. regulatory (Solvency II) or annual accounts reporting (GAAP). In this report, used interchangeably with **Reserves**.

Temporary Run-off Regime means, in an EEA State, a temporary national run-off regime for insurance contracts which would permit a Member to carry out a Policy in that EEA State after the UK has ceased to be a member of the EU without breaching applicable legal or regulatory insurance authorisation requirements.

Transfer Date means the **Effective Date**.

Transferring Assets means all of the following whatsoever and wheresoever situated as at the Effective Date:

(a) the rights, benefits and powers of the Members under or by virtue of the Transferring Policies (including, for the avoidance of doubt, the right to receive premiums);

(b) the rights, benefits and powers (whether actual or contingent) of the Members whatsoever under or by virtue of the Transferring Contracts;

(c) the Transferring **Reserves**; and

(d) all rights and claims of the Member against any third party in relation to the Transferring Business or arising as a result of the Members having carried on the Transferring Business;

but excluding the Excluded Assets and, until the relevant Subsequent Transfer Date, if any, the Residual Assets;

Transferring Reserves means the sum of (A) the Lloyd's best estimate of gross reserves in respect of the Transferring Business on a non-discounted basis as at the Valuation Date; plus (B) associated expenses, in each case in an amount agreed between Lloyd's and LIC prior to the Effective Date.

Transferring Liabilities means all liabilities and commitments of any kind and description of the Members to the extent arising from the **Transferring Policies** or **Transferring Assets**, irrespective of whether the liabilities and commitments arise prior to or following the Effective Date, excluding the Excluded Liabilities and, until the relevant Subsequent Transfer Date, if any, the Residual Liabilities.

Transferring Policies means each of the following:

a) the Policies or parts thereof included in the Policy File under the column headed "**Category 1**" as at the Effective Date unless it is subsequently determined by the Transferor and the Transferee that any such Policy or part thereof has been included in Category 1 of the Policy File in error because it neither: (i) relates to an EEA Risk; nor (ii) was issued to or is held by an EEA Policyholder;

b) the Policies or parts thereof included in the Policy File under the columns headed "**Category 2**" and "**Category 3**" as at the **Effective Date** provided such Policy (or part thereof) (i) relates to EEA Risk; or (ii) has been issued to or is held by an EEA Policyholder; and

c) the EEA Policies, together or individually as the context may indicate, in each case, excluding any **Excluded Policy**.

Transferring Policyholder means a Policyholder in relation to a Transferring Policy.

Transition Period means the period 1 February 2020 to 31 December 2020 agreed in the UK-EU Withdrawal Agreement in which the UK is no longer a member of the EU but continues to be subject to EU rules and remains a member of the single market and customs union.

UK or **United Kingdom** means the United Kingdom of Great Britain and Northern Ireland.

Unclear/Unknown Data means the database of Policies which, after the segmentation process has been applied to the Policies, it is unknown or unclear whether the policies are Transferring Policies .

Xchanging means the independently owned business process and technology services provider which provides technology enabled business services to the commercial insurance industry.

Appendix 2

Summary of data provided by Lloyd’s

Data Received from Lloyd’s

In writing the Supplementary report, we have relied upon the accuracy of certain documents and information provided by Lloyd’s Staff. These included the following:

Balance sheets

- Solvency II balances sheet for Lloyd’s Insurance Company SA as at 31 December 2019
- Investment funds composition of Lloyd’s Insurance Company SA
- Pro-forma balance sheets (GAAP and SII) for post-Transfer Lloyd’s Insurance Company SA as at 31 December 2020, 31 December 2021, 31 December 2022

Quality of data

- Part VII Transfer Data Workstream Independent Expert Paper setting out a description and explanation of the approach taken by the data team for the Lloyd’s proposed Part VII transfer
- Lloyd’s of London – Part VII Transfer, Part VII Data Approach report explaining the approach taken to data analysis, validation and use throughout the Lloyd’s Part VII transfer process
- Lloyd’s of London Data architecture landscape diagrams for the Part VII transfer

Capital

- Standard Formula Return: the 2020 projection Guidance and Instructions for Lloyd’s Insurance Company SA
- Standard Formula calculations, including projected Standard Formula models at years end 31 December 2020 to 31 December 2025 for Lloyd’s Insurance Company SA (“Lloyd’s Insurance Company SA”) for pre- and post- Transfer
- ORSA model overview for Standard Formula calculations for Lloyd’s Insurance Company SA
- Report on the implication of LIC’s Letter of Credit on capital and solvency

Reserving

- Lloyd’s Chief Actuary’s Report for the proposed Part VII transfer
- Lloyd’s Brussels Part VII: Reserves & Capital report
- Lloyd’s Part VII Supplementary Chief Actuary’s Report
- Data summary spreadsheets detailing premiums, paid claims and outstanding claims from the Regulatory Reporting Database (RRD) on a Global basis split by class of business, Year of Account and with segmentation logic applied
- Part VII – Projections Summary files
- Various data files and returns summarising the impact of COVID-19 on the Lloyd’s Market

Policy communications

- Communications and notifications documents
- Notifications Strategy Execution Reports

Other Non-financial information

- Scheme document
- Transferor Third Witness Statement and Transferee Second Witness Statements
- Communications Manager First Witness Statement
- Lloyd's Insurance Company SA Part VII Operational Framework documents, presentations and walkthroughs, detailing the proposed operating model for Lloyd's Insurance Company SA for the transferred business post-Transfer
- Copies of the outsourcing agreement entered into between Lloyd's Insurance Company SA and Managing Agents
- Copies of the Quota Share Reinsurance Agreement entered into between Lloyd's Insurance Company SA and Managing Agents
- Copy of the Costs Agreement entered into between Lloyd's and Lloyd's Insurance Company SA
- Analysis of reinsurer domicile based on 30 June 2019 and 31 December 2019 balance sheet reporting
- Lloyd's Technical Briefing Note – analysis of Syndicate Level Outwards Reinsurance – Domicile & Jurisdiction Estimates dated October 2020
- Copies of Monthly Presentations to the Lloyd's Market Association regarding the Part VII transfer, the data requirements, the progress made to date, and the Lloyd's Insurance Company SA operating model

Other specialist advice

- Deloitte UK VAT and corporation tax analysis of the Cost Agreement
- Lloyd's analysis of the accounting and corporation tax implications for the proposed Part VII transfer

Other information available in the public domain

- Individual Solvency Financial Condition Reports (SFCR) 2019 for the Corporation of Lloyd's and Lloyd's Insurance Company SA
- Lloyd's Insurance Company SA financial statements for the year ended 31 December 2019
- Lloyd's Half Year Results 2020
- Background to the Lloyd's Part VII transfer, the Corporation of Lloyd's and Lloyd's Insurance Company SA from Lloyds.com and Lloydsbrussels.com