

INDEPENDENT EXPERT'S SUPPLEMENTARY REPORT – KEY FINDINGS

The Supplementary Report has been prepared to update the Court with more relevant information on certain matters and to provide an update of my conclusions.

The Supplementary Report should be read together with my IE Report as reading the Report in isolation may be misleading. Unless otherwise stated in the Report, the basis of my assumptions, sources of uncertainty, and limitations set out in my IE Report also apply to the Supplementary Report.

This note summarises the key findings of my Supplementary Report.

1 Introduction

1.1 When I completed my IE Report on 1 May 2020, there were certain matters that I said I would revisit in the 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.

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 Findings

2.1 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.

2.2 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 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).
- 2.4 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 of my Supplementary Report for further details.
- 2.5 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.
- 2.6 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.
- 2.7 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 are affected by these changes.

3 Communications and Notifications

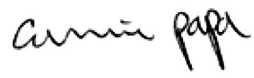
- 3.1 I have been kept informed and have reviewed the progress of the Policyholder communication exercise, including the publicity arrangements. I am satisfied that the communication and engagement with Policyholders, and other relevant parties, are consistent with my expectations when I finalised my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

4 Overall Conclusions

- 4.1 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 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.

5 Approval of report

This note on the key findings of my Supplementary Report was issued on 4 November 2020.

A handwritten signature in black ink that reads "Carmine Papa". The signature is written in a cursive, slightly slanted style.

Carmine Papa
PKF Littlejohn LLP
15 Westferry Circus
London
E14 4HD