Accountants &
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SUMMARY OF INDEPENDENT EXPERT'S REPORT

The Proposed Part VII Insurance transfer of certain insurance business of certain Members, former Members and estates of former Members at Lloyd's for any of the 1993 to 2020 years of account ("Members") to Lloyd's Insurance Company S.A. (the "Proposed Scheme").

1 Introduction

1.1 Following the United Kingdom's ("UK") exit from the European Union ("EU") ("Brexit"), it is anticipated that passporting rights to freedom of establishment and services within Europe which are currently enjoyed by UK insurers will come to an end following the expiry of the transitional measures agreed between the UK and the EU, which are due to expire on 31 December 2020.

1.2 The Proposed Scheme transfers certain insurance business of the Members in respect of "Transferring Policies", being current and potential insurance liabilities attaching to policies, or parts thereof, written by those Members which relate to risks situated in the European Economic Area ("EEA") and/or a policyholder resident in the EEA which, generally, immediately after the transition end date, require an authorised insurer in the EEA to carry out or service such a Policy (or part thereof) in order to ensure no legal or regulatory insurance authorisation requirements in the EEA are breached.

1.3 The Proposed Scheme is intended to cover the following policies referred to collectively as the "Transferring Policies":

(a) Policies (or parts thereof) identified as at the Effective Date which are not Excluded Policies and fall into one of the following categories:

- Category 1: Policies which have been identified as having a risk situated in the EEA and/or a Policyholder resident in the EEA;

- Category 2: Policies which have been identified as being multijurisdictional policies which may have EEA risk elements and the Policyholder is either unknown or a non-EEA resident and it has not been possible to determine with sufficient certainty that they are Transferring Policies. Such policy will be a Transferring Policy if it is determined (at the point when sufficient information is available) that the policy relates to a risk situated in the EEA or was issued to a Policyholder resident in the EEA;

- Category 3: Policies which have been identified but Lloyd's has not yet determined whether or not the policy covers a risk situated in the EEA and/or is issued to or is held by a Policyholder resident in the EEA and it has not been possible to determine with sufficient certainty that they are Transferring Policies. Such policy will be a Transferring Policy if it is determined (at the point when sufficient information is available) that the policy relates to a risk situated in the EEA or was issued to a Policyholder resident in the EEA

(b) policies (or parts thereof) which are not identified as falling within the above categories and which immediately after the Transition End Date will require an insurer authorised by an EEA regulator to carry out or service such policy in order to ensure no legal or regulatory insurance authorisation requirements in the EEA are breached and are not Excluded Policies.

1.4 The Proposed Scheme transfers the Transferring Policies from certain Members ("Members") at the Society of Lloyd's ("Lloyd's") to Lloyd's Insurance Company S.A. ("LIC"), a wholly owned subsidiary of Lloyd's and incorporated in Belgium. The anticipated effective date of the Proposed Scheme is 30 December 2020 (the "Effective Date").

1.5 LIC and the Members of each Syndicate will enter into a 100% Quota Share Reinsurance Contract ("QS Reinsurance Contract"). When the QS Reinsurance Contract becomes effective upon the Effective Date, the insurance liabilities under the Transferring Policies transferred to LIC, will be fully reinsured by LIC back to the Members of the Syndicate that originally underwrote that Transferring Policy so that those Members retain economic responsibility for those Transferring Policies.

2 Approval of the Transfer

2.1 The Transfer is subject to sanction by the High Court of England and Wales ("Court"). A report (the "IE Report"), produced by a suitably qualified person (the "Independent Expert"), is required under Section 109 of the Financial Services and Markets Act in order that the Court and all affected Policyholders may properly assess the impact of the Transfer.

2.2 This document is a summary of the IE Report ("Summary") and this Summary may be distributed to Policyholders and any other person entitled to receive a copy under applicable law or regulation, and can be read or downloaded at www.lloyds.com/brexittransfer/independentexpert.

2.3 The IE Report contains detailed information that is not shown in this Summary. The Summary and the IE Report have been prepared on the instruction of Lloyd's for the benefit of the Court solely for the purposes of the FSMA requirements for Part VII transfers.

3 Limitations and Reliance

3.1 This Summary is subject to the same limitations as those set out in the IE Report.

3.2 This Summary and the IE Report have been prepared for the benefit of the Court and may be relied on by the Court. Neither the Independent Expert nor PKF Littlejohn LLP accepts any responsibility or liability to any third party in relation to the IE Report or this Summary.

3.3 The IE Report is significantly based on financial information and financial projections in respect of Lloyd's as at 31 December 2018 and 30 September 2019 (collectively the Valuation Date). The IE Report does not take into account any developments after these dates unless stated explicitly to the contrary in the IE Report.

4 About the Independent Expert

4.1 I, Carmine Papa, am a Partner of PKF Littlejohn LLP and a Fellow of the Institute of Chartered Accountants in England and Wales. I have been involved with the Lloyd's insurance market in a number of capacities for the last 35 years, including assessment of the Lloyd's Syndicates insurance liabilities and assessing the quality of the actuarial projections to assess those liabilities.

4.2 I have been appointed by Lloyd's to act as the Independent Expert in connection with this transfer. My appointment has been approved by the PRA in consultation with the FCA. My fees will be met by Lloyd's directly and I have no financial interest in the Corporation of Lloyd's or LIC.

4.3 My firm, PKF Littlejohn LLP, currently acts as auditors and professional advisers to a number of Syndicates. Currently I have no direct involvement with Syndicate audits nor do I currently advise Syndicates in a professional capacity. My firm's fees for those Syndicates we currently act for as Syndicate auditors and professional advisers represents less than 2% of PKF Littlejohn LLP's total fees for our last financial year. Neither PKF Littlejohn LLP nor I have acted for Lloyd's for at least the last 10 years and we have never acted for LIC in any capacity.

4.4 I have no reason to believe that my independence is impaired as a result of any matter set out above.

4.5 In reporting to the Court on the Proposed Scheme, my overriding duty is to the Court. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid.

5 The Parties to the Proposed Scheme

5.1 Lloyd’s

5.1.1 Lloyd’s is a society incorporated as a statutory corporation by Lloyd’s Act 1871.

5.1.2 Lloyd’s is a marketplace, run by the Council of Lloyd’s, where Members acting through insurance Syndicates, arrange insurance for their customers.

5.2 Lloyd’s Members and Syndicates

5.2.1 Syndicates have no separate legal personality and, therefore, it is the Lloyd’s Members who underwrite risk and remain liable for business written by the Syndicate.

5.3 Lloyd’s Insurance Company S.A.

5.3.1 LIC is a wholly owned subsidiary of Lloyd’s with headquarters in Brussels, Belgium. LIC is a vehicle which 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.

5.3.2 LIC is authorised in Belgium and regulated by the National Bank of Belgium (“NBB”) together with the Belgium Financial Services and Market Authority.

5.3.3 LIC was authorised to write new insurance business from 1 January 2019. LIC has an insurance and reinsurance licence at the NBB for all of the non-life classes of business that will be transferred to it under the proposed Part VII transfer.

5.3.4 LIC reinsures 100% of the insurance business it currently underwrites with Syndicates in the Lloyd’s market under existing reinsurance agreements. Each insurance risk is reinsured with a Syndicate managed by the Managing Agent that has bound the insurance risk on behalf of LIC. An outsourcing agreement, by which certain services are provided to LIC by Managing Agents in respect of the business LIC underwrites, has been entered into between LIC and each Managing Agent.

6 Findings of the Independent Expert

6.1 I have considered the Proposed Scheme and its likely effects on the following groups of Policyholders:

- The Transferring Policyholders from Lloyd’s to LIC
- The Non-Transferring Policyholders remaining at Lloyd’s
- The Current Policyholders of LIC
- The Outwards Reinsurers of the Members.

7 Effect on the Transferring Policyholders from Lloyd's to LIC

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

7.2 Transferring Policyholders currently have policies with Lloyd's. Lloyd's financial resources currently exceed its regulatory capital requirements. Further, these Policyholders are secured by Lloyd's unique capital structure, including the Central Fund, which potentially provides additional security to Policyholders (the Lloyd's Chain of Security). The Central Fund is available, at the discretion of Lloyd's, to meet any claim that cannot be met from the resources of any Member.

7.3 After the Proposed Scheme, Transferring Policyholders will be Policyholders of LIC, a company whose level of financial resources is projected to exceed the regulatory capital requirements. Further, LIC is projected to meet its target financial resources, which is an enhancement over and above the regulatory capital requirements.

7.4 Transferring Policyholders, after the Effective Date, will be insured by LIC and will no longer be directly insured by Members. However all insurance and reinsurance contracts underwritten by LIC will be 100 per cent reinsured (or retroceded) by the Members. LIC will benefit as a Policyholder from the protection available to Members provided by the Lloyd's Chain of Security including the Central Fund.

7.5 Accordingly, in my opinion, I consider that the security of Transferring Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

7.6 Certain Transferring Policyholders currently have the benefit of the Financial Services Compensation Scheme ("FSCS") which may in certain cases provide compensation in the event of an insurer insolvency. In my opinion, Transferring Policies which had the protection of the FSCS prior to transfer will continue to be protected by the FSCS post transfer, provided that LIC has an authorised branch in the UK (which LIC has confirmed to be its intention).

7.7 A proportion of the Transferring Policyholders currently have the right to address complaints to the UK's Financial Ombudsman Service ("FOS").

7.8 Transferring Policyholders who currently can access the FOS Voluntary and Compulsory Jurisdiction schemes will continue to have access to those schemes following the proposed Part VII transfer in respect of complaints relating to acts or omissions occurring prior to the Transfer.

7.9 Transferring Policyholders who currently are able to access the FOS Compulsory Jurisdiction scheme for activities falling within the scope of the Compulsory Jurisdiction, will lose the benefit of the FOS scheme in relation to acts or omissions occurring after the Transfer where activities which were previously carried on in the UK are, after the Transfer, carried out by LIC in Belgium (or elsewhere in the EEA) unless those activities are directed at the UK. Access to the Compulsory Jurisdiction will be lost if the LIC UK branch ceases to be authorised under the Temporary Permissions Regime in the UK or is not authorised at any point after the end of the Temporary Permissions Regime.

7.10 In my opinion, the loss of access to the FOS Compulsory Jurisdiction scheme only applies in the circumstances set out above and is somewhat mitigated by the complaints management scheme which LIC is intending to implement following the proposed Part VII transfer. I have further concluded that the risk of a loss of access to the FOS Compulsory Jurisdiction scheme in the limited circumstances set out above is not a material risk when compared to the risk that it may become illegal for Members to pay valid claims if this proposed Part VII transfer does not proceed.

7.11 Additionally, Policyholders of Belgium-domiciled insurance companies can apply to two complaint resolution services in Belgium as follows:

- Ombudsman des Assurance / Ombudsman van de Verzekeringen – a body established by law that can make non-binding recommendations regarding the matter;

- Ombudsfin – a private body that, for insurance, can make non-binding recommendations regarding the matter.

7.12 Policyholders transferred to LIC will be able to make representations to the above bodies, although they can only make non-binding recommendations. I have considered this matter in my IE Report and concluded that this is not a material disadvantage for the Policyholder.

7.13 The policy terms and conditions of the Transferring Policies will be the same as prior to the Transfer. The Policyholders will be insured by a different legal entity following the transfer, but, in my opinion the regulatory framework is not materially different, the governance structure, although changed, is not unsuitable and therefore unlikely to be detrimental. In addition the Transferring Policyholders will, in the majority of cases, be serviced in the same manner as prior to the Transfer.

7.14 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 Policyholders and is the key reason for the proposed Part VII Transfer.

8 Effect on Non-Transferring Policyholders remaining at Lloyd's

8.1 There will be minimal change to the balance sheet and financial strength of the Members after the Transfer because the Transferring Policies are 100% reinsured back to the Members.

8.2 Additionally the Non-Transferring policyholders (including Policyholders of the Excluded Jurisdiction Policies) will be insured by the same legal entities, with exactly the same governance structures, regulatory framework, policy terms and conditions, and their policies will be serviced in the same manner as prior to the Transfer. Accordingly, there will be no material adverse effect on non-Transferring Policyholders as a result of this proposed Part VII transfer.

9 Effect on the Current Policyholders of LIC

9.1 As a consequence of the Transfer although there are additional operational requirements and administrative costs for LIC to service the Transferring Policyholders, the current Policyholders of LIC will be insured by the same legal entity, with exactly the same governance structure, regulatory framework, policy terms and conditions, and their policies will be serviced in the same manner as prior to the Transfer.

9.2 I have reviewed LIC's regulatory capital position both pre and post transfer. Pre Transfer and post Transfer, and following the proposed capital injection by Lloyd's, LIC meets its regulatory capital requirements by a significant margin. The purpose of the capital injection is to ensure there is no deterioration in LIC's regulatory capital position as a result of the Scheme.

9.3 Therefore, in my opinion, the current Policyholders of LIC will suffer no material adverse effect as a result of the proposed Part VII transfer.

10 Effect on the Outwards Reinsurers of the Members

10.1 Under the proposed Scheme, the existing Syndicate Outwards Reinsurance will not be transferred with the Transferring Policies to LIC. As part of the terms of the Scheme Lloyd's intends to seek Court approval to instead convert this Syndicate Outwards Reinsurance to provide cover in respect of all or any part of each Syndicate's QS Reinsurance Agreement with LIC. This effectively converts the Syndicate Outwards Reinsurance to retrocessional cover. Therefore I have concluded that, as the economic exposure of the Outwards Reinsurers to policies written by the Members remains the same pre and post Transfer, there will be no material adverse effect on the Outwards Reinsurers as a result of this proposed Part VII transfer.

11 Other considerations

11.1 I have concluded that the Proposed Scheme will have no material adverse effect on the Transferring Policyholders in respect of matters such as administration, claims handling, governance arrangements, 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.

11.2 I also consider that matters such as the cost and tax effects of the Proposed Scheme will have no material adverse effect on the security of all Policyholders' contractual rights.

11.3 I am satisfied that the proposed notification material to be presented to policyholders is appropriate and Lloyd's approach to communication with Policyholders, including the waivers to the standard communications approach, are appropriate and proportionate.

12 COVID-19

12.1 The impact of COVID-19 virus on the Lloyd's market will result in significant claims arising on certain classes of businesses that are likely to respond to losses suffered by Policyholders. COVID-19 has also resulted in a significant decrease in the valuation of the investment portfolios of Lloyd's and the syndicates operating within the Lloyd's market. This in turn has led to downward pressure on Lloyd's Solvency Ratios.

12.2 The impact of COVID-19 on the Lloyd's market is at an early stage and it is difficult to assess the financial impact it may have with any degree of certainty. Nevertheless based on the information made available to me to date, my provisional conclusion is that neither the Transferring Policyholders nor the Non-Transferring Policyholders will suffer any material adverse effect as a result of the proposed Part VII Transfer in respect of the impact COVID-19 may have on the Lloyd's market. I intend to review my conclusion as more information becomes available prior to the Sanctions Hearing and include my findings in my supplementary report.

13 Supplementary report

13.1 I will provide a Supplementary IE Report to the Court based on updated financial information, including a review of COVID-19's impact on the Scheme, and identifying any material issues that have arisen before the Sanctions Hearing.

14 Copy of the IE Report

14.1 The full text of my IE Report is available to be read or downloaded at www.lloyds.com/brexittransfer/independentexpert

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15 Approval of report

This Summary report was issued on 1 May 2020

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