

*Supplementary Report of the
Independent Expert on the proposed
transfer of insurance business from First
Title Insurance plc to First European Title
Insurance Company Ltd in accordance
with Part VII of the Financial Services and
Markets Act 2000*

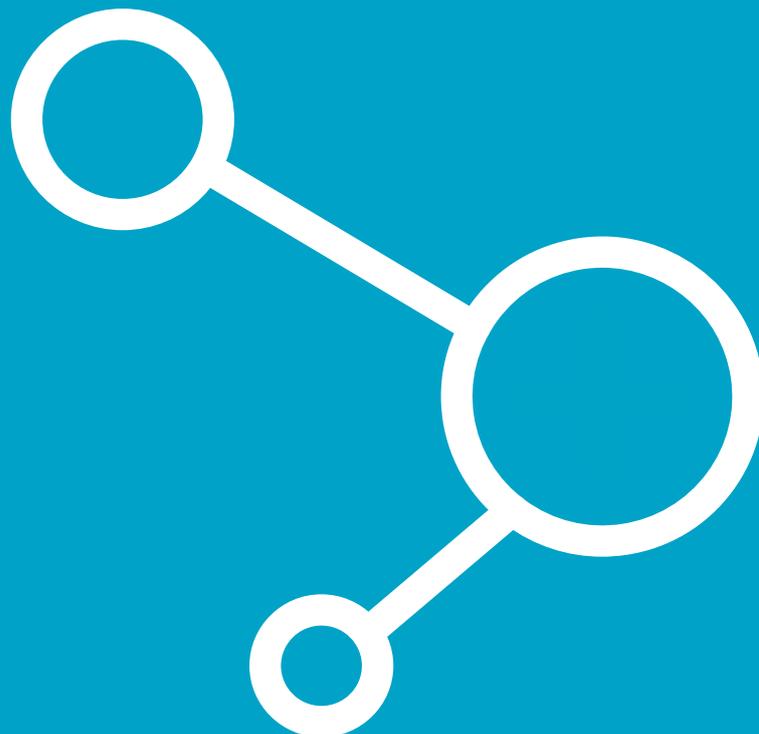
For the High Court of Justice of England and Wales

14 April 2020

Prepared by:

Stewart Mitchell FIA

LCP



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3618527 **1. Executive summary**

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1.1. The Proposed Transfer

First Title Insurance plc (FTI) currently operates across the European Economic Area (EEA) utilising the EEA's Freedom of Services (FoS) arrangement.

The UK left the European Union (EU) on 31 January 2020. The Withdrawal Agreement is in place until 31 December 2020 during which time current EU rules will remain in place and the UK and the EU will negotiate a trade agreement. There is uncertainty as to what will happen if no trade agreement is reached.

In the event of a so called "Hard Brexit" where FTI no longer has FoS rights, FTI may not legally be able to carry on the non-UK EEA business. For example, FTI would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing non-UK EEA policyholders.

In preparation for Brexit, FTI proposed transferring the relevant EEA business from FTI, a UK insurer, into First European Title Insurance Company Ltd (FETIC), a newly established insurer licensed in Malta (the Proposed Transfer), to provide certainty that claims can be paid to non-UK EEA policyholders.

First European Title Insurance Company Ltd (FETIC) has been established so that the First American Group can continue to carry on EEA business post-Brexit with minimum disruption to its operating model and its customers.

The Effective Date of the Proposed transfer is 28 April 2020, and as current EU rules will continue until 31 December 2020, Brexit will have no impact on the Proposed Transfer.

FTI and FETIC have the same common ownership and there will be no change in the ultimate parent company, First American Financial Corporation (FAFC).

1.2. My role as Independent Expert

FTI and FETIC have jointly appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

3618527 As IE, my overall role is to assess whether:

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- The security provided to policyholders of FTI or FETIC will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of FTI covering the transferring business will be materially adversely affected.

I provided my Scheme Report for the Proposed Transfer dated 14 November 2019 ahead of the Directions Hearing, which was held on 28 November 2019.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of my Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with my Scheme Report.

1.3. Summary of developments since the Scheme Report

Activities since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 14 November 2019 have been as follows:

- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 28 November 2019, where approval was received to start notifications in line with the communications plan.
- Since the Scheme Report the FTI transferring provisions, net of external reinsurance, have increased from £2.4m to £2.6m.
- The Proposed Transfer involves 2,101 Transferring Policyholders, an increase of 74 from the 2,027 reported in the Scheme Report.
- FTI underwrote a policy insuring title risk in respect of a large and valuable commercial property in France which has the benefit of specific external reinsurance. This policy will not transfer at the Effective Date but will (subject to specific agreement between the relevant parties) be transferred at a later date through novation, as will the corresponding reinsurance policy. It therefore forms no part of this Part VII Transfer.
- FTI has written directly to Transferring Policyholders and other relevant parties, in line with the communications plan set out in the Scheme Report. FTI has been responding to queries raised as a result of the communications sent out.
- Legal notices were published in the UK and Irish newspapers on 14 February 2020 with updated notices containing further contact details published on 28 February 2020.

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- There have been no objections to the Proposed Transfer as at 14 April 2020.
- The PRA have received correspondence from other EEA regulators, none of which object to the Proposed Transfer as at 14 April 2020.
- The UK formally left the EU on 31 January 2020 following the Withdrawal Agreement between the UK and the EU. The UK has now entered a transition period until 31 December 2020.
- As a consequence of Brexit on the 31 January 2020, there will be no policyholders in FETIC as at the Effective Date of the Proposed Transfer. FETIC will start trading on the Effective Date, 28 April 2020.
- Many countries around the world have been severely impacted by a coronavirus called COVID-19. FTI and FETIC have confirmed that the insurance policies issued by them do not cover coronavirus risks and therefore there will be no increase in claims for either company. They have also confirmed that both companies are able to work remotely and so policyholders will not be affected by the restrictions put in place due to the outbreak of the coronavirus.
- I have also considered any operational impacts of the COVID-19 pandemic on the ability of FTI and FETIC to effect the Proposed Transfer. FTI and FETIC have confirmed to me there are no such operational impacts eg the migration of policyholder data will be between one group IT drive (FTI) and another (FETIC).

1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 14 November 2019:

- Updated booked provisions as at 31 December 2019;
- Recent claims experience and claim reserve movements; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

1.5. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer from four perspectives:

- A: "Non-transferring Policyholders", ie existing policyholders of FTI whose policies will remain with FTI after the Proposed Transfer.
- B: "Transferring Policyholders", whose policies will transfer from FTI to FETIC as a result of the Proposed Transfer.

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- C: "FETIC Policyholders", ie any policyholders of FETIC at the time of the Proposed Transfer whose policies will remain with FETIC.
 - D: Reinsurers whose contracts with FTI will cease and be replaced with similar contracts with FETIC as part of the Proposed Transfer.

My overall conclusions are unchanged from those set out in the Scheme Report.

A: Non-transferring FTI policyholders

In my opinion, the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The Non-transferring Policyholders represent c. 81% of FTI's business based on booked provisions net of reinsurance as at 31 December 2019 and over 99.9% by number of policyholders. The overall risk profile of FTI will not be significantly affected by the Proposed Transfer.
- FTI has confirmed that the future reserving process and governance for FTI will be materially unchanged post-transfer.
- FTI has no current plans to change the approaches for providing policyholder security, including how insurance provisions and capital requirements are set.
- The SCR coverage ratio for Non-transferring Policyholders is expected to increase from 214% to 230% as a result of the Proposed Transfer.

In my opinion, no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.

Summary of rationale:

- FTI is not planning any material changes to how the non-transferring business is carried out.
- There are no plans to change how policyholders are serviced.

B: Transferring FTI policyholders

In my opinion, the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary of rationale:

- The Transferring Policyholders will remain within the First American Group and FETIC will be subject to the same group-wide policies as FTI.

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- FTI has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer. FETIC will also be supported by the same outsourced actuarial function as FTI.
- The calculation of the transferring provisions has been performed using an appropriate methodology.
- The SCR coverage ratio for the Transferring Policyholders is expected to reduce from 214% (FTI) to 209% (FETIC) as a result of the Proposed Transfer, which I do not consider makes policyholders materially worse-off as 209% is still very-well capitalised.
- FETIC is expected to remain very well-capitalised after 2020.
- The current FTI intra-group reinsurance with FATIC for the transferring business will be replaced by a new treaty between FETIC and FATIC as from 28 April 2020 ie the Effective Date. The new treaty states that FATIC will continue to provide the reinsurance on the same terms as under a series of reinsurance treaties issued to FTI. The new treaty was signed on 18 March 2020.
- FETIC has been assigned the same Insurer Financial Strength rating of A as FTI by Fitch Ratings, Inc and the same rating of A (Excellent) by A M Best as FTI, both based on the wider First American Group rating.
- The Transferring Policyholders will lose access to the Financial Services Compensation Scheme (FSCS) but overall, they are not materially disadvantaged by this.
- The Transferring Policyholders will still have access to an independent body which can investigate complaints filed against insurers.

In my opinion, no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary of rationale:

- FTI is planning to minimise any changes as to how the transferring business is carried out, to avoid disruption to the operating model or its customers.
- For example, FETIC is not planning any changes to how the Transferring Policyholders are serviced following the Proposed Transfer and has signed service level agreements with providers.
- The Malta Financial Services Authority (MFSA) did not request any changes to FETIC's proposed service standards as a condition of FETIC becoming a licensed insurer.

3618527 **C: FETIC policyholders**

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In the Scheme Report I described how, in the event of a Hard Brexit, business may be written into FETIC. The UK has now left the EU, and the Proposed Transfer will complete before any new trade agreement is agreed with the EU.

Therefore, no business will now be written into FETIC before the Proposed Transfer, and there are no FETIC Policyholders for me to consider.

D: Reinsurers

In my opinion, reinsurers of FTI who provide cover for the transferring business will not be materially affected by the Proposed Transfer.

Summary of rationale:

- Exposure to claims faced by FTI's reinsurers will not change following the Proposed Transfer.
- The reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.
- The existing FTI reinsurance for the transferring business will continue to be provided through a new treaty with FATIC on the same terms as the current FTI treaties.

Confirmation of factual correctness

This report has been reviewed by FTI and FETIC and each has agreed the report is correct in terms of all factual elements of the transfer.

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2. Introduction

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2.1. Background

Part VII - Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person, known as the Independent Expert (IE), who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA).

The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

FTI and FETIC have jointly nominated Stewart Mitchell (I, me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the Independent Expert for the proposed insurance business transfer scheme (the Proposed Transfer) of the insurance business of FTI to FETIC under Section 105 of the FSMA. The Proposed Transfer is intended to become effective on 28 April 2020 (the Effective Date).

The Scheme Report was issued on 14 November 2019 and was presented to the Court on 28 November 2019. In the Scheme Report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

All terms used in the Supplementary Report are as defined in the Scheme Report. In combination with the Scheme Report, it complies with the professional actuarial guidance and standards set out in section 2.7 of this report.

The use of "I", "me" and "my" in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion it is mine and mine alone.

3618527 **2.3. Use of this Supplementary Report**

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This Supplementary Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreement with FTI. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the FSMA. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 14 November 2019.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will accompany the evidence filed in Court at the Sanctions Hearing.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Supplementary Report for any other purpose other than that set out above.

2.4. Reliances

I have based my work on the data and other information made available to me by FTI and FETIC. Appendix 1 contains a list of key data and other information that I have considered when producing this Supplementary Report. I have also held discussions with the relevant staff of FTI and their advisors.

I have considered FTI's most up-to-date view of forecast capital ratios. FTI has confirmed that it has made me aware of all material developments that would affect my conclusions.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- FTI and FETIC will submit witness statements to the Court stating that all information provided to me by FTI and FETIC is correct and complete in all material aspects, and there have been no material adverse changes to the financial position of FTI and FETIC since that information was provided to me.
- I have conducted checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for the purpose of this report.

FTI has provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

3618527 The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

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I have not needed to take any third party legal advice on any aspects of the Proposed Transfer. FTI has confirmed that they have received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for Supplementary Reports set out by the PRA in their Statement of Policy, the FCA guidance to their approach to review of Part VII transfers issued in May 2018 and by the PRA Rulebook and the FCA Handbook.

This report, in combination with the Scheme Report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

In producing this report, I have also considered The Actuaries' Code as issued by the IFoA.

This report has been subject to peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by Charl Cronje. Charl is a Partner at LCP. He has appropriate experience and expertise to act as peer reviewer of this report and is the IE on two other Part VII transfers.

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2.6. Materiality

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The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Supplementary Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.7. Definition of “materially adverse”

In order to determine whether the Proposed Transfer will have a “materially adverse” impact on any group of policyholders or on any reinsurers covering transferring business, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a “materially adverse” impact, I have considered the aggregate impact of these different effects on each group of policyholders and on reinsurers.

In this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether or not policyholders and reinsurers are materially adversely affected.

3618527 **3. My approach as IE and conclusions**

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My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by FTI and FETIC to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report. The five steps and my considerations are detailed in the sections that follow.

A list of additional information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

3.1. Step 1: Assessing the provisions of FTI and FETIC

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for both Non-transferring and Transferring Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 31 December 2018. I have been provided with updated data and provisions as at 31 December 2019 and an update of any material changes to provisions since 31 December 2018. The transferring provisions represent c. 19% of the total provisions, net of reinsurance.

Summary of GAAP booked provisions for FTI at 31 December 2019

£m	Gross of reinsurance	Net of reinsurance
Non-transferring	23.6	11.3
Transferring to FETIC	7.5	2.6
Total	31.1	13.9

Source: FTI, figures include ULAE (there is no UPR as all business is earned)

The FTI provisions have decreased by £0.5m gross of reinsurance and increased by £0.1m net of external reinsurance compared to those in my Scheme Report as at 31 December 2018.

The majority of the gross of reinsurance reduction is due to the payment of a specific large loss. FTI have confirmed that a further large loss that was anticipated to be settled in Q1 2020 ie before the Proposed Transfer has been paid and settled during Q1 2020.

3618527 This will lead to a further reduction in the level of reserves to be transferred on a gross of reinsurance basis, the net impact is not material.

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Conclusion

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that an appropriate level of provisions will be maintained for both the Non-transferring and Transferring Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

3.2. Step 2: Assessing the capital positions of FTI and FETIC

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for both Non-transferring and Transferring Policyholders;
- whether there are expected to be any material adverse changes in the strength of capital protection for either group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post- the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 6 of the Scheme Report.

Projected SCR coverage ratios

The following tables set out the SCR and coverage ratios, prepared by FTI, for FTI and FETIC pre- and post- the Proposed Transfer.

FTI – SCR and coverage ratio pre- and post- the Proposed Transfer

£m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	28.5	28.3
SCR	13.3	12.3
SCR coverage ratio	214%	230%

Source: FTI

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FETIC – SCR and coverage ratio pre- and post- the Proposed Transfer

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€m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	5.5	5.7
SCR	1.5	2.7
SCR coverage ratio	219%*	209%

Source: FETIC, * based on €2.5m MCR as MCR > SCR (SCR coverage ratio 368%)

The projected SCR coverage ratios for FTI have increased compared to those in the Scheme Report (194% pre-transfer and 219% post-transfer). The projections are based on updated data as at 31 December 2019 adjusted for expected movements during Q1 2020.

The main expected movements are profit arising in the quarter, the impact of the settlement of a specific large loss on counterparty default risk and the payment of a dividend of the GBP equivalent of €1.7m, subject to exchange rates. The impact of the settlement of the further specific large loss in Q1 2020 that had been expected is included in the SCR tables above.

FTI will pay the GBP equivalent of €1.7m as a dividend to its Swiss holding company, FAF International Holdings GmbH, which will in turn acquire €1.7m of newly issued share capital in First European Holding Company Limited (FETIC's immediate parent) which will in turn acquire €1.65m of newly issued share capital in FETIC.

The acquisition of the newly issued share capital is expected to be before the Sanctions Hearing, timetabled for 21 April 2020, and the Effective Date and so is included in FETIC's own funds in the table above.

The projected SCR coverage ratio for FETIC has decreased from 234% pre-transfer to 219% and increased from 188% to 209% post-transfer, compared to those in the Scheme Report. The projections are based on updated data as at 31 December 2019 adjusted for expected movements during Q1 2020.

The SCR coverage ratio for the Non-transferring Policyholders increases from 214% to 230% as a result of the Proposed Transfer.

The SCR coverage ratio decreases from 214% to 209% for the Transferring Policyholders. However, FETIC is very well-capitalised and I do not consider this reduction to be material.

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FTI and FETIC are both expected to remain very well-capitalised both pre- and post-transfer. Therefore, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements for FTI and FETIC have been calculated appropriately for both Non-transferring and Transferring Policyholders.**
- **Following the Proposed Transfer, I do not expect there to be any materially adverse changes in the strength of capital protection for either group of policyholders.**

3.3. Step 3: Assessing overall policyholder security

As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for both Non-transferring and Transferring Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

3618527 GAAP balance sheet projections

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The table below shows simplified balance sheets for FTI (£m) pre- and post- the Proposed Transfer and the simplified balance sheet for FETIC (€m) after the Proposed Transfer, updated from the balance sheets shown in the Scheme Report.

GAAP balance sheets of FTI and FETIC

	FTI £m Pre-Transfer	FTI £m Day 1 Post-Transfer	FETIC €m Day 1 Post-Transfer
Investments and cash	42.1	39.5	8.6
Deferred acquisition costs	0.0	0.0	0.0
Reinsurers recoverables	13.7	12.3	1.8
Insurance and intermediaries receivables	0.2	0.2	0.1
Deferred tax assets	0.0	0.0	0.0
Any other assets, not shown elsewhere	1.9	1.9	0.0
Total Assets	57.9	53.9	10.5
Technical provisions	27.6	23.6	5.0
Reinsurance payables	0.8	0.8	0.0
Any other liabilities, not shown elsewhere	2.2	2.2	0.0
Total Liabilities	30.6	26.6	5.0
Total Equity	27.3	27.3	5.5

Source: FTI, FETIC

Corresponding table in the Scheme Report is within section 7.2

The main change in the balance sheets from those in the Scheme Report relate to the reduction on technical provisions and the corresponding reinsurance recoveries for FTI for specific large losses.

Conclusion

There have been no changes to the Proposed Transfer that affect the likelihood of policyholders receiving payments due on their claims or reduce the security provided to the policyholders since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

Based on the work and rationale described above, I have concluded that the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

3618527 **3.4. Step 4: Assessing policyholder communications**

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Communications plan

FTI has notified Transferring Policyholders and other relevant parties, as set out in the Scheme Report, in line with FTI's original communications plan.

79 enquiries have been raised since letters were sent out on the 3 February 2020. These mainly relate to addressees being unaware of having a policy and asking for a copy. Where letters have been returned, efforts have been made to contact policyholders through a different address.

Objections

The key aspect of the update on policyholder communications is for me to consider any objections to the Proposed Transfer. As of 14 April 2020, no objections to the Proposed Transfer had been received.

PRA has contacted the EEA regulators in the appropriate jurisdictions for the Proposed Transfer. Of those EEA regulators that have responded, they have either given consent or have not raised an objection to the Proposed Transfer.

FTI and FETIC have confirmed to the PRA that they will adhere to any notification requirements that the EEA regulators have specified.

Conclusion

The communications plan has been executed as set out in the Scheme Report and no objections to the Proposed Transfer have been received. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties. The dispensations from communicating to some affected parties that FTI applied for were granted at the Directions Hearing on 28 November 2019.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer.

3618527 **3.5. Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders**

Page 19 of 25 The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

Conclusion

Since the Scheme Report, there have been no changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer.

3618527 **4. Conclusions and Statement of Truth**

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I have considered the Proposed Transfer and its likely effects on the Non-transferring Policyholders of FTI, the policyholders transferring to FETIC and the transferring reinsurers.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

- **The security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.**
- **The security provided to the Transferring Policyholders at the point of transfer) will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for the Transferring Policyholders following the Proposed Transfer.**
- **Reinsurers of FTI who provide cover for the transferring business will not be materially affected by the Proposed Transfer.**

3618527 **4.1. IE duty and declaration**

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My duty to the Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I understand my duty to the Court and I have complied with that duty.

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.

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

Stewart Mitchell FIA

Partner

14 April 2020

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This Scheme Report, which is our work, has been prepared for the purpose of accompanying the application to the Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Prudential Regulatory Authority, the Financial Conduct Authority and will accompany the Scheme application to the Court.

This work is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

Professional Standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

The following is a list of the key data items I have requested and received, or accessed directly, in assessing the Proposed Transfer. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. FTI/FETIC have provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

1. Draft Court and regulatory documents prepared by FTI/FETIC for the Proposed Transfer, including:

- Draft scheme document (February 2020)
- Draft legal notice (February 2020)
- Draft second witness statement for FTI (February 2020)
- Draft second witness statement for FETIC (February 2020)

2. Responses and objections from stakeholders to the Proposed Transfer

- Various summary updates (latest dated 9 April 2020)
- Details of complaints and objections received (none as at 14 April 2020)

3. Documents relating to provisions and reserving processes, including:

- Summary of provisions as at 31 December 2019
- Update on claims experience and reserve movements to 31 December 2019

4. Documents relating to capital and related processes, including:

- Updated projected SCR coverage ratio and balance sheets for FTI and FETIC pre- and post-transfer

Term	Definition
Brexit	The expected exit of the UK from the EU following the referendum on continuing membership held in the UK in June 2016.
Counterparty Default Risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Court	The High Court of Justice of England and Wales.
European Economic Area (EEA)	The EEA Agreement established the EEA on 1 January 1994. The EEA unites the 28 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
Effective Date	The effective date of the Proposed Transfer, expected to be 28 April 2020.
European Union (EU)	The EU prior to Brexit, ie the 28 member states. Post-Brexit the EU will consist of 27 member states ie excluding the UK.
Excess of loss (XoL) reinsurance	An insurance contract in which a reinsurer agrees to pay losses that an insurer is exposed to that exceed a set amount (the excess). There is typically an upper limit to the amount that can be claimed from the reinsurer for each loss.
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is the UK's official expert in sorting out problems with financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK's Corporate Governance and Stewardship Codes.
Freedom of Services (FoS)	Under the EU Insurance Directives, insurance companies have the right to provide business services on a cross-border basis within the EEA under the principle of FoS utilising the "passporting" system in place between EEA regulators.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.

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Term	Definition
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Generally accepted accounting principles (GAAP)	A collection of commonly-followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
Hard Brexit	A scenario where FTI no longer has FofS rights and may not legally be able to carry on with non-UK EEA business. For example, FTI would not be able to issue new insurance policies across the EEA and might not legally be able to pay valid claims to existing EEA policyholders.
Incurred but not enough reported (IBNER)	See definition of IBNR
Incurred but not reported (IBNR)	The provision for claims that are reported in the future but relate to events that have already occurred. This includes provision for estimated developments to existing open claims, ie those that have been reported but not fully settled. The provision for these open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty lies with the Court, and the opinion of the expert is independent of those of the sponsoring companies involved in the Transfer and the PRA.
Malta Financial Services Authority (MFSA)	The regulator of the insurance sector in Malta.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the existing European Solvency II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Own funds	The capital in excess of provisions available to meet the SCR capital requirements under Solvency II.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.

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Term	Definition
PRA's Statement of Policy	The Statement of Policy issued by the PRA entitled "Statement of Policy – The PRA's approach to insurance business transfers – April 2015"
Proposed Transfer	The proposed insurance business transfer of FTI to FETIC under Section 105 of the FSMA.
Required capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (ie the SCR).
Reinsurance	An arrangement with another insurer to share or pass on risks. For example, in the case of the Proposed Transfer, FETIC is transferring underwriting (insurance) risk to FTI using a reinsurance excess of loss arrangement.
Scheme Document	A document submitted to the Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the Court.
Solvency Capital Requirement (SCR)	The amount of capital insurers are required to hold under Solvency II regulations. This is an estimate of capital required to ensure that an insurer is able to meet its obligations over the next 12 months with a probability of at least 99.5%. If an insurer's capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency II	The system for establishing (among other things) minimum capital requirements for EEA (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	A prescribed approach under Solvency II for the calculation of capital based on an insurer's financial information (eg premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) which applies to all actuarial work produced after 1 July 2017.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all actuarial work produced after 1 July 2017.
Technical provisions	Under Solvency II, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Transferee	The insurer to which the business is being transferred, First European Title Insurance Company Ltd (FETIC).
Transferor	The insurer from which the business is being transferred, First Title Insurance plc (FTI).

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