



**Supplementary Report by the Chief Actuary of The Royal London Mutual
Insurance Society Limited**

**On the proposed Insurance Business Transfer Scheme relating to the transfer
of business from The Royal London Mutual Insurance Society Limited to
Royal London DAC**

18 January 2019

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1 INTRODUCTION AND SUMMARY

1.1 Purpose

In my capacity as Chief Actuary for The Royal London Mutual Insurance Society Limited (“RLMIS”), I prepared a report dated 3 October 2018 for the Board of RLMIS (the “Main Report”) which considered the likely impact of a scheme of transfer (the “Scheme”) of part of the long-term business of RLMIS to Royal London Insurance DAC (“Royal London DAC”) under an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 (“Part VII Transfer”) for:

- (a) the holders of the RLMIS policies proposed to be transferred, and
- (b) the non-transferring policyholders of RLMIS at the time of transfer

in each case with particular reference to their benefit expectations, the future security of those benefits, their contractual rights, policyholder protection, service levels, with-profits governance and the general requirement to treat customers fairly. This transfer is known as the “Transfer”.

The purpose of this report (the “Supplementary Report”) is to consider:

1. Any amendments to the Scheme that are proposed or required.
2. Any amendments to the Security Arrangements that are proposed or required.
3. Any amendments to the Liver Reinsurance Agreement or German Bond Reinsurance Agreement (together the “Reinsurance Agreements”) that are proposed or required.
4. Any changes to the Instrument of Transfer (“IoT”) that are proposed or required.
5. Any Regulatory changes impacting the Transfer.
6. Any changes to the Brexit position impacting the Transfer.
7. Any updated financial information that is available.
8. Any development to the arrangements referred to in the Main Report which might materially affect the holders of the RLMIS policies proposed to be transferred or the non-transferring policyholders of RLMIS.
9. Any expressions of dissatisfaction or objections arising from policyholders.
10. Any other matter or development that I, in my capacity as the Chief Actuary of RLMIS, consider relevant and material to my assessment.
11. Confirmation (or otherwise) that the conclusions stated in the Main Report hold good (in light of 1-10 above).

This Supplementary Report should be read in conjunction with the Scheme, the Main Report as well as the main and supplementary reports of the With-Profits Actuary and the Independent Expert.

It is intended that the High Court will be asked to approve the Transfer at a hearing on 31 January 2019 and the Transfer will have an effective date of 7 February 2019, although it will be treated for accounting purposes as though it took effect from the retrospective date of 1 January 2019. The PRA and FCA, as regulators, are entitled to express their views on the proposed Transfer to the High Court. The proposed terms of the Scheme have been discussed with the regulators and their views have been taken into account in producing the final terms of the Scheme.

The terminology and abbreviations used in this report are the same as in the Main Report. A glossary of the main terms is included in section 15 of this report.

This report, read in conjunction with the Main Report, is in my opinion compliant with the relevant Technical Actuarial Standards discussed in Section 6 of the Main Report and Section 14 of this report.

1.2 Executive Summary

There are no changes to the conclusions in Section 5 of the Main Report, namely I am of the opinion that:

- (a) the Transfer will not adversely affect, to any material extent, the interests and, more particularly, the security of the benefits of the transferring policyholders and the benefit expectations of transferring with-profits policyholders;
- (b) the security of benefits and the benefit prospects of the non-transferring RLMIS policyholders are not adversely affected, to any material extent, by the Transfer; and
- (c) the proposed amendments to the IoT will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the IoT, on the holders of Ireland Liver Business policies or Non-transferring Liver Sub-Fund Business policies. My certification was provided in Appendix B of the Main Report.

In addition I have read the RLMIS's With-Profits Actuary's Supplementary Report which concluded that carrying out the Transfer will not be inconsistent with the requirement to treat customers fairly and I concur with that opinion.

I have also read the Independent Expert's Supplementary Report in which he concludes that he can see no reason why the Transfer should not proceed.

2 AMENDMENTS TO THE SCHEME

I have reviewed the amendments to the Scheme made since the date of the Main Report and confirm that there have been no material changes to the Scheme. Consequently, the references to the Scheme in that report still stand and I am satisfied that the amendments do not change any of the analysis or conclusions in my Main Report.

3 AMENDMENTS TO THE SECURITY ARRANGEMENTS

The principal changes made to the Security Arrangements since the date of the Main Report have been to reflect that the Fixed Charge Security Arrangements may also be enforced in the event of a failure by RLMIS to appoint a replacement custodian when required to do so under the Collateral Framework Agreements.

In addition a change was made to remove an entitlement for RLMIS to redeem the security constituted by the Security Arrangements and to require Royal London DAC to effect promptly an absolute and unconditional release and discharge of it in the event that independent legal advice from a jointly appointed expert that the security is no longer necessary or valid following an actual or proposed amendment to, change in or introduction of any law, regulation, treaty or ruling.

Both of these changes were made in response to comments received from the Central Bank of Ireland (“CBI”).

I have reviewed these amendments to the Security Arrangements and can confirm that they do not change any of the analysis or conclusions in my Main Report and that the references to the Security Arrangements in that report still stand.

4 AMENDMENTS TO THE REINSURANCE AGREEMENTS

The only material amendment to the Reinsurance Agreements since the date of the Main Report is also to reflect that the Fixed Charge Security Arrangements may also be enforced in the event of a failure by RLMIS to appoint a replacement custodian when required to do so under the Collateral Framework Agreements.

I can confirm that the references to the Reinsurance Agreements in the Main Report still stand and I am satisfied that the amendments do not change any of the analysis or conclusions in my Main Report.

5 AMENDMENTS TO THE IOT

There have been no amendments to the IoT made since the date of the Main Report. Consequently my certificate that the proposed amendments to the IoT will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by, the IoT on the holders of Royal Liver Business policies is still applicable.

6 CHANGES TO REGULATIONS

On 22 June 2018, the CBI published Consultation Paper 122 (CP122) which proposed amendments to the Domestic Actuarial Regime, which included the introduction of new requirements for the governance of With-Profits funds. These requirements were developed in order to ensure continued protection of fund members and improved risk management of with-profits funds in light of the expected increase in volume of this type of business in Ireland.

The Consultation period for CP122 closed on 14 September 2018 and the CBI issued a feedback statement on the consultation on 27 November 2018 which introduced the proposed new requirements for with-profits funds. More detail on these new requirements is given in the With-Profits Actuary's Supplementary Report.

We have conducted an analysis of these requirements relative to our planned arrangements for the with-profits business being transferred under the Scheme. No changes to these arrangements are required, other than the draft PPFM Guides prepared in respect of the with-profits business in the Liver Ireland Sub-Fund and the German Bond Sub-Fund will be renamed as With-Profits Operating Principles ("**WPOP**") documents in line with the CBI requirements.

This change of name does not change any of the conclusions in my Main Report.

7 CHANGES TO BREXIT POSITION

I noted in the Main Report that it was possible that the outcome of the EU exit negotiations could result in an agreement with the EU which meant that RLMIS would have been able to continue to service policies sold under EU passporting rights either for a transitional period, or until the end of the policy term. However, I considered that there was not sufficient time to wait for the results of such negotiations, and the certainty provided by the Transfer was necessary to ensure that the Transferring Business can continue to be serviced once the UK has left the EU.

The current position of the EU exit negotiations is such that there have been no developments which are in the public domain since the Main Report which change that opinion, i.e. that the Transfer is necessary to ensure that the Transferring Business can continue to be serviced once the UK has left the EU which is still expected to be on 29 March 2019.

8 FINANCIAL IMPACT OF THE PROPOSED TRANSFER

I am able to confirm that Royal London DAC has been authorised by the CBI with effect from 1 January 2019. The capital injection of €40m (€1m share capital and €39m capital contribution) from RLMIS to Royal London DAC was made on 17 December 2018 and the subsidiary became fully operational and started selling new business from 7 January 2019.

Section 2.3 of the Main Report sets out some key capital figures relating to the Pillar 1 calculations at 31 December 2017 that have been carried out for RLMIS, both before and after the Transfer, and, based on projected figures assuming that the Transfer takes place on 1 January 2019, Royal London DAC. The capital requirement is based upon the Solvency II standard formula which is the proposed basis for Royal London DAC and the current basis for RLMIS. I took these figures into account when assessing the likely impact of the Transfer on the relevant policyholders.

The RLMIS figures have been updated to 30 June 2018 as shown below, based on the published returns for that date using the same methodology and assumptions to estimate

the position of the Transfer as applied in the Main Report. These do not affect my conclusions in the Main Report with regard to the likely impact of the Transfer on the relevant policyholders.

Two changes have occurred since the Main Report was produced which have an impact on the Royal Liver Sub-Fund:

- An estate distribution has been made in the Royal Liver Sub-Fund. This was applied on 1 July 2018 as an 8.5% increase to the asset shares of eligible with-profits policies and the sums assured of eligible contingent bonus policies. The aim of the estate distribution was to bring the capital coverage back down to the target 1-in-20 level. This is in line with the requirements in the IoT.
- A review of the modelling of the ongoing expenses allocated to the Royal Liver Sub-Fund as a result of the Transfer of £1.8m annum (€2.0m per annum) has indicated that, rather than being charged to the estate of that Sub-Fund as incurred as was assumed in the Main Report, the cost should be recognised by an increase to the value of the BEL¹ of that Sub-Fund, increasing the impact of the Transfer as shown in the tables below. This is largely because expenses are allocated between different policy types in line with business volumes and non profit business, for which the Royal Liver Sub-Fund is required to hold reserves in respect of the expected future expenses, is the most material category.

PRE TRANSFER

RLMIS

£m	Royal London Other Closed Funds	Royal Liver Sub-Fund	RL Main Fund	RLMIS total
Assets	37,366	2,240	53,481	93,087
BEL	27,025	1,693	48,090	76,807
Risk Margin	1,115	46	731	1,892
TMTP	-1,657	-46	-729	-2,432
Current Liabilities	6,122	96	1,710	7,928
Subordinated debt	0	0	861	861
Own funds	4,761	452	4,540	9,753
Capital requirement (SCR)	2,034	184	2,119	4,338
Excess capital	2,726	267	2,421	5,415
Own Funds (% of capital requirement)	234%	245%	214%	225%
Equivalent at 31 December 2017	229%	275%	223%	228%

¹ Best Estimate Liabilities, the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.

TRANSFERS

Royal Liver Sub-Fund

£m	Royal Liver Sub-Fund Pre Transfer	Project And Ongoing Costs	Transfer from Royal Liver Sub-Fund	Reinsurance from RL DAC to Royal Liver Sub-Fund	Royal Liver Sub-Fund Post Transfer
Assets	2,240	-10 a	-887 b	877 c	2,220
BEL	1,693	17 d	-735	735	1,709
Risk Margin	46		-20	20	46
TMTP	-46		0	0	-46
Current Liabilities	96		0	0	96
Subordinated debt	0		0	0	0
Own funds	452	-26	-131	122	416
Capital requirement (SCR)	184		-80	80	184
Excess capital	267	-26	-51	42	231
Own Funds (% of capital requirement)	245%				225%
Equivalent at 31 December 2017	275%				264%

- The total project costs to be allocated to the Royal Liver Sub-Fund are £9.6m, of which none had been allocated by 30 June 2018.
- The transferred assets total £887m, which is made up of BEL £735m; risk margin £20m; SCR £80m and Capital buffer £51m, all before the reinsurance.
- The reinsurance premium is £877m, which made up of BEL £735m less counterparty default adjustment £2m plus the difference between the risk margin, SCR and Capital buffer before and after the reinsurance, namely risk margin £20m-2m=£18m; SCR £80m-£3m=£77m and Capital buffer £51m-£2m=£49m.
- The increase in the ongoing costs allocated to the Royal Liver Sub-Fund as a result of the Transfer increases the BEL in respect of that Sub-Fund by c£17m.

RLMIS Royal London Main Fund

£m	RL Main Fund Pre Transfer	Project And Ongoing Costs	Transfer Protection Business from RL Main Fund (inc. Seed Capital)	Transfer German Business to German Bond Fund	Reinsurance from RL DAC to RL Main Fund	RL Main Fund Post transfer
Assets	53,481	-3 a	-63 b	-114 c	112 d	53,413
BEL	48,090	7 e	65	-105	105	48,162
Risk Margin	731		-7	-2	2	724
TMTP	-729		0	0	0	-729
Current Liabilities	1,710					1,710
Subordinated debt	861					861
Own funds	4,540	-10	-121	-8	6	4,407
Capital requirement (SCR)	2,119		-17	-5	5	2,102
Excess capital	2,421	-10	-103	-3	1	2,306
Own Funds (% of capital requirement)	214%					210%
Equivalent at 31 December 2017	223%					217%

- The total project costs allocated to the Royal London Main Fund are £11.4m, of which £8.4m had been allocated to that fund by 30 June 2018. None had been allocated to the Royal Liver Sub-Fund by 30 June 2018.

- b. Includes £35m (€40m) of seed capital paid prior to the authorisation of Royal London DAC, i.e. ahead of the Transfer, and the value of the novated reinsurance arrangements in respect of the RL Ireland Protection Business (£28m).
- c. The transferred assets total £114m, which is made up of BEL £105m; risk margin £2m; SCR £5m and Capital buffer £3m, all before the reinsurance.
- d. The reinsurance premium is £112m, which made up of BEL £105m less counterparty default adjustment £1m plus the difference between the risk margin, SCR and Capital buffer before and after the reinsurance, namely risk margin £2m-£1m=£1m; SCR £5m-£1m=£4m and Capital buffer £3m-£0m=£3m.
- e. The difference between the actual expenses arising in respect of the Ireland Liver Business and the fees determined in accordance with the IoT payable in respect of that business as described in section 1.2 of the Main Report reduced the value of BEL by £7m before the Transfer. This value is transferred to the Royal London DAC Open Fund by the Transfer but is predominantly offset by the transfer pricing increase described in section 9.8.

AFTER TRANSFER

RLMIS

£m	Royal London Other Closed Funds	Revised Royal Liver Sub-Fund	Revised Royal London Main Fund	RLMIS total
Assets	37,366	2,220	53,413	93,000
BEL	27,025	1,709	48,162	76,896
Risk Margin	1,115	46	724	1,885
TMTP	-1,657	-46	-729	-2,432
Current Liabilities	6,122	96	1,710	7,928
Subordinated debt	0	0	861	861
Own funds	4,761	416	4,407	9,583
Capital requirement (SCR)	2,034	184	2,102	4,320
Excess capital	2,726	231	2,306	5,263
Own Funds (% of capital requirement)	234%	225%	210%	222%
Equivalent at 31 December 2017	229%	264%	217%	225%

ROYAL LONDON DAC

£m	Open Fund	German Bond Sub-Fund	Liver Ireland Sub-Fund	Royal London DAC Total
Assets	63	2	10	75
BEL	-65 a	1	2	-62
Risk Margin	7	0	2	10
TMTP	0	0	0	0
Current Liabilities	0	0	0	0
Subordinated debt	0	0	0	0
Own funds	121	1	5	127
Capital requirement (SCR)	29	1	3	33
Excess capital	92	0	2	94
Own Funds (% of capital requirement)	416%	164%	164%	386%

- a. The BEL of the Royal London DAC Open Fund comprises -£65m in respect of the transferred RL Ireland Protection Business, -£7m in respect of the value of the difference between the actual expenses arising in respect of the Ireland Liver Business and the fees

determined in accordance with the IoT payable in respect of that business and +£7m in respect of the transfer pricing uplift described in section 9.8.

9 IMPACT OF THE TRANSFER ON THE TRANSFERRING POLICYHOLDERS

9.1 Factors considered

In the Main Report, I assessed the impact of the Transfer on the transferring policyholders of RLMIS under the following headings:

- (a) Security of benefits.
- (b) Benefits payable under participating policies.
- (c) Application of discretionary management actions.
- (d) Expenses.
- (e) Service standards/standards of administration.
- (f) Investment strategy.
- (g) Tax.
- (h) Membership rights.
- (i) Policyholder communications.

When considering each of these I took into account the more general requirement to treat customers fairly.

I have reconsidered each of these elements as described below. Following this reconsideration I can confirm that my conclusions in the Main Report continue to be applicable.

9.2 Security of benefits

The Main Report concluded that the Royal London DAC Funds are all strongly capitalised relative to their capital targets under the internal capital framework. Section 8 shows that the projections of the capital position of these funds, which remain broadly unchanged, support that conclusion.

Other aspects of security discussed in the Main Report, i.e. Conduct of Business Rules, Ombudsman services and the Financial Services Compensation Scheme ("FSCS") remain as described in that Report and my conclusions remain unchanged.

9.3 Benefits payable under participating policies

There are no changes proposed to the governance or underlying methodology for the assessment of benefits payable under transferring participating policies since the Main Report. As a result, my conclusion from the Main Report that the Scheme and Reinsurance

Agreements are such as to not cause a material adverse impact on transferring participating policyholders remains unchanged.

9.4 Application of discretionary management actions

There are no changes proposed to the application of discretionary management actions since the Main Report. As a result, my conclusion from the Main Report that the Transfer will not materially affect the application of discretionary management actions to the transferring policies remains unchanged.

9.5 Expenses

The Main Report stated there will be some additional expenses incurred as a result of the establishment of a separate subsidiary in Ireland relating to the additional governance and oversight requirements and potential intra-company charges arising from services provided by the Royal London Group which may incur additional tax charges. Therefore the transferred participating Ireland Liver and German Bond policies may bear additional costs relative to the position pre-Transfer.

Since the Main Report, there has been a change to the allocation between the Royal London Main Fund and the Royal Liver Sub-Fund of the costs of the project to establish Royal London DAC and to make the transfers of business. There is no change to the overall expected costs of the project. The revised allocation, following a detailed review, is £11.4m to the Royal London Main Fund (previously £10.7m) and £9.6m to the Royal Liver Sub-Fund (previously £10.3m). The costs expended to 30 June 2018 have been £8.4m which have been fully charged to the Royal London Main Fund ahead of the detailed review of the allocation. These changes are not material relative to the sizes of the estates of these funds.

The only other change to the expenses described in the Main Report arises in respect of the difference between the actual expenses arising in respect of the Ireland Liver Business and the fees determined in accordance with the IoT payable in respect of that business, as described in section 1.2 of the Main Report. The value of this difference, which emerged in the Royal London Main Fund pre Transfer, is transferred to the Royal London DAC Open Fund by the Transfer. This was shown in the Main Report as a reduction in the value of the BEL transferred of £7m, i.e. the BEL remaining in the Royal London Main Fund was £7m higher and the BEL arising in the Royal London DAC Open Fund was £7m lower than would have been the case without the value of the difference. This reduction is still appropriate for the Royal London Main Fund but is largely offset in the Royal London DAC Open Fund by the uplift to transfer pricing described in section 9.8. As all of the policies allocated to the Royal London DAC Open Fund are protection policies with fixed benefits this does not affect the benefits payable in respect of those policies.

9.6 Service standards/standards of administration

As explained in the Main Report, there will be no change to the existing arrangements for service for the RL Ireland Protection Business and the German Bond Business but the policy administration for Ireland Liver Business will move from the UK to Ireland such as to allow Royal London DAC to provide closer oversight. The project to move this administration has

progressed to plan, including the necessary staff training, such that it will be complete by the Effective Date.

Therefore my conclusion remains that the standard of administration that transferring policies will receive after the Transfer becomes effective should be of the same standard as that they presently receive.

9.7 Investment strategy

There are no changes proposed to either the investment strategy or the investment arrangements from those described in the Main Report.

9.8 Tax

The Main Report stated that there were a number of areas of potential tax change resulting from the Transfer and they were subject to clearances that were being sought from the tax authorities. I can confirm that both Her Majesty's Revenue and Customs ("HMRC") and the Irish Revenue Commissioners ("IRC") have provided the clearances as requested with the exception of the transfer of carried forward of New Basis Business losses in the Royal London DAC Liver Ireland Sub-Fund. IRC have requested to see the submission of the first tax computation before they confirm their position on this point. Given that no trading profits are expected to arise in the Liver Ireland Sub-Fund this is not expected to be an issue.

As result of these clearances:

- (a) No changes are anticipated in respect of direct policyholder taxation for any of the transferring policyholders, other than any German Bond policyholders which have become resident in Ireland.
- (b) There will be no capital gains tax on any business assets (including intangible assets) passing from the Ireland Branch in RLMIS provided Royal London DAC does not leave the Royal London Group within ten years of the Transfer.
- (c) An immaterial amount of irrecoverable VAT may arise where it is held that certain services are being provided between the UK and Ireland and vice versa. The proposed commercial structure of the business including the movement of any UK based policy administration of the Ireland Liver Business to Dublin should mitigate this risk.
- (d) The profits of the protection business written in Royal London DAC will be subject to tax at 12.5%. They will no longer benefit from the concessionary treatment applied to the profits of such business that emerge in a mutual with-profit fund. No trading profits are expected to arise in the Ireland Liver and German Bond Sub-Funds of Royal London DAC which will be run along mutual lines due to the 100% Reinsurance Agreements.
- (e) The taxation of reinsured life business will result in a change to the tax computation of the Ireland business. Essentially this change is expected to result in a change to the amount of assets being matched to the Ireland business for tax purposes and this in turn will affect the investment return and associated taxation. This would be expected to result in an additional cost or benefit depending upon the amount of assets required to support the Ireland business with a corresponding adjustment to the tax computation of the UK business (see section 10.7(c)). Given the total tax charge for the Royal Liver Sub-

Fund will be spread across both Non-transferring Liver Sub-Fund Business and Ireland Liver Business, it is not expected to have a material impact.

As well as the clearance requests, two issues were raised with the tax authorities that cannot be agreed until the Scheme and Reinsurance Agreements are formally in place, i.e. until the Effective Date, namely attribution of profits to a UK permanent establishment and transfer pricing.

The attribution of profit to a UK permanent establishment arises because the Chief Executive Officer of Royal London DAC will work in the UK for the Irish business for 50% of his time. An initial assessment of this shows that the amount of additional tax payable by RLMIS is expected to be immaterial.

No transfer pricing adjustment is expected in respect of the Ireland-based staff in the Irish Branch of the service company performing regulated activity as they will be seconded to Royal London DAC. The recharge of UK-based services and Ireland based staff performing non-regulated activity is expected to result in an uplift of 5-8% for transfer pricing for Royal London DAC. This uplift will be paid to the service company, increasing profits in the service company which is a subsidiary of RLMIS.

In summary, as advised in the Main Report, there will be some additional taxation arising as a result of the Transfer, although not directly on the policyholders. That arising from the transfer of the Ireland Liver Business and the German Bond Business will be charged, via the relevant Reinsurance Agreement, to the estates of the Royal Liver Sub-Fund and Royal London Main Fund respectively. That arising from the transfer of the RL Ireland Protection Business will be funded from the capital of, and the profits arising in, the Open Fund of Royal London DAC and will not affect the benefits payable under those policies.

9.9 Membership Rights

The only transferring policies which confer membership of RLMIS are the with-profits policies of the German Bond Business. As advised in the Main Report membership is only available to specific policies written by and remaining with RLMIS so the holders of these policies will lose that membership on transferring to Royal London DAC.

As advised in the Main Report, these policyholders will continue to benefit from ProfitShare via the German Bond Reinsurance Agreement which they would otherwise have lost as a result of the Transfer and also have the protection in respect of eligibility for compensation on the demutualisation of RLMIS for five years from the Effective Date. As a result I remain satisfied that the German Bond Business with-profits policyholders will not, at the time of the Transfer, receive any monetary compensation for the loss of membership rights as a result of the Transfer.

9.10 Policyholder Communications

The communication plan described in the Main Report has been implemented following the Directions Hearing such that, as far as possible, the legal owners of transferring policies have been adequately informed of the nature and likely effect of the Scheme. The information

provided included an explanatory letter, policyholder booklet which includes a set of anticipated frequently asked questions with answers. Supplementing the written communications, information has been posted on the royallondon.com, royallondon.ie and royallondongroup.de websites and legal notices published in a variety of UK, Ireland and Germany newspapers. Dedicated telephone lines have been put in place to handle customer responses, with separate lines available for UK, Ireland and Germany customers. A full copy of the Scheme, the Independent Expert's report, the Chief Actuary's report and the With-Profits Actuary Report is available online or on request (in writing or by telephone). A copy of this report is also expected to be made available on the aforementioned websites prior to the High Court hearing scheduled to take place on 31 January 2019.

A detailed process has been put in place to handle any queries arising from transferring policyholders including taking action in respect of any objections or expressions of dissatisfaction with regard to the Scheme which need to be brought to the attention of the High Court.

10 IMPACT OF THE TRANSFER ON REMAINING POLICYHOLDERS OF ROYAL LONDON

10.1 Factors considered

In the Main Report I also considered the likely impact of the Transfer on the existing policyholders of RLMIS, i.e. the remaining policyholders of RLMIS immediately after the Transfer becomes effective, against the headings of:

- (a) Security of benefits.
- (b) Benefits payable under participating policies.
- (c) Expenses.
- (d) Service standards.
- (e) Investment strategy.
- (f) Tax.
- (g) Membership rights.
- (h) Policyholder communications.

When doing so, I consider and take into account more generally the requirement to treat customers fairly.

There are no material changes in respect of any of these elements, although I have reassessed the security of benefits in the light of more recent financial data as described below. Following this reconsideration I can confirm that my conclusions in the Main Report continue to be applicable.

10.2 Security of benefits

There will be no impact on the security of the benefits of RLMIS policyholders in the following closed (ring fenced) funds: RL (CIS) Fund, PLAL Fund, Scottish Life Fund, Refuge Assurance Industrial Branch Sub-Fund, United Friendly Ordinary Branch Sub-Fund and the United Friendly Industrial Branch Sub-Fund (“the Other Closed Funds”) as these funds will experience no change as a result of the Transfer.

The Main Report concluded that the likely impact of the Transfer on the security of the RLMIS policies in the Royal London Main Fund was minimal. The updated figures shown in Section 8 do not change that conclusion with the own funds as a percentage of the capital requirement reducing from 214% to 210% as a result of the Transfer.

The Main Report also concluded that, although the Royal Liver Sub-Fund would provide some assets to the Liver Ireland Sub-Fund to meet the regulatory capital requirements plus a buffer and would also incur some additional expenses as a result of the Transfer, this will not have a material impact on the security of a well-capitalised fund. Again the updated figures shown in Section 8 do not change that conclusion with the own funds as a percentage of the capital requirement reducing from 245% to 225% as a result of the Transfer, i.e. still strongly capitalised.

I have continued to review the capital position of the Royal London Main Fund, the Royal Liver Sub-Fund and the Royal London Other Closed Funds since 30 June 2018. The table below shows the value of own funds as a percentage of the capital requirement as at 30 September 2018 compared with that at 30 June 2018.

£m	Royal London Other Closed Funds	Royal Liver Sub-Fund	RL Main Fund	RLMIS total
30 September 2018	226%	224%	226%	226%
30 June 2018	234%	245%	214%	225%

I have also reviewed internal estimates of the capital position as at 31 December 2018. There is no indication that the financial position of RLMIS has changed materially since 30 June 2018.

10.3 Benefits payable under participating policies

There are no changes proposed to the governance or underlying methodology for the assessment of benefits payable under remaining participating policies since the Main Report. As a result, my conclusion from the Main Report that the Scheme and reinsurance agreements are such as to not cause any material impact on the benefits payable under participating policies in the Royal London Main Fund or the Royal Liver Sub-Fund remains.

10.4 Expenses

The only change to the expenses described in the Main Report are as described in section 9.5, namely the revised allocation of the project costs to establish Royal London DAC of £11.4m to the Royal London Main Fund (previously £10.7m) and £9.6m to the Royal Liver

Sub-Fund (previously £10.3m). The costs expended to 30 June 2018 have been £8.4m which have been fully charged to the Royal London Main Fund ahead of the detailed review of the allocation. These changes are not material relative to the sizes of the estates of these funds.

Section 8 describes the change to the treatment of the ongoing expenses allocated to the Royal Liver Sub-Fund as a result of the Transfer of £1.8m annum (€2.0m per annum) such that they are recognised by an increase to the value of the BEL of that Sub-Fund rather than being charged to the estate of that Sub-Fund as incurred as was assumed in the Main Report. This results in an increase in BEL not recognised in the Main Report of c£17m in 30 June 2018 terms. The increase in BEL primarily reflects the capitalisation of future expense increases for non profit business, which were assumed to be recognised year by year in the Main Report.

The impact of the transfer pricing uplift on the expenses allocated to the Royal London DAC Open Fund is such as to increase the BEL in that Fund by c£7m from the figures quoted in the Main Report. This relatively small increase in BEL does not change my conclusion from the Main Report that these costs are necessary to allow the policies to be serviced after the UK leaves the EU remains unchanged.

10.5 Service standards

As advised in the Main Report, the Transfer will have no direct impact on the service standards provided by Royal London to its remaining policyholders as there continues to be no changes planned to the administrative procedures with regard to service as a result of the Transfer.

10.6 Investment strategy

The Transfer will have no material impact on the investment strategy of any of the RLMIS funds.

10.7 Tax

The Main Report stated that there were a number of areas of potential tax change resulting from the Transfer and they were subject to clearances that were being sought from the tax authorities. In respect of the non-transferring business I can confirm that all of the necessary clearances have been received. As result of these clearances:

- (a) No changes are anticipated in respect of direct policyholder taxation for the business which is not being transferred.
- (b) Any business assets (including intangibles) passing from the Ireland Branch in RLMIS arise from business that is classified as non-BLAGAB² in the UK and will fall within the foreign branch exemption election for capital gains tax that was made and confirmed with HMRC in 2017.
- (c) There will be a corresponding impact in the UK to that noted in section 9.8(e) in respect of Ireland with the taxation of reinsured life business resulting in a change to

² Basic life assurance and general annuity business.

the tax computation of the UK business. This change will result in a change to the amount of assets being matched to the Ireland business and excluded from UK business for tax purposes. This in turn will affect the UK investment return and associated taxation. This could result in an additional cost or benefit depending upon the amount of assets required to support the Ireland business. As described earlier in section 9.8 (c) the total tax charge for the Royal Liver Sub-Fund is pooled across both Non-transferring Liver Sub-Fund Business and Ireland Liver Business so it is not expected to have a material impact.

- (d) As a result of the mutual nature of the German Bond Business and the relatively small sums involved, a simple cost recharge or a modest cost plus approach will be used for transfer pricing for this business which will be charged to the estate of the Royal London Main Fund. Otherwise there is no impact from transfer pricing on the Remaining Policyholders.

Overall there will be some change to the taxation arising as a result of the Transfer, although not directly on the policyholders. These impacts will not be material.

10.8 Membership rights

As advised in the Main Report, the Transfer will not affect any membership rights of those policyholders which are remaining with RLMIS.

10.9 Policyholder communications

The communication plan described in the Main Report has been implemented following the Directions Hearing such that, as far as possible, the legal owners of non-transferring policies in the RLMIS Royal Liver Sub-Fund have been adequately informed of the nature and likely effect of the Scheme. The information provided included an explanatory letter, policyholder booklet which included a set of anticipated frequently asked questions with answers.

Supplementing the written communications, information has been posted on the royallondon.com, royallondon.ie and royallondongroup.de websites and legal notices published in a variety of UK, Ireland and Germany newspapers. Dedicated telephone lines have been put in place to handle customer responses, with separate lines available for UK, Ireland and Germany customers. A full copy of the Scheme, the Independent Expert's report, the Chief Actuary's report and the With-Profits Actuary Report is available online or on request (in writing or by telephone).

A detailed process has been put in place to handle any queries arising from transferring policyholders including taking action in respect of any objections or expressions of dissatisfaction with regard to the Scheme which need to be brought to the attention of the High Court.

11 POLICYHOLDER OBJECTIONS AND EXPRESSIONS OF DISSATISFACTION

As described in sections 9.10 and 10.9 a detailed communication plan was produced to ensure those RLMIS and Royal London DAC policyholders affected by the Transfer are

adequately informed of its terms and likely effect. Notification has been made through a combination of direct mailings, press advertisements and (to provide wider communication) web content.

Three contact centres have been established for policyholders to raise any questions that they may have in relation to the Transfer:

1. In Wilmslow, Cheshire for holders of Ireland Liver Business policies which are administered in the UK, Non-transferring Liver Sub-Fund Business policies and any other policies not covered by the other contact centres.
2. In Dublin, Ireland for holders of Ireland Liver Business policies which are administered in Ireland and RL Ireland Protection Business.
3. In Douglas, Isle of Man for holders of German Bond policies.

As at 16 January 2019, 27,496 customer responses had been received as follows:

- 26,020 by the Wilmslow contact centre, of which one was an objection to the Transfer and four were expressions of dissatisfaction about the Transfer.
- 1,399 by the Dublin contract centre, of which two were objections to the Transfer and four were expressions of dissatisfaction about the Transfer.
- 77 by the Douglas contact centre, of which four were objections to the Transfer and one was an expression of dissatisfaction about the Transfer.

For this purpose an "objection" refers to a statement indicating that a policyholder objects to the Scheme proceeding. It is not necessary for a policyholder to use the word "objection" in order for their statement to be classified as an objection. Any clear statement having the effect of an objection is classified as such. An "expression of dissatisfaction" falls short of an objection and refers to a statement from a policyholder indicating that the relevant policyholder is not happy with or is not satisfied with the Scheme proceeding but which falls short of an objection to the Scheme on the terms described above.

The seven objections have been classified as follows:

Concerns over how the Scheme is financed	1
Security of benefits of policyholders	1
FSCS coverage	3
No reason given	2

Of the nine expressions of dissatisfaction, eight have been resolved to the satisfaction of the customer and one remains open.

As Royal London DAC only started to write new business from 7 January 2019, no customer responses have been received from Royal London DAC policyholders by the date of this report.

I have reviewed the details of all the objections, as well as the responses from RLMIS and Royal London DAC, and I am satisfied that my conclusions remain valid.

12 ANY OTHER PERTINENT MATTERS OR DEVELOPMENTS

There are no other matters or developments to consider in the context of this report and the analysis underlying it.

13 CONCLUSIONS

In summary, I am of the opinion that:

- (a) the Transfer will not adversely affect, to any material extent, the interests and, more particularly, the security of the benefits of the transferring policyholders and the benefit expectations of transferring with-profits policyholders;
- (b) the security of benefits and the benefit prospects of the non-transferring RLMIS policyholders are not adversely affected, to any material extent, by the Transfer; and
- (c) the proposed amendments to the IoT will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the IoT, on the holders of Ireland Liver Business policies or Non-transferring Liver Sub-Fund Business policies.

In addition I note that RLMIS's With-Profits Actuary has concluded that carrying out the Transfer will not be inconsistent with the requirement to treat customers fairly and I concur with that opinion.

This is consistent with my conclusions in the Main Report and supports the certificate given in Appendix B of the Main Report regarding the proposed amendments to the IoT which remains valid.

14 COMPLIANCE WITH ACTUARIAL STANDARDS

The actuarial elements of this report fall under the definition of technical actuarial work as defined by the Financial Reporting Council ("FRC"), and as such would be required to comply with Technical Actuarial Standards 100 (Principles for Technical Actuarial Work) and 200 (Insurance). This report complies with those standards.

This Supplementary Report, together with Main Report forms an aggregate report under the relevant FRC definition.

The report has also been subject to peer review in line with the Actuarial Profession Standards document APS X2: Review of Actuarial Work.



Shaun Cooper
Chief Actuary
The Royal London Mutual Insurance Society Limited
18 January 2019

15 GLOSSARY

Term	Description
BEL	Best Estimate Liabilities, the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information
Brexit	The term used to describe the UK's exit from the EU, expected to be on 29 March 2019, following the EU referendum vote on 23 June 2016
Capital buffer	The capital buffer required under the Royal London DAC internal capital management framework
CBI	Central Bank of Ireland, Ireland's Central Bank and Financial Services Regulator
Central Bank of Ireland	Ireland's Central Bank and Financial Services Regulator
Chief Actuary	The Chief Actuary function (SIMF20) for an insurance undertaking is defined as having responsibility for the actuarial function, the Solvency II key function as set out in Article 48 of the Solvency II Directive. Shaun Cooper is the Chief Actuary for RLMIS.
Collateral	Assets held against default on the Liver Reinsurance Agreement and the German Bond Reinsurance Agreement, managed in line with the Collateral Framework Agreements and secured by the Security Agreements
Collateral Framework Agreements	Documents that govern when additional Collateral is required to be provided by RLMIS, or when Collateral may be withdrawn by RLMIS
Directions Hearing	A short court hearing at which the High Court makes procedural orders with regard to the Transfer, in particular in relation to communications with policyholders. The Directions Hearing for this Transfer took place on 15 October 2018
Effective Date	00.01 (GMT) on 7 February 2019
EU	European Union
FCA	Financial Conduct Authority, the conduct regulator for financial services firms and financial markets in the United Kingdom
Fixed Charge	Security interests held over specific assets
Floating Charge	A security interest held over all of a company's assets, or a class of them, that becomes a Fixed Charge in particular circumstances.
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme, the United Kingdom's statutory deposit insurance and investors compensation scheme for customers of authorised financial services firms
German Bond Business	Business written in Germany by RLMIS
German Bond Reinsurance Agreement	A reinsurance agreement whereby the German Bond Business will post-Transfer be 100% reinsured back to the Royal London Main Fund
German Bond Sub-Fund	A ring fenced fund of Royal London DAC into which the German Bond Business is to be transferred
GRELI	GRE Life Ireland Limited
Her Majesty's Revenue and Customs	The UK's tax, payments and customs authority
High Court	The High Court of Justice of England and Wales
Independent Expert	It is a requirement that when a Scheme is submitted to the High Court of Justice of England and Wales for approval, it is accompanied by a report from an independent expert. The independent expert for this Scheme is Tim Roff, a

	Partner in Grant Thornton UK LLP.
Independent Expert's Report	The Independent Expert's Report on the Transfer dated 8 October 2018
Independent Expert's Supplementary Report	The Independent Expert's Supplementary Report on the Transfer
IoT	The Instrument of Transfer pursuant to section 86 of the Friendly Societies Act 1992 under which the life and pensions business and related assets and liabilities of the Royal Liver Assurance Limited business were transferred into the Royal Liver Sub-Fund
IRC	Irish Revenue Commissioners
Ireland Liver Business	Business originally written in Ireland by: a. Royal Liver Assurance Limited, Caledonian Life and Irish Life Assurance plc, subsequently transferred to RLMIS on 1 July 2011 by way of a scheme of transfer under Section 86 of the Friendly Societies Act 1992; and b. GRE Life Ireland Limited, a subsidiary of Royal Liver Assurance Limited which became a subsidiary of RLMIS on the transfer described in a. above, subsequently transferred to RLMIS on 1 July 2012 by way of a scheme of transfer under the Assurance Act 1909 and European Communities (Life Assurance) Framework Regulations 1994
Liver Ireland Sub-Fund	A ring fenced fund of Royal London DAC into which the Ireland Liver Business is to be transferred
Liver Reinsurance Agreement	A reinsurance agreement whereby the Ireland Liver Business will post-transfer be 100% reinsured back to the Royal Liver Sub-Fund
Main Report	The Chief Actuary's report dated 3 October 2018 for the Board of RLMIS considering the likely impact of the Scheme transferring part of the long-term business of RLMIS to Royal London DAC
Non-transferring Liver Sub-Fund Business	The business of the Royal Liver Sub-Fund which is not transferring under the Scheme
Other Closed Funds	The closed funds of RLMIS other than the Royal Liver Sub-Fund, namely the RL (CIS) Fund, PLAL Fund, Scottish Life Fund, Refuge Assurance Industrial Branch Sub-Fund, United Friendly Ordinary Branch Sub-Fund and the United Friendly Industrial Branch Sub-Fund
Ombudsman	The Financial Ombudsman Service, given statutory powers by the Financial Services and Markets Act 2000, to help settle disputes between consumers and UK-based businesses providing financial services
Part VII Transfer	An insurance business transfer under Part VII of the Financial Services and Markets Act 2000
PPFM	Principles and Practices of Financial Management document
PRA	Prudential Regulation Authority, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the United Kingdom
ProfitShare	An allocation of part of the operating profits of RLMIS by means of a discretionary enhancement to asset shares and unit fund values of eligible policies
Reinsurance Agreements	The Liver Reinsurance Agreement and the German Bond Reinsurance Agreement
RL Ireland Protection Business	Protection business written in Ireland by RLMIS through its local branch since 1 July 2011
RLMIS	The Royal London Mutual Insurance Society Limited
Royal Liver	Ireland Liver Business and Non-transferring Liver Sub-Fund Business

Business	
Royal Liver Sub-Fund	A closed ring fenced fund of RLMIS that bears this name
Royal London DAC	Royal London Insurance Designated Activity Company
Royal London DAC Open Fund	A fund of Royal London DAC into which new business is written and the RL Ireland Protection Business is to be transferred
Royal London Main Fund	The Royal London IB & OB Sub-Fund, the fund of RLMIS into which new business is written
Scheme	A scheme of transfer of part of the long-term business of RLMIS to Royal London DAC
SCR	Solvency Capital Requirement, a capital requirement under Solvency II
Security Arrangements	Fixed and Floating Charges supported by Collateral Framework Agreements as established by RLMIS and Royal London DAC
SIMF	Senior Insurance Management Function
Solvency II	Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure. Solvency II came into force on 1 January 2016.
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast).
Supplementary Report	This report
Transfer	The transfer of part of the long-term business of RLMIS to Royal London DAC
VAT	Value added tax
With-Profits Actuary	The With-Profits Actuary function (SIMF21) for an insurance undertaking is the function of having responsibility for advising the governing body of a firm transacting with-profits insurance business on the exercise of discretion affecting part or all of that business. Brian Murray is the With-Profits Actuary for RLMIS.
With-Profits Actuary Supplementary Report	The RLMIS With-Profits Actuary's Supplementary Report on the Transfer
With-Profits Actuary Report	The RLMIS With-Profits Actuary's Report on the Transfer dated 3 October 2018
WPOP	With-Profits Operating Principles, a document that contains principles, which are "enduring statements of the standards adopted in managing the With-Profits fund, and include responses to longer-term changes in the business or economic environment" required by the CBI.