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

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

3 October 2018

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1 INTRODUCTION AND SUMMARY

1.1 Purpose

The purpose of this report is to consider the likely impact of a scheme of transfer (the "**Scheme**") of part of the long-term business of The Royal London Mutual Insurance Society Limited ("**RLMIS**") to Royal London 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 "**Royal London Ireland transfer**" or the "**Transfer**".

The business proposed to be transferred from RLMIS to Royal London DAC comprises:

(i) Protection business written in Ireland by RLMIS through its local branch since 1 July 2011 ("**RL Ireland Protection Business**").

(ii) 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 ("**GRELI**"), 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,

(together the "**Ireland Liver Business**").

(iii) Business written in Germany by RLMIS ("**German Bond Business**").

The report has been prepared for the Directors of RLMIS in order to assist them in coming to a decision concerning whether to proceed with the Transfer.

It is intended that the High Court will be asked to approve the Transfer at a hearing on 31 January 2019. The Transfer will be made on 7 February 2019 (the "**Effective Date**") 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 be heard in proceedings and they have been informed of the proposed terms.

The report is based on the draft core documents sent to the PRA and FCA on 28 September 2018.

1.2 Background

RLMIS and Royal London DAC are both long-term insurance companies, the former authorised in the UK and the latter to be authorised in Ireland by the end of 2018. RLMIS is a mutual company and owns 100% of Royal London DAC.

Royal London DAC has been established to enable the life insurance business previously written by RLMIS through a branch in Ireland to be written through an authorised life insurer in Ireland, meaning the Royal London Group can continue to sell new life insurance business in Ireland when the UK has left the European Union ("**EU**") assuming that the passporting rights have been lost.

The EU passporting arrangements also allow RLMIS to service business previously written in the EU (excluding the UK). In the event of the UK leaving the EU without any arrangements which replace passporting, or otherwise allow passporting to continue, there is a risk that it will become illegal for RLMIS to service its existing business written in Ireland and Germany after the UK has left the EU. The Transfer provides certainty that the Royal London Group can continue to service such business should passporting rights not be available for a UK insurer once the UK has left the EU.

It is possible that the outcome of the EU exit negotiations may result in an agreement with the EU which means 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, it is considered that there is not sufficient time to wait for the results of such negotiations, and the certainty provided by the Transfer is necessary to ensure that the Transferring Business can continue to be serviced once the UK has left the EU.

It would have been possible to include a clause in the Scheme which would have allowed certain policies that are proposed to transfer, for example the Ireland Liver Business and the German Bond Business, not to be transferred in the event that there was an agreement which enabled RLMIS to able to continue to service policies sold under EU passporting rights. However, such a clause would have led to a complex message and overall uncertainty for those policyholders which was considered not to be appropriate relative to the option of clarity and certainty.

The history of RLMIS's presence in Ireland, which stems from its acquisition of Royal Liver Assurance in 2011, can be summarised as follows:

- Royal Liver Assurance Limited acquired Caledonian Insurance Company and GRELI in 2000. GRELI remained a subsidiary of Royal Liver Assurance Limited whereas the long-term business of Caledonian Insurance Company, which ceased trading in 2000, was transferred into Royal Liver Assurance Limited.
- Royal Liver Assurance Limited had also completed acquisitions of the industrial branch business written by Irish Life Assurance plc, the business written by Friends Provident Life Office (in the UK only) and the business written by the Civil Servants' Annuities Assurance Society (also written in the UK only) which were transferred into Royal Liver Assurance Limited.

- RLMIS acquired the Royal Liver Assurance Limited business (including its subsidiary GRELI) in 2011 and on 1 July 2011 the life and pensions business and related assets and liabilities of the Royal Liver Assurance Limited business were transferred into the then newly established Royal Liver Sub-Fund, a ring fenced fund of RLMIS, by way of a transfer under an Instrument of Transfer ("**IoT**") pursuant to section 86 of the Friendly Societies Act 1992.
- The business of GRELI was transferred to the Royal Liver Sub-Fund on 1 July 2012 under a scheme of transfer pursuant to section 13 of the Assurance Companies Act 1909, section 36 of the Insurance Act 1989 and Article 35 of the European Communities (Life Assurance) Framework Regulations 1994.

As a result, the Ireland Liver Business is currently allocated to the Royal Liver Sub-Fund within RLMIS together with business written in the UK by Royal Liver Assurance Limited and its predecessors as described above.

Policy administration, investment management and other aspects of the management of the Royal Liver Sub-Fund are provided to the fund by RLMIS in return for fees determined in accordance with the IoT. These fees are payable from the Royal Liver Sub-Fund to the RL Main Fund which is responsible for the actual expenses arising on this business. In this way the Royal Liver Sub-Fund has some certainty with regard to the expenses charged to it and the RL Main Fund takes the profits or losses arising from the actual expenses being different to the fees. The fees apply until December 2021 when they will revert to actual expenses plus a margin subject to a comparison against the costs of managing the business through outsourcing.

The Ireland Liver Business includes a significant proportion of with-profits business which is managed in line with the Core Principles of Financial Management as defined in the IoT and the Principles and Practices of Financial Management ("**PPFM**") for the Royal Liver Sub-Fund, both of which cover Ireland Liver Business and the business of the Royal Liver Sub-Fund which is not transferring under the Scheme (the "**Non-transferring Liver Sub-Fund Business"**). The past practice in relation to Royal Liver Sub-Fund has been to apply uniform bonus rates across both Ireland Liver Business and Non-transferring Liver Sub-Fund Business policies (together "**Royal Liver Business**") of the same type. In order to maintain this position, Ireland Liver Business will, on the Effective Date, be 100% reinsured back to the Royal Liver Sub-Fund in RLMIS.

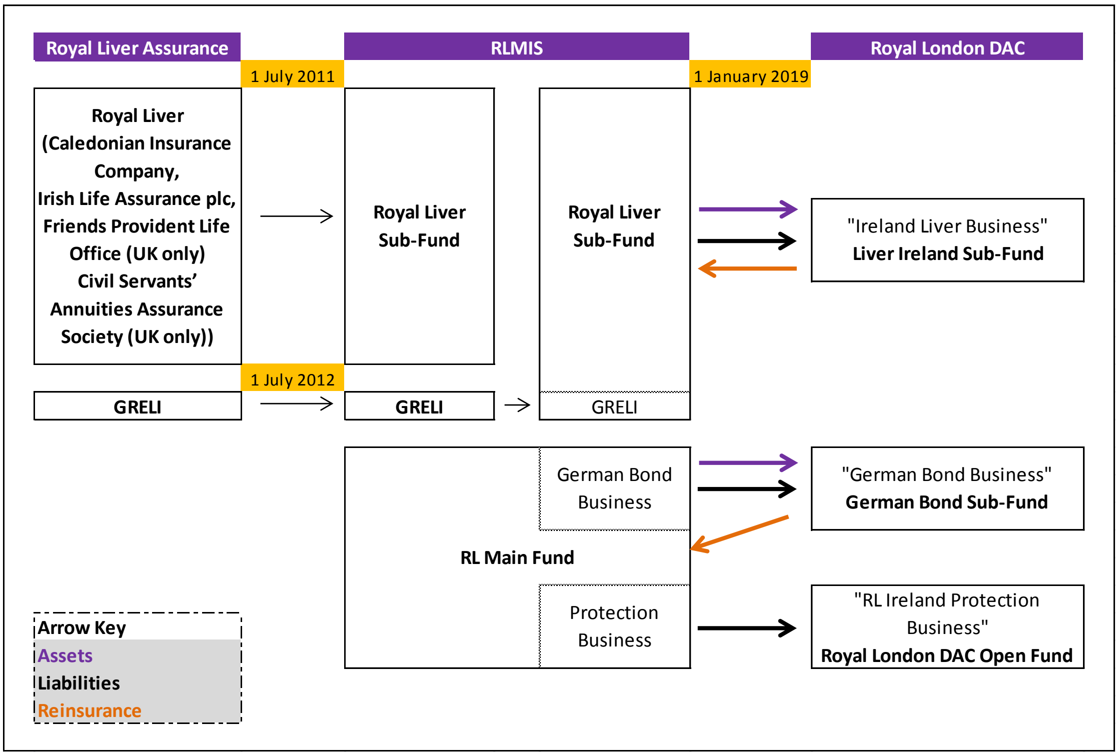
The German Bond Business, which consists of both unitised with-profits and unit-linked business, was sold to German residents through RL360° and its predecessor Scottish Life International. RL360° is a former subsidiary of RLMIS located in the Isle of Man. Both products have been closed to new business for a number of years. They are administered in the Isle of Man by RL360° Management Services Limited under the terms of a services agreement in return for fees as set out in that agreement. These policies are written into the RL Main Fund.

As with the Ireland Liver Business, the German Bond Business will, on the Effective Date, be 100% reinsured back to RLMIS, in this case, to the RL Main Fund.

This is a relatively small block of mainly with-profits business which shares in the overall surplus of the RL Main Fund and the reinsurance will enable that position to be maintained after the Transfer. It is subject to the RL Main Fund PPFM.

The Ireland Liver Business and German Bond Business will be transferred to separate ring-fenced funds in Royal London DAC, the "**Liver Ireland Sub-Fund**" and "**German Bond Sub-Fund**" respectively. The RL Ireland Protection Business will be transferred to the "**Royal London DAC Open Fund**" which is the fund into which RL DAC will write new business.

The diagram below summarises the development of the business to be transferred and the elements which are to be reinsured back to RLMIS.



1.3 Supporting documents and information

In considering implications of the Transfer I have taken account of:

- The latest draft of the Scheme.
- The RLMIS PPFMs and draft RL DAC PPFM Guides.
- The RLMIS and draft RL DAC capital management plans.
- The latest draft of the RLMIS With-Profits Actuary's Report on the Transfer ("**the With-Profits Actuary Report**").
- The proposed amendments to the IoT (which are subject to the approval of the PRA and the views of the independent expert on those amendments as advised to the Liver Supervisory Committee, as established and maintained pursuant to the IoT,

exercising their right to independent actuarial advice on any proposed amendments to the IoT).

- The latest draft of the Liver Reinsurance Agreement.
- The latest draft of the German Bond Reinsurance Agreement.
- The Collateral Framework Agreements and the Deeds of Charge.
- Pillar 1 capital balance sheets.

This report and the appendices include financial information at 31 December 2017. I will prepare a supplementary report at a later date (but prior to the final court hearing) based on more up-to-date financial information.

In my judgement the movements in the figures from the date as at which they were calculated up to the date of this report are not sufficiently material to affect my conclusions.

1.4 Credentials and declaration of interest

I am a Fellow of the Institute and Faculty of Actuaries and the Chief Actuary of RLMIS. I have been Chief Actuary of RLMIS since December 2013, having previously been Chief Actuary of Royal London (CIS) Limited for 3 years (including a period before the acquisition by RLMIS when the company was named Co-operative Insurance Society Limited). Given the nature of the proposed Transfer I am content that it is appropriate for me to report as Chief Actuary on the likely impact of the Scheme on RLMIS policyholders, both transferring and non-transferring, in a single document.

My role in RLMIS is unaffected by the proposed Transfer. I have three policies with RLMIS, all issued on normal terms and not subject to the proposed Transfer, and no policies with Royal London DAC. I confirm that I have taken no account of my personal interest in reaching any of the conclusions detailed in this report.

2 OUTLINE OF THE PROPOSED TRANSFER

2.1 Background information on RLMIS and Royal London DAC

Appendix A gives background information about RLMIS, Royal London DAC, the background to and rationale for the Transfer and about the business that is proposed to be transferred. It also highlights some of the more important aspects of the Transfer.

2.2 Summary of proposed Transfer

(i) RL Ireland Protection Business.

RLMIS's existing protection business liabilities written in Ireland through a local branch, which has been written into the RL Main Fund since the date of the transfer of the business for Royal Liver Assurance to RLMIS, i.e. 1 July 2011, will be transferred to Royal London DAC's Open Fund. The best estimate liabilities ("**BEL**") for this business have a negative value

(-£62.5m at 31 December 2017) as is often the case with protection business and, as a result, there will be no asset transferred alongside the liabilities.

RLMIS is to provide Royal London DAC with capital of €40m (c£36m) comprising €1m share capital and €39m capital contribution prior to the authorisation of Royal London DAC by the Central Bank of Ireland. The value of the Transfer has been taken into account in assessing the level of capital for Royal London DAC so there is no explicit payment by Royal London DAC to RLMIS in connection with the Transfer. The value of a more mature block of protection business of this nature reduces the overall level of funding required from RLMIS to Royal London DAC's Open Fund as it lessens the impact of the new business strain which arises from protection business.

Under the Transfer Royal London DAC will take on all existing rights and obligations of RLMIS in relation to the transferring business.

(ii) Ireland Liver Business.

The Ireland Liver Business (as described in sections 1.1 and 1.2 above) will be transferred to the Liver Ireland Sub-Fund. Assets will also be transferred sufficient to match the sum of:

(i) the value of the BEL,
(ii) the Solvency Capital requirement ("**SCR**"),
(iii) the capital buffer required under the Royal London DAC internal capital management framework (the "**Capital buffer**"), and
(iv) the risk margin,

in respect of the Ireland Liver Business, all calculated on the basis that the reinsurance to RLMIS is not in place.

On the Effective Date this business will be 100% reinsured back to the Royal Liver Sub-Fund under a quota share arrangement as described in section 2.4. The initial insurance premium will be equal to:

(i) the value of the gross BEL less the adjustment to the BEL to take account of expected losses due to default of the counterparty[1] (i.e. RLMIS) in Royal London DAC after the reinsurance ("**BEL Counterparty Default Adjustment**"), plus
(ii) the value of the SCR, the Capital buffer and the risk margin calculated assuming that the reinsurance to the Royal Liver Sub-Fund is not in place, less
(iii) the value of the SCR, the Capital buffer and the risk margin calculated assuming that the reinsurance to the Royal Liver Sub-Fund is in place.

in respect of the Ireland Liver Business.

This leaves assets remaining in the Royal London DAC Liver Fund which are sufficient to cover the BEL Counterparty Default Adjustment, the risk margin, SCR and the Capital buffer (all after allowing for the reinsurance to the Royal Liver Sub-Fund).

[1] Under Article 81 of 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).

The rationale for the reinsurance of the business in the Royal London DAC Liver Fund back to the Royal Liver Sub-Fund is to keep the Royal Liver Sub-Fund economically intact and enable RLMIS and Royal London DAC to maintain the expectations of policyholders under the Royal Liver PPFM and the Liver Ireland PPFM Guide respectively. The Ireland Liver Business and Non-transferring Liver Sub-Fund Business are inter-connected by virtue of the fact that uniform rates of return are applied to the with-profits policies within the Royal Liver Sub-Fund sharing in the overall investment returns of that fund. They have also, to date, enjoyed the same distribution rates in respect of any surplus assets within that fund. The with-profits governance process as described in the With-Profits Actuary's Report on the Transfer is designed to enable that to continue.

If the reinsurance was not in place, it would necessitate a split of the Royal Liver Sub-Fund. Splitting the Royal Liver Sub-Fund would mean the need for a once and for all allocation of all the assets in that fund between the Ireland Liver Business and Non-transferring Liver Sub-Fund Business. This would be a complex task which would involve detailed consideration around the fairness to different groups and generations of policyholders with specific requirements detailed in the IoT. It would not be possible to complete this process in a fair and controlled manner ahead of the deadline imposed by Brexit. In addition, splitting the fund would mean past management practices, which have worked well, could not be continued and there would be consequences on the covenant available to the pension funds currently supported by the Royal Liver Sub-Fund.

(iii) German Bond Business.

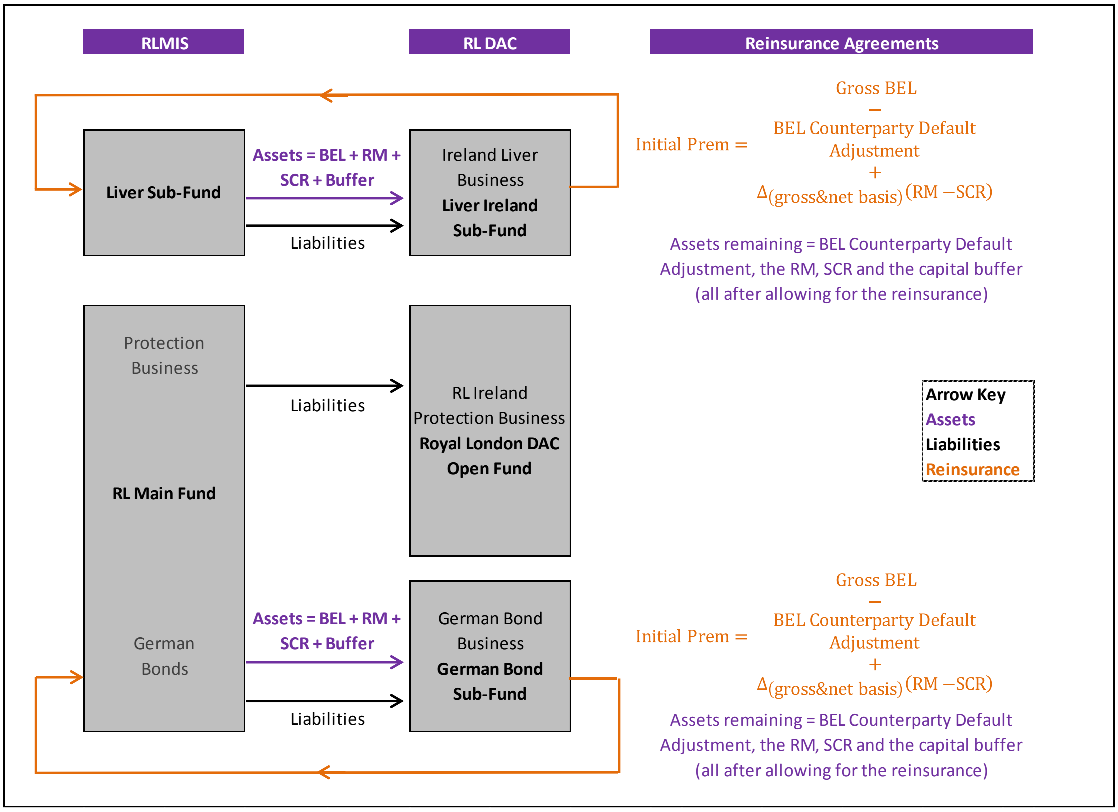
RLMIS's existing business liabilities written in Germany, which have been written into the RL Main Fund, i.e. the German Bond Business, will be transferred to Royal London DAC's German Bond Fund. Assets in respect of the German Bond Business, as described in section 2.2 (ii) for the Ireland Liver Business, will also be transferred to the Royal London DAC's German Bond Fund.

On the Effective Date this business will be 100% reinsured back to the RL Main Fund as described in section 2.4. The initial insurance premium in respect of the German Bond Business will be calculated as described in section 2.2 (ii) for the Ireland Liver Business.

This leaves the assets remaining in the Royal London DAC German Bond Fund which are sufficient to cover the BEL Counterparty Default Adjustment, the risk margin, SCR and the Capital buffer (all after allowing for the reinsurance).

The rationale for the reinsurance of the business in the Royal London DAC German Bond Fund back to the Royal London RL Main Fund is that, although the BEL at 31 December 2017 is relatively high at £120.5m, of which £118.1m relates to with-profits business, the volume of this business means it would not be otherwise economically viable to manage that with-profits business in Royal London DAC as that business runs off.

The diagram below sets out the flows for the transfer of assets and liabilities and the reinsurance agreements.



2.3 Financial impact

Set out below are some key capital figures relating to the Pillar 1 calculations at 31 December 2017 that have been carried out for RLMIS and, based on projected figures, Royal London DAC, both before and after the Transfer, assuming that the Transfer takes place on 1 January 2019. 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 have taken these figures into account when assessing the likely impact of the Transfer on the relevant policyholders.

PRE TRANSFER

RLMIS

£m	Royal London Other Closed Funds	Royal Liver Sub-Fund	RL Main Fund	RLMIS total
Assets	39,272	2,311	49,749	91,332
BEL	28,157	1,713	44,660	74,530
Risk Margin	1,141	44	732	1,917
TMTP	-1,657	-46	-729	-2,432
Current Liabilities	6,858	100	1,667	8,625
Subordinated debt	0	0	883	883
Own funds	4,773	499	4,303	9,575
Capital requirement (SCR)	2,081	181	1,933	4,196
Excess capital	2,693	318	2,370	5,380
Own Funds (% of capital requirement)	229%	275%	223%	228%

TRANSFERS

Royal Liver Sub-Fund

£m	Royal Liver Sub-Fund Pre transfer	Project Costs	Transfer from Royal Liver Sub-Fund	Reinsurance from RL DAC to Royal Liver Sub-Fund	Royal Liver Sub-Fund Post Transfer
Assets	2,311	-10	-907 a	897 b	2,291
BEL	1,713		-755	755	1,713
Risk Margin	44		-20	20	44
TMTP	-46		0	0	-46
Current Liabilities	100		0	0	100
Subordinated debt	0		0	0	0
Own funds	499	-10	-131	121	479
Capital requirement (SCR)	181		-80	80	181
Excess capital	318				298
Own Funds (% of capital requirement)	275%				264%

a. The transferred assets total £907m, which is made up of BEL £755m; risk margin £20m; SCR £80m and Capital buffer £52m, all before the reinsurance.

b. The reinsurance premium is £897m, which made up of BEL £755m 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 £52m-£3m=£49m.

RLMIS Royal London Main Fund

£m	RL Main Fund Pre transfer	Project 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	49,749	-11	-64 a	-131 c	128	49,672
BEL	44,660		70 b	-121 d	121	44,730
Risk Margin	732		-7	-2	2	725
TMTP	-729		0	0	0	-729
Current Liabilities	1,667					1,667
Subordinated debt	883					883
Own funds	4,303	-11	-126	-9	6	4,163
Capital requirement (SCR)	1,933		-17	-5	5	1,917
Excess capital	2,370					2,247
Own Funds (% of capital requirement)	223%					217%

a. Includes £36m (€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).

b. The £70m of BEL transferred comprises £63m arising from the RL Ireland Protection Business and £7m arising from 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.

c. The transferred assets total £131m, which is made up of BEL £121m; risk margin £2m; SCR £5m and Capital buffer £3m, all before the reinsurance.

d. The reinsurance premium is £128m, which made up of BEL £121m 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.

AFTER TRANSFER

RLMIS

£m	Royal London Other Closed Funds	Revised Royal Liver Sub-Fund	Revised Royal London Main Fund	RLMIS total
Assets	39,272	2,291	49,672	91,235
BEL	28,157	1,713	44,730	74,599
Risk Margin	1,141	44	725	1,910
TMTP	-1,657	-46	-729	-2,432
Current Liabilities	6,858	100	1,667	8,625
Subordinated debt	0	0	883	883
Own funds	4,773	479	4,163	9,416
Capital requirement (SCR)	2,081	181	1,917	4,179
Excess capital	2,693	298	2,247	5,237
Own Funds (% of capital requirement)	229%	264%	217%	225%

ROYAL LONDON DAC

£m	Open Fund	German Bond Fund	Liver Fund	Royal London DAC Total
Assets	**64**	**3**	**10**	**76**
BEL	**-70**	**1**	**2**	**-66**
Risk Margin	**7**	**1**	**2**	**10**
TMTP	**0**	**0**	**0**	**0**
Current Liabilities	**0**	**0**	**0**	**0**
Subordinated debt	**0**	**0**	**0**	**0**
Own funds	126	1	6	132
Capital requirement (SCR)	28	1	3	32
Excess capital	98	0	2	100
Own Funds (% of capital requirement)	449%	164%	164%	414%

My analysis in sections 3 and 4, which consider the likely impact of the Transfer on the policyholders transferring to Royal London DAC and those remaining with RLMIS respectively, should be considered in relation to these figures which show that the capital impact on the relevant RLMIS Funds (i.e. the Royal Liver Sub-Fund and RL Main Fund) is small and leaves them both as strongly capitalised funds while the Royal London DAC Funds are all strongly capitalised relative to their capital targets under the internal capital framework.

2.4 Summary of proposed reinsurance agreements

(i) Royal London DAC Liver Ireland Sub-Fund and German Bond Sub-Fund

Reinsurance to RLMIS

The liabilities under the policies of the Royal London DAC Liver Ireland Sub-Fund and German Bond Sub-Fund are to be reinsured fully to the Royal Liver Sub-Fund and RL Main Fund respectively. The relevant reinsurance agreements are the **Liver Reinsurance Agreement** for the policies of the Royal London DAC Liver Ireland Sub-Fund and the **German Bond Reinsurance Agreement** for the policies of the German Bond Sub-Fund, jointly the **Reinsurance Agreements**.

The initial reinsurance premium will be, as described in section 2.2, in each case equal to:

(i) the value of the gross BEL less the BEL Counterparty Default Adjustment, plus
(ii) the value of the SCR, the Capital buffer and the risk margin calculated assuming that the reinsurance to RLMIS is not in place, less
(iii) the value of the SCR, the Capital buffer and the risk margin calculated assuming that the reinsurance to RLMIS is in place.

Ongoing reinsurance premiums will be equal to the actual premiums payable in respect of the business in the relevant Royal London DAC Fund (zero for the Royal London DAC German Bond Fund).

The net payment from Royal London DAC to RLMIS under the Liver and German Bond Reinsurance Agreements will be, on a monthly basis, for each of the Royal London DAC Liver Fund and German Bond Fund, equal to:

(i) the ongoing reinsurance premiums (zero for the Royal London DAC German Bond Fund), less

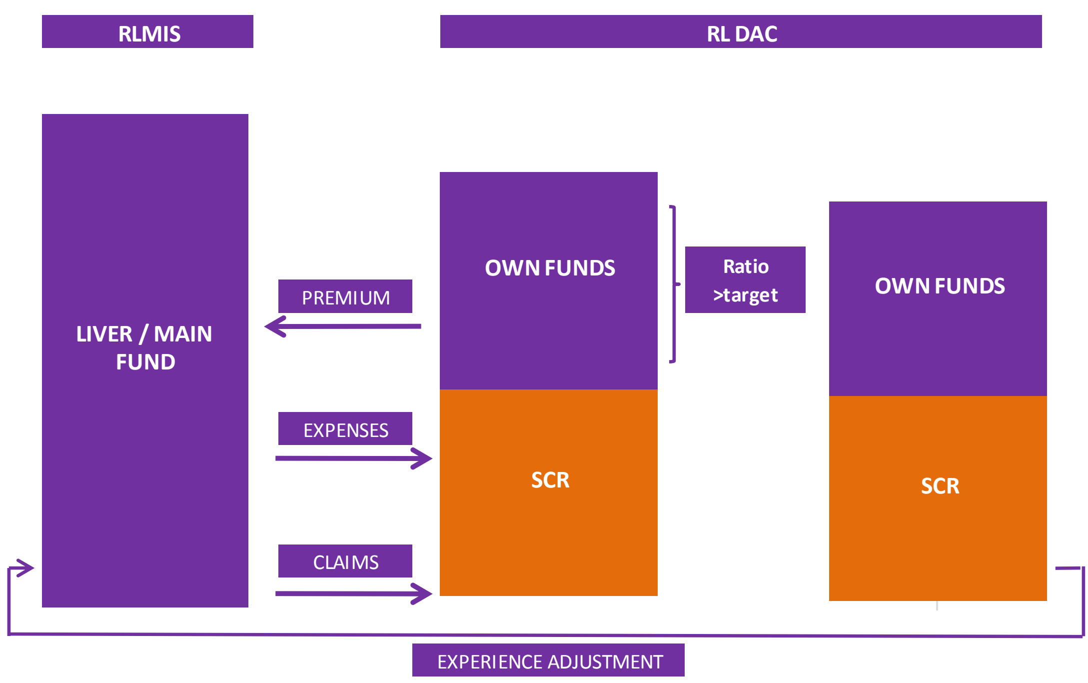
(ii) the actual expense fees incurred in respect of the reinsured business as described in section 1.2 together with any relevant exceptional expenses, less

(iii) the actual tax paid in Ireland in the relevant Royal London DAC Fund, less

(iv) the claims paid in respect of the reinsured business including any payments made to the Ireland National Treasury Management Agency ("NTMA")[2], plus, on a quarterly basis,

(v) an experience adjustment to keep the capital coverage ratio for the individual fund in line with the Royal London DAC capital management framework.

The diagram below shows how the experience adjustment will operate to maintain the target level of capital coverage in the relevant Royal London DAC Fund (i.e. the Royal London DAC Liver Ireland Sub-Fund and German Bond Sub-Fund). An assessment will be made of the capital coverage ratio on a regular basis, generally quarterly with ongoing monitoring, and a payment will be made in the appropriate direction to maintain the capital coverage ratio in line with the Royal London DAC capital management framework. The diagram shows an example where the ratio is above the target and the experience adjustment is paid from Royal London DAC to RLMIS.



Direction of experience adjustment depends on the capital ratio (pre adjustment)

The Liver Reinsurance Agreement will result in the Royal London DAC Liver Ireland Sub-Fund receiving the appropriate level of expense fees in accordance with the IoT. These fees will be passed on to the Royal London DAC Open Fund which is responsible for payment of the

[2] The NTMA is an agency set up by the Ireland Government to collect unclaimed funds from banks, building societies and life assurance companies and use them for charitable and social purposes.

actual expenses arising in respect of the Ireland Liver Business. In this way the Royal London DAC Liver Fund incurs no expense risk and any profits or losses arising in respect of the difference between the actual expenses and the fees fall to the Royal London DAC Open Fund. As shown in section 2.3, on best estimate assumptions, this is expected to be a profit for the Royal London DAC Open Fund.

The Royal London DAC German Bond Fund is reimbursed for the full costs of the service agreement under the German Bond Reinsurance Agreement and therefore also incurs no expense risk.

Capital Support

Whilst the individual Reinsurance Agreements are in place, and RLMIS is solvent, the experience adjustments will ensure that the Liver Ireland Sub-Fund and the German Bond Sub-Fund are capitalised in accordance with the Royal London DAC internal capital management framework.

Whilst the individual Reinsurance Agreements are in place, if RLMIS is deemed to be insolvent, the Royal London DAC Open Fund will provide capital support, if required, to the Liver Ireland Sub-Fund and the German Bond Sub-Fund. If RLMIS is in material breach of its payment obligations in respect of the one of the Reinsurance Agreements, the Royal London DAC Open Fund will provide capital support, if required, to either the Liver Ireland Sub-Fund or the German Bond Sub-Fund, depending upon the Reinsurance Agreement to which the material breach applies.

After the termination of the Liver Reinsurance Agreement, the Royal London DAC Open Fund would continue to provide capital support, if required, to the Liver Ireland Sub-Fund, provided that Sub-Fund is still in existence. After termination of the German Bond Reinsurance Agreement, the German Bond Sub-Fund would not exist.

This capital support from the Royal London DAC Open Fund would not be available if, in the opinion of the RL DAC Board, having regard to the views of the Royal London DAC Head of Actuarial Function, the value of the assets in the Royal London DAC Open Fund is:

(i) insufficient or,
(ii) through the provision of such support, would be insufficient

to meet the minimum amount of assets required by the relevant prudential requirements to be maintained in the Royal London DAC Open Fund.

Security Arrangements

RLMIS and Royal London DAC will establish fixed and floating charges supported by collateral framework agreements (overall the "**Security Arrangements**") which will provide collateral to support each reinsurance agreement in the event of a material breach of the terms of the Liver or German Bond Reinsurance Agreements by RLMIS. There will be one collateral framework agreement and two fixed charge deeds, a first tier and second tier, for each Reinsurance Agreement. The fixed charge deeds will each provide a fixed charge over sufficient assets of the RLMIS fund which provides the reinsurance cover (i.e. the Royal Liver Sub-Fund or the RL Main Fund) to enable 50% of the reinsured BEL to be met. Therefore in total the fixed charges will cover 100% of the reinsured BEL for each Reinsurance Agreement. These fixed charges mean that, in the event that a material breach of the relevant Reinsurance Agreement occurs, Royal London DAC can take control of sufficient assets to meet the reinsured liabilities.

The assets subject to the fixed charges will be taken from the assets of the relevant RLMIS fund and will be allocated to a separate ring fenced collateral account at the custodian. The assets will continue to be managed by RLAM to the relevant investment benchmarks and will be available to meet claims arising under the reinsured contracts using the monthly settlement arrangements. The value of the collateral relative to the reinsured liabilities will be rebalanced as part of the monthly settlement process under the reinsurance agreements with quarterly restatement based on regulatory reporting figures.

In addition, Royal London DAC will have a separate floating charge over the assets of RLMIS, up to the value of the reinsurance agreements, such that the Royal London DAC policyholders rank pari passu with the direct policyholders of RLMIS in the event that RLMIS becomes insolvent. Without such a charge, reinsured policyholders would rank behind direct policyholders in priority in the event of RLMIS being wound up. This charge crystallises into a fixed charge immediately prior to the appointment of an insolvency office holder in respect of RLMIS.

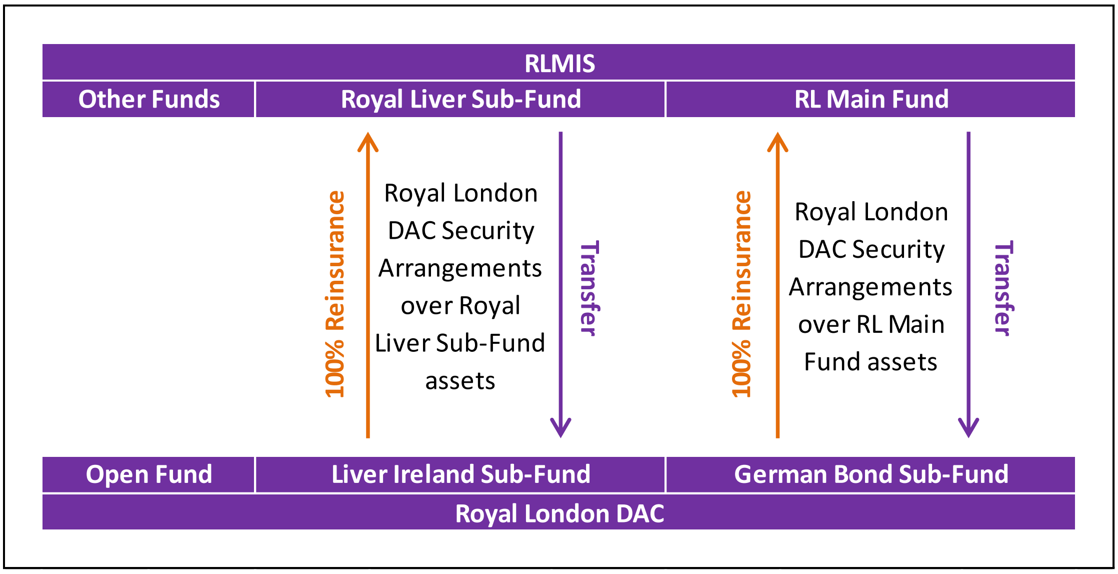
The floating charge and the second tier fixed charges include an "equalisation clause" such that the reinsured policyholders also do not receive more than the equivalent direct policyholders in the event that there is a shortfall of available assets on the insolvency of RLMIS. This is to ensure that the interests of Royal London DAC will be considered on a consistent basis with the interests of direct policyholders of RLMIS, provided the shortfall does not exceed 50% of the reinsured BEL.

The rationale for the two tiers of fixed charge and the equalisation clause only applying to the second tier is that, in the event of the insolvency of RLMIS, it is likely that there would be a material delay before the sums payable in respect of policyholder debts, both the direct policyholders of RLMIS and the reinsured policyholders of Royal London DAC, are able to be determined as it would require an assessment of all of the debts payable on insolvency and the assets available. By not including an equalisation clause in the first tier fixed charge deeds, the collateral under these would be available in short order following the insolvency of RLMIS such that Royal London DAC has sufficient assets to meet any claims arising on the Ireland Liver Policies and German Bond Polices whilst insolvency proceedings are progressed.

There is a possibility that transferring policies could receive more than direct policies of RLMIS under this arrangement, but this would require RLMIS to become insolvent and only be able to meet less than 50% of policyholder claim values. This is an extremely remote possibility.

It is anticipated that the Security Arrangements will be such as to achieve full credit for the value of the collateral in respect of each Reinsurance Agreement in the Royal London DAC SCR.

The diagram below shows the structure of the reinsurance and collateral arrangements.



Termination of reinsurance arrangements with RLMIS

Liver Reinsurance Agreement

The Scheme recognises that, in the event that the Liver Reinsurance Agreement is terminated, prior to the termination taking effect, the process to determine the various interests of the policyholders in the Royal Liver Sub-Fund as set out in the IoT would apply. In particular, the Royal Liver Sub-Fund would need to be split and the assets of the Royal Liver Sub-Fund and Liver Ireland Sub-Fund allocated between the Ireland Liver Business with-profits policies in Royal London DAC and the Non-transferring Liver Sub-Fund Business with-profits policies in the Royal Liver Sub-Fund.

The Scheme requires RLMIS to consider the opinions of the Royal London With-Profits Actuary, Royal London Chief Actuary, Royal London DAC Head of Actuarial Function, Liver Supervisory Committee, RLMIS With-Profits Committee and Royal London DAC Board when completing this process. In addition an independent expert must be appointed to opine on the fairness of the split of the Royal Liver Sub-Fund, including the allocation of the estate of the Royal Liver Sub-Fund between the Ireland Liver Business with-profits policies in Royal London DAC and the Non-transferring Liver Sub-Fund Business with-profits policies in the Royal Liver Sub-Fund.

Following termination of the Liver Reinsurance Agreement the Liver Ireland Sub-Fund may continue to operate as a ring-fenced fund without the link to the Royal Liver Sub-Fund. Relevant provisions, including a requirement to maintain a PPFM Guide, capital support provisions and a set of Core Principles of Financial Management, have been included in the

Scheme to ensure the Liver Ireland Sub-Fund will be managed consistently with the current management of the Royal Liver Sub-Fund.

German Bond Reinsurance Agreement

Following termination of the German Bond Reinsurance Agreement the German Bond Sub-Fund will not continue to operate as a ring-fenced fund. Any remaining German Bond policies would be allocated to the Royal London DAC Open Fund. The Scheme contains provisions to ensure that, on termination of the German Bond Reinsurance Agreement, Royal London DAC is provided with enough assets to meet the BEL, risk margin, SCR and capital buffer in relation to the German Bond Business calculated after the collapse of the German Bond Sub-Fund. Any additional assets required by Royal London DAC will be provided by the RL Main Fund.

External reinsurance

The Ireland Liver Business includes some protection business which is subject to reinsurance of the mortality and/or morbidity risk with external reinsurers. Following the Transfer and the reinsurance of the business in the Royal London DAC Liver Fund back to the Royal Liver Sub-Fund, these external reinsurance contracts will be converted to retrocession contracts[3] between RLMIS and the external reinsurers, maintaining the equivalent reinsurance cover as applies immediately before the Transfer.

(ii) Royal London DAC Open Fund

The RL Ireland Protection Business is also subject to reinsurance of the mortality and/or morbidity risk with external reinsurers. These reinsurance treaties will be novated to Royal London DAC such that the same level of protection is provided after the Transfer. They will be closed to new business from the date of Transfer. Royal London DAC will have reinsurance arrangements in respect of the mortality and/or morbidity risk in respect of the policies which it sells from its authorisation.

3 IMPACT OF THE TRANSFER ON THE TRANSFERRING POLICYHOLDERS

3.1 Factors considered

The impact of the Transfer on the transferring policyholders of RLMIS, i.e. the policyholders of RLMIS immediately before the Transfer becomes effective which are to transfer to Royal London DAC, is considered against the headings of:

(a) Security of benefits (section 3.2).

(b) Benefits payable under participating policies (section 3.3).

(c) Application of discretionary management actions (section 3.4).

(d) Expenses (section 3.5).

[3] A retrocession is the process of ceding all or part of a reinsured risk to another reinsurer.

(e) Service standards/standards of administration (section 3.6).

(f) Investment strategy (section 3.7).

(g) Tax (section 3.8).

(h) Membership rights (section 3.9).

(i) Policyholder communications (section 3.10).

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

3.2 Security of benefits

It is appropriate to consider the security of benefits in two parts, namely:

(i) the RL Ireland Protection Business which is being transferred to the Open Fund of Royal London DAC and

(ii) the Ireland Liver Business and the German Bond Business which are being transferred to separate ring fenced funds in Royal London DAC.

In addition this section considers the policyholder protection available through the prevailing regulatory regimes and external bodies such as ombudsmen and compensation schemes.

<u>RL Ireland Protection Business</u>

The Royal London DAC Open Fund will accept the new protection business written by Royal London DAC from, it is anticipated, December 2018, together with the transfer of the RL Ireland Protection Business on the Effective Date under the Scheme. The transferred protection business and the new protection business will be the same type of business written by RLMIS up to the date that Royal London DAC first accepts new business. This business is supported by reinsurance of the morbidity and mortality benefits provided by a number of strongly rated reinsurers which are to be novated to Royal London DAC.

The Royal London DAC Open Fund will be capitalised to cover the SCR of this business plus a buffer in line with the Royal London Group capital framework. The injection of capital from RLMIS prior to the authorisation of Royal London DAC is €40m (c£36m) which has been stress tested to provide adequate security relative to the capital framework together with the value of transferred RL Ireland Protection Business (£62.5m[4] at 31 December 2017). The Royal London DAC Open Fund will also receive £7.3m of value in respect of the best estimate of the difference between the actual expenses payable in respect of the Ireland Liver Business and the fees received in respect of that business.

It is not anticipated that RLMIS would need to provide additional capital as Royal London DAC is expected to be self-supporting from its own business. Royal London DAC will keep the position of the Royal London DAC Open Fund under review relative to the internal capital

[4] Negative BEL of £62.5m.

framework which has provision for management actions which include potential further capital injections if the Capital buffer falls to levels below Royal London DAC's risk appetite.

Ireland Liver Business and German Bond Business

The Royal London DAC Liver Fund and German Bond Fund will, pursuant to the Scheme, accept the transfers of the Ireland Liver Business and the German Bond Business respectively. These funds will be closed to new business and will be ring fenced funds for the purposes of Solvency II. As explained in section 2.4 above, this business will be 100% reinsured on the Effective Date to the Royal Liver Sub-Fund (Ireland Liver Business) and the RL Main Fund (German Bond Business).

The design of the reinsurance is such that the security of these two blocks of business will be broadly the same after the Transfer as before, i.e. supported by the assets of RLMIS, initially the fund to which they are reinsured but, in extremis, all of the assets of RLMIS. The associated Security Arrangements are constructed in such a way as to provide dedicated collateral for the cover provided and to provide a floating charge over the assets of RLMIS to ensure that Royal London DAC's reinsured policyholders rank pari passu with the direct policies of RLMIS in the event of a winding up.

As a result of the reinsurance, the only risks remaining in the Royal London DAC Liver Fund and German Bond Fund are operational risk and counterparty default risk, the counterparty being RLMIS, which is mitigated by the collateral arrangements and RLMIS's capital management framework. The funds will hold sufficient capital to cover the SCR for these risks plus the Capital buffer under the Royal London DAC internal capital framework.

In addition, the Ireland Liver Business has been subject to the terms of the IoT which sets out the legal basis of the transfer of business from Royal Liver Assurance Limited to RLMIS and determines how RLMIS should manage the Royal Liver Sub-Fund including Core Principles of Financial Management. The terms of the IoT, where applicable, including the Terms of Reference of the Liver Supervisory Committee, are proposed to be updated, subject to PRA approval, to reflect the transfer of the Ireland Liver Business including the reinsurance agreement. The updates are designed to maintain both the reasonable expectations of the Ireland Liver Business policyholders in relation to and the protections conferred by the IoT on those policyholders.

Certain provisions of the IoT have been incorporated into the Scheme so that the Ireland Liver Business policyholders will, upon transfer, continue to benefit from certain of the protections afforded to them by the IoT pre-transfer. The Scheme and the Liver Reinsurance Agreement make appropriate reference to the IoT to enable the IoT to continue to be effective.

The Liver Supervisory Committee will retain its role of oversight in relation to the Royal Liver Sub-Fund including the reinsurance of the Ireland Liver Business. As a committee of RLMIS it will not have direct responsibilities to the Royal London DAC Board but it will be part of the with-profits governance process as described in the With-Profits Actuary Report.

I am satisfied that the updated terms of the IoT and the role of the Liver Supervisory Committee have been appropriately allowed for in the Scheme and reinsurance agreements such that the security of Ireland Liver Business is not materially affected.

The German Bond Business is subject to a potential ruling from the Federal Court of Justice that some of those bonds are deemed to have been mis-sold to investors in Germany by German financial intermediaries. Such a ruling may require compensation to be paid to customers for a significant number of claims made. The potential for such a ruling arises because of similar rulings in respect of similar products sold in Germany by other insurers. RLMIS currently holds a reserve and Pillar 2 required capital for this risk.

The terms of the Scheme are that such liabilities, i.e. mis-selling liabilities which pre date the transfer in respect of the German Bond Business, will be transferred to Royal London DAC but would be discharged by RLMIS on behalf of Royal London DAC or, failing that, would be subject to an indemnity from RLMIS. In this way, there would be no change to the current responsibility for payment for those liabilities should they arise after the Transfer.

Policyholder Protection

Conduct of Business Rules

The Central Bank of Ireland is the regulatory authority for both the authorisation and ongoing supervision of Irish insurers. The General Good Requirements ("**Irish Good Requirements**") apply to all insurers operating in the Irish market.

The RL Ireland Protection Business is currently subject to the Irish Good Requirements, as they were sold by the Irish branch of RLMIS to customers in Ireland, and they will continue to be subject to these standards after the Transfer.

The Ireland Liver Business is currently subject to both the UK conduct of business regulations ("**COBS**") and the Irish Good Requirements. After the Transfer the Irish Good Requirements will apply, although, as the business fully reinsured back to the RLMIS Royal Liver Sub-Fund which is subject to COBS, the Ireland Liver Business will also be indirectly be subject to COBS.

The German Bond Business is currently subject to COBS, with an overlay of the German General Good Requirements ("**German Good Requirements**") which apply to all insurers operating in Germany. After the Transfer a combination of the Irish Good Requirements and German Good Requirements will apply, with the latter reflecting those regulations which BaFin[5] require to be followed. As with the Ireland Liver Business, the reinsurance of the German Bond Business back to the RLMIS RL Main Fund means that the German Bond Business will also be indirectly subject to COBS.

I am satisfied there will be no material adverse affect on any policyholders from the changes to the conduct of business rules relating to their business as a result of the Transfer.

[5] Bundesanstalt für Finanzdienstleistungsaufsicht ("Bafin") is the financial regulatory authority for Germany.

Ombudsman

The RL Ireland Protection policyholders currently have the right to make any complaints to the Financial Services and Pensions Ombudsman Service ("**FSPO**") in Ireland and that position will not change after the Transfer.

Liver Ireland policyholders currently have the right to complain to the FSPO in Ireland or the Financial Services Ombudsman ("**FOS**") in the UK. In practice the majority of holders of Liver Ireland Policies use the FSPO. After the Transfer Liver Ireland policyholders should make any complaints to the FSPO only, unless the complaint is in relation to something that occurred before the Effective Date in which case they can still complain to the FOS.

German Bond policyholders currently have the right to complain to the FOS or BaFin. After the Transfer German Bond policyholders should make any complaints to the FSPO or BaFin, unless the complaint is in relation to something that occurred before the Effective Date in which case they can still complain to the FOS.

I am satisfied there will be no material adverse affect on any policyholders in their rights to make complaints to the relevant ombudsman as a result of the transfer.

Financial Services Compensation Scheme

One aspect of the Transfer is that any transferring policyholders which are covered by the Financial Services Compensation Scheme ("**FSCS**") will lose that cover after the Transfer. The FSCS protects policyholders when UK authorised financial services firms (including insurers) default or become insolvent. FSCS protection will not extend to Royal London DAC as it is to be authorised in Ireland so, following the Transfer, those policyholders who are currently covered by FSCS will no longer be covered by FSCS. There is no equivalent scheme in Ireland.

The protection provided by the FSCS for long-term insurance (e.g. pensions and life assurance) claims against firms declared in default on or after 3 July 2015 is 100% of the claim with no upper limit.

The holders of the following transferring policies are currently covered by the FSCS:

(a) Ireland Liver Business, where the relevant policy was written after 1 December 2001[6] and originally written by Royal Liver Assurance Limited or Caledonian Insurance Company Limited;

(b) German Bond Business and

(c) RL Ireland Protection Business.

Holders of Ireland Liver policies originally written by Irish Life Assurance plc or GRELI are not currently covered by FSCS.

The reinsurance of the Ireland Liver Business and German Bond Business back to RLMIS, and the Security Arrangements, provide direct support from RLMIS for this business which also

[6] FSCS coverage does not apply to business written before 1 December 2001.

has agreed a comprehensive run off plan for the with-profits business in the Royal Liver Sub-Fund. The experience adjustment under the reinsurance agreements also mean that the Liver Ireland Sub-Fund and German Bond Sub-Fund are both maintained with the required Capital buffer.

The RL Ireland Protection Business is supported by the material capital injection to be made by RLMIS to the Royal London DAC Open Fund.

I am satisfied that loss of FSCS coverage is not a material loss of security as RLMIS is and Royal London DAC will be extremely well capitalised businesses, with robust capital management plans and, in the case of RLMIS, a recovery plan, such that the likelihood of a potential claim on the FSCS for transferring customers is very low.

3.3 Benefits payable under participating policies

The groups of participating policies being transferred are:

(a) Ireland Liver Business with-profits policyholders in the Royal Liver Sub-Fund; and
(b) German Bond Business with-profits policyholders in the RL Main Fund.

Royal Liver Sub-Fund business

This fund was established on 1 July 2011 by way of a scheme of transfer of business from Royal Liver Assurance Limited to RLMIS under Section 86 of the Friendly Societies Act 1992. Subsequently the business of GRELI was transferred to this fund on 1 July 2012. The Royal Liver Sub-Fund has both with-profits and non profit business written in both the UK and Ireland. It is governed by an IoT which sets out the legal basis of that transfer and determines how RLMIS should manage the Royal Liver Sub-Fund including Core Principles of Financial Management. The total BEL of the Royal Liver Sub-Fund as at 31 December 2017 was £1,713.2m of which £755.4m related to the Ireland Liver Business. The Ireland Liver Business is therefore a material proportion of the Royal Liver Sub-Fund.

Policy administration, investment management and other aspects of the management of the Royal Liver Sub-Fund are provided to the fund by RLMIS in return for fees determined in accordance with the IoT. These fees are payable from the Royal Liver Sub-Fund to the RL Main Fund which is responsible for the actual expenses arising on this business. In this way the Royal Liver Sub-Fund has some certainty with regard to the expenses charged to it and the RL Main Fund takes the profits or losses arising from the actual expenses being different to the fees. The fees apply until December 2021 when they will revert to actual expenses plus a margin subject to a comparison against the costs of managing the business through outsourcing.

Under the terms of the proposed Transfer, as described in section 2.2, the Ireland Liver Business is transferred to Royal London DAC and simultaneously reinsured back to the Royal Liver Sub-Fund. In this way, there is a net transfer of assets to Royal London DAC of £10m. As described in section 2.4, ongoing reinsurance premiums would allow the Capital buffer to be maintained in line with the Royal London DAC internal capital framework by way of a quarterly experience adjustment. This will have a small impact on the estate of the Royal

Liver Sub-Fund and therefore the distributions made from that fund and the run off of that fund.

The expenses of the Ireland Liver Business are expected to be higher after the Transfer than before because of the additional governance required for the separate legal entity and also because of the risk of additional tax charges arising from some of the administration being provided from the UK. Processes have been arranged (including the transfer of activities to Ireland) to minimise these costs which are seen as a consequence of the need to move the business to an entity in the EU to enable it to be serviced when the UK leaves the EU.

These expenses will be borne by RLMIS, i.e. they will not be charged to the Royal London DAC. The additional expenses will be classified as exceptional costs arising from regulatory change and will be added to the tariff paid by the Royal Liver Sub-Fund under the IoT. They will be charged to the estate of that fund rather than the asset shares. This will impact the surplus arising in the Royal Liver Sub-Fund by broadly £1.8m pa (€2m) from the date of transfer, running off with the business. This is not seen as a material impact on the distributions made from that the fund relative to its level of own funds (estimated as £498.9m at 31 December 2017 allowing for the Transfer and reinsurance).

In addition, the costs of the project to establish Royal London DAC and to make the transfers of business will be borne by RLMIS, of which £10.3m is allocated to the Royal Liver Sub-Fund estate, this being assessed as a fair allocation of these costs in respect of the transfer of the Ireland Liver Business. Again this is not seen as a material impact on the value of a fund with assets of £2.3bn.

If the reinsurance agreement was not in place, the Royal Liver Sub-Fund would need to be split, with a once and for all allocation of all the assets in that fund between the Ireland Liver Business and Non-transferring Liver Sub-Fund Business. This would be a complex task which would involve detailed consideration around the fairness to different groups and generations of policyholders with specific requirements detailed in the IoT.

The Scheme recognises that, in the event that the Liver Reinsurance Agreement is terminated, prior to the termination taking effect, the process to determine the various interests of the policyholders in the Royal Liver Sub-Fund as set out in the Scheme would apply, including an appropriate allocation between the Ireland Liver Business with-profits policies in Royal London DAC and the with-profits policies remaining in the Royal Liver Sub-Fund.

<u>RL Main Fund business</u>

This is the fund into which RLMIS writes its new business, including unit linked business, with a total BEL at 31 December 2017 of £44.7bn of which the German Bond Business comprises £120.5m. The German Bond Business will also be transferred to Royal London DAC and then 100% reinsured back to the RL Main Fund on the Effective Date.

The German Bond Business is administered in the Isle of Man by RL360^{o} Management Services Limited under the terms of a services agreement with RLMIS which will novate to Royal London DAC on the Effective Date. As with the Ireland Liver Business, the expenses of the German Bond Business will increase after the Transfer, with those costs to be met by the RL Main Fund. In addition the RL Main Fund will bear a share of the costs of the project to establish Royal London DAC and to make the transfers of business, the estimate of the allocation in respect of the transfers of the German Bond Business and the RL Ireland Protection Business being £10.7m.

The impact of these costs on the RL Main Fund and the distributions made from that fund will be immaterial because they are extremely small scale relative to the size of the RL Main Fund, which will also benefit from the value of RL DAC as an asset and receive any dividend distributions made by RL DAC.

The unitised with-profits German Bond Business also participates in RLMIS's ProfitShare arrangements which are 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. As described in section 3.9, these policies will continue to benefit from ProfitShare after the Transfer to Royal London DAC while the reinsurance agreement is in place.

ProfitShare is not currently available to the Ireland Liver Business or the RL Ireland Protection Business, nor will it be after the transfer of that business under the Scheme to Royal London DAC.

<u>With-profits governance</u>

All of the with-profits policies of RLMIS, including the Ireland Liver Business and the German Bond Business have been subject to the UK Conduct of Business rules for with-profits business (Conduct of Business Sourcebook Chapter 20). This includes oversight by a With-Profits Committee, advice from a With-Profits Actuary and the establishment of PPFMs.

In addition, the Ireland Liver Business has been subject to oversight from the Liver Supervisory Committee established under the IoT. The Liver Supervisory Committee has a remit to monitor the management of the Royal Liver Sub-Fund to ensure it operates in compliance with the Core Principles of Financial Management, the IoT and Royal Liver PPFM.

The terms of the IoT, where applicable, have been replicated, as far as practicable, in the Scheme. As a result, the Liver Supervisory Committee will retain its role of oversight in relation to the Royal Liver Sub-Fund including the reinsurance of the Ireland Liver Business. As a committee of RLMIS it will not have direct responsibilities to the Royal London DAC Board but it will be part of the with-profits governance and bonus setting processes as described in section 3.11 of the With-Profits Actuary Report.

These processes mean that the with-profits business would continue to follow the Royal Liver PPFM for the Ireland Liver Business and the RL Main Fund PPFM for the German Bond Business while the reinsurance agreements are in place. They include a collaborative approach to setting bonuses for both direct and reinsured policies including input from the RLMIS With-Profits Actuary, With-Profits Committee, the Liver Supervisory Committee (for the Ireland Liver Business) and the Royal London DAC Head of Actuarial Function such that it would be expected, in most circumstances, that the RLMIS Board and the Royal London DAC Board would agree on the bonuses to be paid.

In the event of a disagreement there is an expert determination process written into each Reinsurance Agreement which involves nominating an independent actuary to opine on the fairness of the bonus declaration to the reinsured with-profits policyholders, or on any regulatory reasons why the bonus declaration should differ. The opinion of the independent actuary would be binding on both boards.

The likely overall impact of this governance process is to ensure that the benefits payable under transferred participating policies are consistent with the expectations of the policyholders and are as close as practicable to the benefits that would have been payable if they had not transferred. As this transfer is being performed in the context of allowing the business to continue to be serviced after the UK has left the EU and, of necessity, incurs some additional costs I am confident that the Scheme and reinsurance agreements are such as to not cause a material adverse impact on transferring with-profits policyholders.

3.4 Application of discretionary management actions

Discretionary actions taken by management can take a number of forms. For example, for participating policies discretion is applied when calculating asset shares and setting rates of annual and final bonuses. In adverse scenarios, management actions may need to be taken in order to maintain the solvency of Royal London DAC.

For non-participating policies discretion can be required for certain products where the amount of premium and/or benefit is reviewable or where the amount of a policy charge is reviewable, for example.

For all policies, the handling of claims, in particular illness-related or disability-related claims, is subject to an insurer's policies and procedures and attitude to the acceptance or otherwise of claims where the validity of the claim is not clear-cut. Similarly, the handling of complaints is also subject to the policies and procedures set by the individual firm.

Section 3.3 considers in more detail how benefits will be set for participating policyholders after the Transfer has become effective and the discretionary management actions that could be applied in order to maintain solvency. As a result of the reinsurance of all of the participating policies to RLMIS, discretionary management actions will be applied within the relevant fund of RLMIS as would be applied in the same circumstances before the Transfer, both in terms of their assumed application in the calculation of the SCR and also their actual usage if required. As a result, in my opinion the application of discretionary management actions for this purpose should not be materially different according to whether the Transfer proceeds or not.

The Liver Ireland PPFM Guide will require Royal London DAC to manage discretionary charges having regard, amongst other things, to RLMIS's practice before the Transfer and, for the Ireland Liver Business specifically, the IoT. For the Ireland Liver Business and the German Bond Business this would almost entirely fall back to RLMIS under the reinsurance agreement. In any event I do not expect that in practice the position would be materially different after the Transfer. The same consideration applies in respect of discretion arising through the application of different policies and procedures.

In my opinion, therefore, the Transfer will not materially affect the application of discretionary management actions to the transferring policies.

3.5 Expenses

As described in section 3.3, 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 policies may bear additional costs relative to the position pre-Transfer. However these are seen as necessary to allow the policies to be serviced after the UK leaves the EU. The additional costs will be kept to a minimum by strict expense controls and organisational structuring, e.g. having the administration of the Ireland Liver Business in Ireland rather than the UK as currently to reduce the risk of additional tax charges and regulatory costs.

The additional costs allocated to the Ireland Liver Business will be allocated to the estate of Royal Liver Sub-Fund under the terms of the IoT as described in section 3.3. The additional costs allocated to the German Bond Business will be allocated to the estate of the RL Main Fund.

The additional costs allocated to the RL Ireland Protection Business will be borne by Royal London DAC. These products are all non profit in nature so the costs will be met from the profits of that business, which is still expected to be profitable. Therefore there is no impact on the benefits payable under those policies.

3.6 Service standards/standards of administration

For the RL Ireland Protection Business and the German Bond Business, there will be no change to the existing arrangements for service.

For the Ireland Liver Business the policy administration will move from the UK to Ireland such as to allow Royal London DAC to provide closer oversight. The terms of the Transfer require Royal London DAC to use all reasonable endeavours to provide standards of service to the transferring policyholders that are not inconsistent with those provided by RLMIS immediately before the Transfer. The Royal London Group is committed to ensuring that all its policyholders receive a good level of service and has a well-established administration operation in its current businesses and RLMIS and Royal London DAC will work together to ensure that the transfer of administration is as smooth as practicable.

RLMIS is aware of the risk of a loss of experience in administering the Ireland Liver Business, knowledge of the terms of those policies and the background to RLMIS's current operations. Any of these losses could lead to a reduction in the standard of administration and this risk is therefore being carefully monitored and managed.

Royal London's past experience in dealing with changes to administration arrangements following transfers of business allows me to conclude 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 with a suitably phased handover of activity from the UK to Ireland including an appropriate level of training.

3.7 Investment strategy

The RL Ireland Protection Business will be transferred to the Open Fund of Royal London DAC. The nature of protection business is such that there is little requirement for material levels of invested assets as the technical provisions are projected to be negative. Therefore invested assets are only required to meet the capital requirements, including the risk margin, and any Capital buffer. The strategy proposed for this is to utilise cash and short dated strongly rated government bonds, both euro denominated, to minimise the risk relating to these assets. There is scope for a small allocation to investment grade short dated corporate bonds.

The level of the initial capital injection into the Open Fund of Royal London DAC has been assessed both to provide appropriate capital coverage as the business develops and also to provide adequate liquidity to run the business as the contracts sold by the subsidiary, i.e. protection, produce intangible assets in their early years (i.e. value of future profits which manifest through the BEL which is negative). The transfer of the RL Ireland Protection Business speeds up the generation of positive cash flows and therefore reduces the initial cash requirement. As liquidity is the main determinant of the amount of the capital injection, the Royal London DAC Open Fund is very strongly capitalised from inception with a ratio of own funds to capital requirement of 449% based on 31 December 2017 estimated figures after the Transfer of the RL Ireland Protection Business.

The Ireland Liver Business and the German Bond Business will be 100% reinsured to RLMIS on the Effective Date as described in section 3.2. The reinsurance will be arranged such as to be able to minimise the capital requirements for this business in Royal London DAC. As a consequence the strategy proposed for these two blocks of business is also to utilise euro denominated cash and short dated strongly rated government bonds, with a potential small allocation to investment grade short dated corporate bonds.

The reinsurance agreements for the Ireland Liver Business and the German Bond Business, including the Security Arrangements, are such as to minimise the disruption to their originating funds in RLMIS. As a result it is not anticipated that there will need to be any change to the investment strategies for those funds, particularly for the asset shares underpinning the with-profits business.

Royal London Asset Management ("**RLAM**"), a member of the Royal London Group, is the investment manager of the RLMIS funds, and will also be the investment manager for Royal London DAC.

3.8 Tax

There are a number of areas of potential change resulting from the Transfer and they are subject to the clearances that are currently being sought from the tax authorities:

(i) Policyholder taxation

No changes are anticipated in respect of direct policyholder taxation for the:

- RL Ireland Protection Business and the Ireland Liver Business as the funds are expected to continue to be taxed on the same bases when they move from the Irish Branch in RLMIS to Royal London DAC. In particular for the Ireland Liver Business, no change arose when it was transferred into RLMIS in 2011.
- The German Bond Business provided no policyholders have subsequently become resident in Ireland.

(ii) Capital gains

Any business assets (including intangible assets) passing from the Ireland Branch in RLMIS will fall within the group relief exemptions at the time of transfer. A charge to tax would arise if Royal London DAC, whilst retaining ownership of these assets, subsequently left the Royal London Group within 10 years of the transfer. No such departure from the Group is envisaged.

(iii) Value added tax

Prior to the Transfer all entities that have traded and will trade in Ireland will be registered in an Irish VAT group and so transfers of assets are not expected to crystallise a tax charge. It is possible that 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.

(iv) Corporation tax

The most significant change is that 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 Liver and German Bond Sub-Funds of Royal London DAC which will be run along mutual lines due to the 100% reinsurance agreements.

Trading profits are expected to arise in the Open Fund of Royal London DAC and corporation tax will be applied at 12.5%. As that fund only has non profit business with defined benefits, this additional taxation will not affect policyholder values.

It should be noted that 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 could well 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 4.7(iii)). 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.

The capital contributions into the Royal London DAC Open Fund (transfer of BEL with negative value) are expected to be accounted for as a capital contribution with no impact on the income statement (subject to confirmation from the tax authorities). Consequently no tax is expected to arise in Royal London DAC in respect of the Transfer.

(v) Transfer pricing

Given the mutual nature of the Ireland Liver Business and German Bond Business and the relatively small sums involved it is expected that a simple cost recharge or a modest cost plus approach may be appropriate.

Overall there will be some additional taxation arising as a result of the Transfer, although not directly on the policyholders. That arising from transfer of the Ireland Liver Business and the German Bond Business will be charged, via the reinsurance agreement, to the estates of the Royal Liver Sub-Fund and RL 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.

3.9 Membership rights

The only transferring policies which confer membership of RLMIS are the with-profits policies of the German Bond Business. 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.

The main benefits of membership of RLMIS are:

(i) The right to vote at an Annual General Meeting (”AGM”) or Extraordinary General Meeting (”EGM”) of RLMIS.
(ii) The right to support a resolution to call an EGM of RLMIS which requires a minimum of 500 members to provide such support.
(iii) The right to include a resolution in the notice of an AGM which requires a minimum of 500 members to support such a resolution.
(iv) The potential for compensation in the event of a demutualisation of RLMIS.

The value of an individual right to vote at or include a resolution at an AGM or EGM or to call an EGM is seen to be small. The German Bond policyholders represent c0.1% of the total membership of RLMIS so their power to have specific influence on the voting or decision making at any meeting is extremely low.

Demutualisations are less common in the UK market than they once were and RLMIS is committed to its mutual status such that it has no intention to demutualise in the foreseeable future.

As a result there is unlikely to be any demutualisation compensation payable to this group of policyholders which is running off relatively quickly. However, to provide protection for the with-profits German Bond policyholders should this position change in the medium term, the Scheme includes a provision that, should RLMIS demutualise within five years of the Effective Date, they would be paid the same compensation for loss of membership as they would have received had they retained membership provided they continue to hold the policy with Royal London DAC, even if the German Bond Reinsurance Agreement had terminated.

The with-profits German Bond Business benefits from ProfitShare receiving enhancements to asset shares of c£1.7m in respect of 2017. ProfitShare is associated with membership, but is not exclusive to members. The proposed reinsurance of these policies back to RLMIS and the associated with-profits governance means that these policies will continue to benefit from RLMIS's ProfitShare arrangements.

I am satisfied that the loss of membership rights, which is inevitable under RLMIS's Articles of Association as the German Bond policies are not direct policies of RLMIS following the Transfer, is justified by the need to make the Transfer in order to be able to service these policies after the UK leaves the EU. The policyholders will continue to benefit from ProfitShare via the reinsurance agreements which they would otherwise have lost as a result of the Transfer and also have the protection in respect of compensation on the demutualisation of RLMIS for five years from the Effective Date. As a result I am also satisfied that the German Bond Business with-profits policyholders will not receive any monetary compensation for the loss of membership rights as a result of the Transfer.

3.10 Policyholder Communications

A detailed communication plan has been produced that seeks to ensure that all of the legal owners of transferring policies are adequately informed of the nature and likely effect of the Scheme. The information to be provided will include an explanatory letter, policyholder booklet and a set of anticipated frequently asked questions with answers.

The mailings will be tailored to different transferring customer groups, namely RL Ireland Protection Business, Ireland Liver Business, German Bond Business and the Non-transferring Liver Sub-Fund Business.

The regulations surrounding Part VII transfers require that, unless the Court otherwise orders, all policyholders of the applicant companies should be written to in order to inform them of the proposed Scheme. An application has been made for a number of waivers from the High Court where it is not practical or possible to mail customers, e.g. where we do not hold a valid address.

Supplementing the written communications, information will be posted on the royallondon.com and royallondon.ie websites and legal notices published in a variety of UK, Ireland and Germany newspapers. Dedicated telephone lines will also be established 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 will be available online or on request (in writing or by telephone).

I am satisfied that the proposed communication plan in respect of Transferring Policyholders described above is appropriate and consistent with the principles pertaining to the fair treatment of policyholders.

4 IMPACT OF THE TRANSFER ON REMAINING POLICYHOLDERS OF ROYAL LONDON

4.1 Factors 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, is considered against the headings of:

(a) Security of benefits (section 4.2).

(b) Benefits payable under participating policies (section 4.3).

(c) Expenses (section 4.4).

(d) Service standards (section 4.5).

(e) Investment strategy (section 4.6).

(f) Tax (section 4.7).

(g) Membership rights (section 4.8).

(h) Policyholder communications (section 4.9).

4.2 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 RLMIS policies in the RL Main Fund will experience some change as that fund will lose the liabilities for the transferred RL Ireland Protection Business and will make a capital contribution of €40m to Royal London DAC in return for 100% shareholding. It will also contribute a net amount of £2.9m to the Royal London DAC German Bond Fund to meet the regulatory capital requirements plus a buffer which will gradually be returned to the RL Main Fund as the Royal London DAC German Bond Fund runs off. These contributions have to be seen in the context of a fund with own funds of £4.3bn and a surplus over the SCR of £2.4bn (at 31 December 2017), each pre transfer. They are of minimal impact to the security of the benefits of policyholders remaining in the RL Main Fund even if the contributions were to be lost, which is not expected to be the case as Royal London DAC is expected to be a source of future profit for the RL Main Fund by way of dividend payments and the value of the subsidiary.

The policyholders in the Royal Liver Sub-Fund after the Transfer will comprise the Non-transferring Liver Sub-Fund Business together with a reinsurance agreement with Royal London DAC in respect of the Ireland Liver Business. The impact of the Transfer and reinsurance combined is such that the liabilities of the Royal Liver Sub-Fund remain broadly unchanged. The floating charge that will be held by Royal London DAC means that the Ireland Liver Business and Non-transferring Liver Sub-Fund Business rank pari passu in the event that RLMIS is wound up. The assets are £9.6m lower immediately after the Transfer, this being the sum required by the Liver Ireland Sub-Fund to meet the regulatory capital requirements plus a buffer. This will gradually be returned to the Royal Liver Sub-Fund as the Liver Ireland Sub-Fund runs off. In the context of own funds of £498.9m and surplus over the SCR of £317.7m (at 31 December 2017), each pre transfer, this is again of minimal impact to the security of the Royal Liver Sub-Fund.

The Royal Liver Sub-Fund will also incur additional expenses of c£1.8m pa (€2m) per annum as a result of the Transfer plus £10.3m in respect of a share of the costs of the project to effect the Transfer, both of which will be charged to the estate of that fund. I am satisfied that this will not have a material impact on the security of a well-capitalised fund.

4.3 Benefits payable under participating policies

The groups of participating policies which could be affected by the Transfer are:

(a) With-profits policyholders in the Royal Liver Sub-Fund, i.e. the with-profits policyholders in the Non-transferring Liver Sub-Fund Business which is to remain in that fund; and
(b) With-profits policyholders, other than ex UAG[7] Industrial Branch[8] with-profits policyholders, in the RL Main Fund.

The following groups of policyholders are and will be wholly unaffected by the profits or losses arising from the Transfer:

(a) With-profits policyholders in the RLMIS RL (CIS) Fund.
(b) With-profits and deposit administration policyholders in the RLMIS Scottish Life Fund.
(c) Ex UAG Industrial Branch with-profits policyholders in the RL Main Fund.
(d) With-profits policyholders in the RLMIS PLAL With-Profits Fund
(e) Non profit policyholders including unit-linked policyholders.

The RL Main Fund will pay the capital contributions to Royal London DAC from its estate which will hold Royal London DAC as an asset. As described in section 4.2 these payments

[7] United Assurance Group, see Appendix A.
[8] Life insurance contracts where premiums were originally paid by means of collectors (although many of these premiums are now paid by direct debit).

have a minimal impact on the value of the RL Main Fund and therefore will not have any material impact on the benefits payable under participating policies allocated to that fund.

The combination of the Transfer and reinsurance of the Ireland Liver Business results in a small impact on the estate of the Royal Liver Sub-Fund as described in section 4.2. In addition the extra expenses of the transferred business will also be charged to the estate of that fund. The estate will be distributed consistently across the Ireland Liver Business and the Non-transferring Liver Sub-Fund Business policies of that fund as it runs off. As a result, the estate distribution to the Non-transferring Liver Sub-Fund Business will be marginally lower than it would have been without the Transfer. This is seen in the context that some action is required to enable the Ireland Liver Business to continue to be serviced recognising the long standing treatment of the Non-transferring Liver Sub-Fund Business and Ireland Liver Business on a consistent basis. I do not believe that it is appropriate to charge these additional expenses to the Ireland Liver Business only.

4.4 Expenses

The RL Main Fund will not bear any additional expenses as a result of the Transfer other than those allocated to the RL Ireland Protection Business and German Bond Business, which include a share of the costs of the project to establish Royal London DAC and to make the transfers of business which is estimated as £10.7m. This will be met by the estate of the RL Main Fund and is considered to be immaterial relative to the size of that fund.

The RL Main Fund will also no longer bear the profits and losses arising from the difference between the fees received under the IoT in respect of the Ireland Liver Business and the actual expenses of that business which will, following the Transfer, fall to the Royal London DAC Open Fund. As at 31 December 2017 the best estimate valuation of those profits and losses was £7.3m which is again immaterial relative to the size of that fund, while Royal London DAC is expected to be a source of future profit for the RL Main Fund by way of dividend payments and the value of the subsidiary.

The estate of the Royal Liver Sub-Fund will bear the additional expenses of c£2.7m pa (€3m) per annum allocated to the Ireland Liver Business resulting from the Transfer. The estate is shared between the Non-transferring Liver Sub-Fund Business and the Ireland Liver Business which is reinsured to that fund as described in section 4.3.

4.5 Service standards

The Transfer will have no direct impact on the service standards provided by Royal London to its remaining policyholders as there are no plans to change the administrative procedures with regard to service as a result of the Transfer.

4.6 Investment strategy

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

4.7 Tax

There are a number of areas of potential change resulting from the Transfer and they are subject to the clearances that are currently being sought from the tax authorities.

(i) Policyholder taxation

No changes are anticipated in respect of direct policyholder taxation for the business which is not being transferred.

(ii) Capital gains

Any business assets (including intangibles) passing from the Ireland Branch in RLMIS arise from business that is classified as non-BLAGAB[9] in the UK and so are expected to fall within the foreign branch exemption election that was made and confirmed with HMRC in 2017.

(iii) Corporation tax

It is expected that there will be a corresponding impact in the UK to that noted in section 3.8(iv) in respect of Ireland with the taxation of reinsured life business resulting in a change to the tax computation of the UK business. This change is expected essentially to 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 3.8 (iv) 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.

(iv) Transfer pricing

Given the mutual nature of the Ireland Liver Business and German Bond Business and the relatively small sums involved, initial discussions with HMRC suggest that a simple cost recharge or a modest cost plus approach may be appropriate. Overall there will be some change to the taxation arising as a result of the transfer, although not directly on the policyholders. These impacts are not expected to be material.

4.8 Membership rights

The Transfer will not affect any membership rights of those policyholders which are remaining with RLMIS.

4.9 Policyholder Communications

A detailed communication plan has been produced that should ensure all of the legal owners of transferring policies are adequately informed of the nature and likely effect of the

[9] Basic life assurance and general annuity business.

Scheme. The information to be provided will include an explanatory letter, policyholder booklet and a set of anticipated frequently asked questions with answers.

The regulations surrounding Part VII transfers require that, unless the High Court otherwise orders, all policyholders of each party to a transfer should be written to in order to inform them of the proposed Scheme. An application is to be made for a number of waivers from the High Court where it is not practical or possible to mail customers, e.g. where we do not hold a valid address, or we do not wish to write to all customers in the RL Main Fund and those in the closed funds, other than the Royal Liver Sub-Fund, on grounds of cost and relevance.

Supplementing the written communications, information will be posted on the royallondon.com and royallondon.ie websites and legal notices published in a variety of UK, Ireland and German newspapers. Dedicated telephone lines will also be established 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 will be available online or on request (in writing or by telephone).

I am satisfied that the proposed communication plan described above is appropriate and consistent with the applicable pre and post-transfer communication requirements contained in the Financial Services and Markets Act ("**FSMA**")2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (as amended) together with other communication requirements arising under FSMA and other principles and guidelines applicable to policyholder communications including, without limitation, the FCA Principle 6: "A firm must pay due regard to the interests of its customers and treat them fairly".

5 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. My certification is in Appendix B.

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.

6 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, 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.

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
3 October 2018

Appendix A BACKGROUND TO AND OUTLINE OF THE TERMS OF THE TRANSFER

A.1 Introduction

This Appendix gives background information about RLMIS, Royal London DAC, the background to and rationale for the Transfer and about the business that is proposed to be transferred. It also highlights some of the more important terms of the transfer. A summary of the terms of the Transfer will be included in the communications that will be issued to the transferring policyholders and, subject to the waivers referred to in section 4.8, those remaining with RLMIS.

A.2 Royal London

RLMIS is a mutual life insurance company and was established in the UK in 1861 as a friendly society. It was incorporated as a company limited by guarantee in 1908 and is governed by its own Memorandum and Articles of Association. It is registered in England, no. 99064.

Since 2000 RLMIS has acquired the long term business of several life companies, notably:

- The Co-operative Banking Group.
- The Scottish Life Assurance Company.
- Phoenix Life Assurance Limited.
- Certain protection business of Scottish Mutual Assurance Limited and Scottish Provident Limited.
- Royal Liver Assurance Limited.
- Those in the United Assurance Group ('UAG') comprising Refuge Assurance plc, United Friendly Insurance plc, United Friendly Life Assurance Limited, Refuge Investments Limited and Canterbury Life Assurance Company Limited.

The long term businesses of these companies were subsequently transferred into RLMIS.

As a result RLMIS has a relatively complex fund structure including several distinct blocks of with profits business, a mixture of Ordinary Branch and Industrial Branch business, and a wide range of contract types. These transfers have given RLMIS valuable experience of effecting smooth and efficient transfers of business.

RLMIS now acquires most of its new business through independent financial advisers in the UK and specialises in writing pensions business (both unit linked and unitised with-profits) and non profit protection business under the 'Royal London' brands.

RLMIS is in a healthy financial condition, as demonstrated by the figures in its annual report and accounts, in its SFCR and relative to its Pillar 2 capital requirements. Some figures relating to its financial condition are provided in Section 2.3.

A.3 Royal London DAC

The result of the UK public referendum of 23 June 2016 was that that the UK should leave the EU, with the planned exit on 29 March 2019. Currently the EU passporting system for banks and financial services companies enables firms that are authorised in any EU or EEA state to trade freely in any other with minimal additional authorisation. These passports are the foundation of the EU single market for financial services. Passporting may not be available to the UK after 29 March 2019 and UK firms could face significant regulatory barriers to providing cross-border banking and investment services to customers and counterparties in many EU Member States.

RLMIS has had a branch in Ireland which became part of RLMIS in 2011 when RLMIS acquired the Royal Liver business. This branch sells protection business though an intermediated channel by way of such an EU passport.

To provide more certainty over the legal status of the business and the regulatory environment in which it operates, RLMIS decided to establish a subsidiary in Ireland and to seek to achieve this before the EU exit. This is also a mitigation to ensure that, regardless of the terms that the UK negotiates for its exit from the EU, the Royal London Group will continue to be able to operate in Ireland, and will also be able to maintain cross-border services passports in relation to other EEA states (or obtain equivalents). This subsidiary, Royal London DAC, is authorised in its own right by the Irish Regulator, the Central Bank of Ireland.

A.4 Background to and business rationale for the Transfer

When the UK leaves the EU, unless there is a specific equivalent arrangement to passporting or grandfathering of existing terms for legacy business, it may not be possible to service business written in the UK into EU or EEA states. As a result it is planned to transfer all of the business written by RLMIS (or its predecessors) in the EU or EEA to Royal London DAC which will be able to benefit from the passporting arrangements. In practice this represents business written in Ireland and Germany.

A.5 The business proposed to be transferred

The business to be transferred from RLMIS to Royal London DAC comprises:

(i) The RL Ireland Protection Business.
(ii) The Ireland Liver Business.
(iii) The German Bond Business.

as defined in Section 1.1.

A.6 Basic transfer structure and terms of the transfer

Please refer to Section 2.2 for the structure and terms of the transfer.

All of the costs incurred in connection with the Transfer will be borne by RLMIS and shared between the RL Main Fund and the Royal Liver Sub-Fund. The Royal Liver Sub-Fund will bear its share of certain exceptional costs as described in the Transfer documentation, for example the additional costs of governance required for Royal London DAC.

A.7 Pension Fund covenant

The Royal Liver Sub-Fund has the liabilities for any losses under the former Royal Liver Assurance pension schemes, one each for the former UK and Ireland employees of Royal Liver Assurance. The Royal Liver Sub-Fund will maintain those liabilities after the transfer. The reinsurance agreement leaves the Royal Liver Sub-Fund in virtually the same position as it was before the transfer of the Ireland Liver Business, as described in sections 3.2 and 4.2 relating to the security of benefits for policies which are transferring and not transferring respectively. As a result the covenant of these two former Royal Liver Assurance pension funds is not materially affected by the transfer.

The RL Main Fund has the liabilities for any losses under the Royal London Group Pension Scheme ("RLGPS"). As also described in sections 3.2 and 4.2 relating to the security of benefits for policies which are transferring and not transferring respectively, the transfer of the RL Ireland Protection Business and German Bond Business have an immaterial impact on the financial strength of the RL Main Fund so the covenant of RLGPS is not materially affected by the transfer.

A.8 Reinsurance agreements

Please refer to Section 2.2 for the summary of the reinsurance agreements.

Appendix B CERTIFICATION FOR PROPOSED CHANGES TO ROYAL LIVER INSTRUMENT OF TRANSFER

Certificate under Clause 36.2 of the Instrument of Transfer under which the long term business of Royal Liver Assurance Limited was transferred to The Royal London Mutual Insurance Society Limited ('Royal London') as sanctioned by the FSA with effect from 1 July 2011

I certify that, in my opinion the proposed amendments to the Instrument of Transfer will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the Instrument of Transfer, on the holders of Royal Liver Business policies. In coming to this opinion I have taken account of the proposals as a whole and their impact on holders of Royal Liver Business policies as a whole.

Shaun Cooper
Chief Actuary
The Royal London Mutual Insurance Society Limited
3 October 2018