Milliman Client Report

The Part VII transfer of the business of the Prudential Assurance Company Limited to Prudential International Assurance Plc

The Supplementary report of the Independent Expert

Prepared by:

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CONTENTS

1 INTRODUCTION

The proposed transfer

1.1 The Prudential Assurance Company Limited ("PAC") is a proprietary company, whose shares are wholly owned by Prudential plc (an international financial services group) and whose principal activity is long-term insurance business.

1.2 Prudential International Assurance plc ("PIA") is a proprietary company, domiciled and authorised in the Republic of Ireland ("Ireland"), whose shares are wholly owned by PAC, and whose principal activity is long-term insurance business.

1.3 It is proposed to transfer the existing PAC long-term business in Poland, France, Malta, Ireland and Germany to PIA under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). Such a transfer is often called a Part VII transfer.

1.4 This Part VII transfer of the business of PAC into PIA ("the transfer") is expected to be presented to the High Court of Justice of England and Wales (the "Court") for its Final Hearing on 11 December 2018.

1.5 If approved by the Court, the Scheme will become operative on 1 January 2019 (the "Transfer Date"), at which point the transferring business will legally transfer from PAC to PIA.

The Independent Expert: my appointment and role

1.6 I have been appointed by PIA and PAC to report, pursuant to Section 109 of the FSMA in the capacity of the Independent Expert, on the terms of the proposed scheme (the "Scheme") providing for the transfer of the long-term business of PAC to PIA.

1.7 My appointment as Independent Expert was approved by the Prudential Regulation Authority (the "PRA"), after consultation with the Financial Conduct Authority (the "FCA").

1.8 The role of the Independent Expert is to assess the proposed Part VII transfer and to report on this (the "Scheme Report") to the Court.

1.9 I prepared a report dated 29 June 2018 ("my main report") in which I considered the proposed Scheme for the Directions Hearing on 9 July 2018, and this report is the "Supplementary Report", the purpose of which is set out below.

The purpose of this Supplementary Report

1.10 In Section 13 of my main report I set out my conclusions as follows:

I am satisfied that the implementation of the Scheme would not have a material adverse effect on:

- The security of the benefits under the policies of PIA and PAC;
- The reasonable expectations of the policyholders of PIA and PAC with respect to their benefits; or
- The standards of administration, service, management and governance that apply to the PIA and PAC policies.

I am satisfied that the Scheme is equitable to all classes and generations of PIA and PAC policyholders.

1.11 The purpose of this Supplementary Report is to provide an updated assessment of the likely effects of the proposed transfer ahead of the Final Hearing on 11 December 2018 and to consider whether the conclusions reached in my main report remain valid in light of the updated financial information received, any other relevant significant events subsequent to the date of the finalisation of my main report, and any policyholder feedback or queries in relation to the Scheme.

1.12 This Supplementary Report should be read in conjunction with my main report. The reliances and limitations set out in Section 1 of my main report apply equally to this Supplementary Report. Defined terms used in my main report have the same meaning in this report and are set out in Appendix 4.

My assessment of the effect of the proposed Scheme

1.13 Given the inherent uncertainty of the outcome of future events it is not possible to be certain of the effect of the proposed Scheme on the affected policies. In order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold and this is the approach I have taken in preparing this Supplementary Report.

1.14 In practice this means that if the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, I do not consider that it would have a material effect on policyholders.

1.15 The framework in which I undertake my consideration of the proposed Scheme is set out in more detail in Section 4 of my main report.

Regulatory and professional guidance

1.16 The Supplementary Report has been prepared subject to the terms of the following Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council which came into effect on 1 July 2017:

- TAS 100: Principles for Technical Actuarial Work; and
- TAS 200: Insurance.

1.17 In my opinion, this report complies with the TASs listed above. In complying with these requirements, I note that a number of the key documents listed in Appendix 3 have been prepared or reviewed by individuals, such as the PAC Chief Actuary and the PAC With-Profits Actuary (the "WPA"), who were subject to professional standards in undertaking their work, including, where appropriate, the TAS requirements.

1.18 In the context of the TASs, my main report and this Supplementary Report are component reports which together form an aggregate report.

1.19 In accordance with the Actuarial Profession Standards ("APS") issued by the Institute and Faculty of Actuaries, APS X2 requires members to consider whether their work requires an independent peer review. In my view this report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

2 THE CHANGES AND EVENTS SINCE MY MAIN REPORT THAT ARE RELEVANT TO THE SCHEME

The updated financial information as at 30 June 2018 for PIA and PAC

2.1 The conclusions in my main report were based on the financial information in respect of PIA and PAC as at 31 December 2017.

2.2 The PIA and PAC financial results as at 30 June 2018 were finalised in August 2018 and I include this updated financial information in Appendices 1 and 2 of this report. The financial results as at 30 June 2018 include the effects of the following events that were not included in the financial information as at 31 December 2017 in my main report:

- The reinsurance transaction with Rothesay Life plc;
- The changes to the Prudential Group Internal Model (the "PGIM") over the period; and
- The updated financial information available for PIA and PAC as at 30 June 2018 which will include the effects of in-force business running off, new business written, and market movements since 31 December 2017.

2.3 I have reconsidered the conclusions set out in my main report in light of this updated financial information in Section 3 of this Supplementary Report.

Recent changes to with-profits governance issued by the Central Bank of Ireland (the "CBI")

2.4 On 22 June 2018, the CBI published a consultation paper 'CP122: Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II', which sets out a number of proposals in respect of the governance of the with-profits business of insurance companies in Ireland.

2.5 On 27 November 2018 the CBI published its feedback statement which sets out a summary of the feedback from respondents to the proposals, the CBI's responses to the feedback and any amendments to the final document that have been made. It is proposed that the new governance requirements would be applied from 1 January 2020.

2.6 In summary, the changes cover the following:

- A proposed requirement for each firm with with-profits business to introduce and maintain a document called the With-Profits Operating Principles ("WPOP") which would include principles relating to:
    - The amount payable under the with-profits policies;
    - The investment strategy;
    - The business risk associated with the with-profits policies, including who bears the cost of guarantees and smoothing;
    - The insurer's allocation of expenses, and charges to with-profits policies; and
    - Equity between with-profits policyholders and shareholders, including profit sharing arrangements.

    The CBI has pledged to apply the new with-profits governance in a proportionate manner and will allow firms to apply for exemptions.

- That the firm's Board is responsible for the content of the WPOP, that it would be made publicly available, and that restrictions would apply around making changes to the WPOP.

- A requirement for the Head of the Actuarial Function (the "HoAF") of the firm to make an annual report to the Board to opine on the ongoing compliance with the WPOP. The Board must reflect any exceptions from the HoAF report in its annual report to with-profit fund members.

2.7 I cover the effects on the Scheme of the changes to the governance of with-profits business in Ireland in Section 5 of this Supplementary Report.

The policyholder communications

2.8 At the Directions Hearing on 9 July 2018, the Court:

- Granted PAC a waiver from the requirement to communicate directly with its non-transferring policyholders in respect of the Scheme; and
- Gave approval for PAC to contact the transferring Affinity policyholders through digital methods.

2.9 A communication pack was sent to all transferring PAC policyholders and all existing PIA policyholders (excluding Affinity policyholders) for whom PIA and PAC had a name and address. The mailing packs contained a covering letter, and a Policyholder Information Booklet, which contained: a summary of the Scheme, a summary of my main report, Questions & Answers, and a copy of the legal notice.

2.10 For the transferring Affinity policyholders, an SMS message was sent to the mobile phone number connected to each policy, including a link to the website which holds all relevant documentation of the Scheme.

2.11 The Scheme was also publicised in the following ways:

- The following websites:
  - www.pru.co.uk;
  - www.prudential.pl;
  - www.prudential.fr; and
  - www.prudential-international.com.
- Published notices in the United Kingdom in a form approved by the PRA in the London Gazette, the Edinburgh Gazette, the Belfast Gazette, and the following national newspapers in the UK: the Times, the Financial Times, the Daily Telegraph, the Sun, the Daily Mirror and the Daily Mail.
- Published notices in two national newspapers in each European Economic Area ("EEA") State of the commitment for any policy included in the transfer, namely:
  - Gazeta Wyborcza and Dziennik Gazeta Prawna in Poland.
  - Les Echos, Le Monde and the French Legal Gazette (Journal Officiel) in France.
  - Times of Malta and In-Nazzjon in Malta.
  - Der Tagesspiegel, and Frankfurt Allgemeine Zeitung in Germany.
  - The Irish Times, The Irish Independent and the Irish Gazette (Iris Oifigiúil) in Ireland.

2.12 This Supplementary Report will be:

- Made available on the websites listed above.
- Provided directly to any persons who have:
  - Requested a copy;
  - Objected to the proposed Scheme;

- o Indicated they will attend the final Court hearing; or
- o Requested a copy of the main report.

2.13 Because of the compressed timescales, this Supplementary Report will be issued to the objecting policyholders by courier to their home address and:

- If PAC has an email address then the policyholder will receive a copy of the report by email and a follow up telephone call to advise them that the report has been sent by email and courier; and
- If PAC does not have an email address then the customer will receive a telephone call to advise them that the report will be sent by courier, that it is on the website, and to ask for their email address to enable the report to be emailed to them.

2.14 Contacting the objecting policyholders by telephone and sending the report by email as well as by Courier should ensure that the policyholder will receive the report if for some reason the courier can't deliver it to the address held. The objecting policyholders are based in Poland, Germany, France and Ireland.

2.15 I cover the questions and objections received from policyholders in response to the mailings and publicising of the proposed Scheme in Section 6 of this Supplementary Report.

3 THE EFFECT OF THE SCHEME ON THE SECURITY OF THE BENEFITS UNDER THE POLICIES OF PIA AND PAC

The firms’ risk appetite statements and internal capital management policies

3.1 As set out in Section 3 of my main report, in order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of the regulatory capital requirements, insurance companies usually aim to hold more capital than the amount strictly required to meet the Solvency Capital Requirement (the “SCR”) required under the Solvency II regulatory regime. The details of this target level of capital buffer are typically set out in the firm’s risk appetite statement and changes to the internal capital policy usually require Board approval and appropriate consultation with the regulators (the PRA in the UK and the CBI in Ireland).

3.2 The capital management policy of PAC is set out in the PAC risk appetite statements and the capital management policy of PIA is set out in the PIA risk appetite statement (“PIA RA Statement”). The PAC and PIA risk appetite statements are confidential and are not in the public domain and so the detail of the PAC risk appetite statements and the PIA RA Statement are not included in my main report or in this report.

3.3 Since my main report there have been no changes to the PAC risk appetite statements or to the PIA RA Statement and therefore, in this respect, there are no reasons to change the conclusions in Section 13 of my main report.

The updated financial information as at 30 June 2018

Introduction

3.4 The conclusions in my main report were based on the financial information provided by PIA and PAC as at 31 December 2017.

3.5 The financial results for PIA and PAC as at 30 June 2018 were finalised in August 2018 and include the effects of the following events that were not included in the financial information as at 31 December 2017 in my main report:

- The reinsurance transaction with Rothesay Life plc;
- The changes to the Prudential Group Internal Model (the “PGIM”) over the period; and
- The updated financial information available for PIA and PAC as at 30 June 2018 which will include the effects of changes in market conditions, in-force business running off, and the writing of new business since 31 December 2017.

3.6 I have reconsidered my conclusions in light of this updated financial information.

The reinsurance transaction with Rothesay Life plc

3.7 In March 2018, Prudential plc announced that PAC had entered into a transaction to transfer a portion of the shareholder-backed non-profit annuity business to Rothesay Life plc (“Rothesay”). Under the terms of the agreement, approximately £12 billion of liabilities (as at 31 December 2017) were reinsured to Rothesay, through a collateralised reinsurance arrangement (the “Rothesay reinsurance arrangement”) that became effective on 14 March 2018, with the intention that this would be followed by a Part VII insurance business transfer of the business to Rothesay by the end of 2019.

3.8 It should be noted that:

- None of the transferring business under the proposed Scheme is included in the Rothesay reinsurance arrangement or will be included in the subsequent Part VII transfer of the business to Rothesay;
- The Rothesay reinsurance arrangement has no effect on PIA; and
- The transferring business is small relative to PAC (less than 0.05% by liabilities).

3.9 As I set out in Section 12 of my main report, I am satisfied that the Rothesay reinsurance arrangement will not have any effect on the conclusions reached in respect of the proposed Scheme that is the subject of my main report and of this Supplementary Report.

The changes to the Prudential Group Internal Model (the "PGIM") over the period

3.10 Prudential Group received approval from the PRA for a major model change to the PGIM in April 2018. The financial results as at 30 June 2018 have been calculated using the PGIM after this change and so the effects of this major model change (on the SCR) has been included in the financial results as at that date.

3.11 The changes to the PGIM have been subject to governance from Prudential Group and PAC as set out in the PGIM approval application and as part of my review of the proposed Scheme I have reviewed the following:

- The original proposal for the PGIM changes that was submitted to the Prudential UK Technical Actuarial Committee (the "UK TAC") for approval on 3 October 2017;
- Documentation showing the effects of the PGIM change, submitted to the UK TAC on 3 July 2018 which sets out the financial impact of the PGIM change;
- The PRA notice of approval for the internal model change dated 19 April 2018; and
- A letter from the PRA to the PAC Board setting out their approval (having consulted the CBI) of the PGIM change dated 19 April 2018.

3.12 I am satisfied that, as the changes to the PGIM have been subject to appropriate levels of review and governance and have been approved by the PRA, it is appropriate for me to rely on the 30 June 2018 financial information for the purposes of my consideration of the proposed Scheme.

The changes in market conditions from 31 December 2017 to 30 June 2018

3.13 The relevant changes in market conditions from 31 December 2017 to 30 June 2018 were:

- The interest rates used to discount future cashflows in the calculation of the Solvency II technical provisions for business written in the UK have risen over the period. These rates are set by reference to rates (risk-free interest rates based on swap rates) published by the European Insurance and Occupational Pensions Authority ("EIOPA") and have risen by approximately 25 basis points.
- The equivalent interest rates used to discount future cashflows for business written in the Eurozone have remained relatively stable, with a small decrease (approximately 1 basis point).
- The difference in yields between those available on corporate bonds and those available on similar (in terms of duration and coupon) government bonds (the credit spread) has increased for most durations and corporate bond credit ratings during the first half of 2018.
- UK equity markets rose modestly during the first half of 2018, with the FTSE 100 and FTSE Allshare experiencing increases of less than 2%.

3.14 These changes in market conditions between 31 December 2017 and 30 June 2018 are reflected in the updated financial information as at 30 June 2018 and I reconsider my conclusions under this updated financial position below.

3.15 I have considered the effects due to changes in market conditions since 30 June 2018 in Section 8 of this report.

The financial information for PIA and PAC as at 30 June 2018

3.16 The financial information for PIA and PAC as at 30 June 2018 is shown in Appendix 1 of this report and reflects all the changes since 31 December 2017 and shows that:

- For PAC:
  - o The Own Funds were:
    - £14.9 billion for the PAC shareholder backed business ("PAC SH backed business"), compared to £14.0 billion as at 31 December 2017 as shown in my main report.
    - £9.9 billion for the PAC Policyholder Funds ("PAC PH Funds"), compared to £9.6 billion as at 31 December 2017 as shown in my main report.
  - o The excess capital above the SCR was:
    - £7.7 billion for the PAC SH backed business, compared to £6.1 billion as at 31 December 2017 shown in my main report.
    - £6.1 billion for the PAC PH Funds, compared to £4.8 billion as at 31 December 2017 as shown in my main report.
  - o The SCR coverage ratio was:
    - 207% for the PAC SH backed business compared to 178% as at 31 December 2017 as shown in my main report.
    - 258% for the PAC PH Funds compared to 201% as at 31 December 2017 as shown in my main report.
- For PIA:
  - o The Own Funds were £209 million compared to £203 million as at 31 December 2017 as shown in my main report.
  - o The excess capital above the SCR was £73 million compared to £74 million as at 31 December 2017 as shown in my main report.
  - o The SCR coverage ratio was 153% compared to 157% as at 31 December 2017 as shown in my main report.

3.17 These figures show an improvement for PAC over the 6 months from 31 December 2017 to 30 June 2018 which is mainly due to the generation of surplus from the Rothesay reinsurance arrangement, and the release of surplus from both in-force business and new business.

3.18 Over the same period there has been a slight deterioration in the excess capital and solvency ratio for PIA which is mainly due to the negative impact from new business and adverse demographic experience.

The pro-forma solvency position of PIA and PAC as at 30 June 2018

3.19 The pro-forma financial positions (i.e. that assuming the Scheme had been implemented on 30 June 2018) of PIA and PAC are shown in Appendix 2 of this report and show that:

- In respect of PAC:

  The implementation of the proposed Scheme would have no material effect on the PAC own funds, the PAC excess capital above the SCR, or on the PAC SCR coverage ratio.
- In respect of PIA:
  - o The Own Funds would have been £223 million compared to £214 million as at 31 December 2017 as shown in my main report.
  - o The excess capital above the SCR would have been £69 million compared to £68 million as at 31 December 2017 as shown in my main report.

- o The SCR coverage ratio would have been 145% compared to 147% as at 31 December 2017 as shown in my main report.

The projections of the solvency of PIA

3.20 In paragraph 9.9 of my main report I described projections of the solvency of PIA that showed the expected path for the PIA SCR coverage over the period 2018-2022 if the proposed Scheme were to go ahead. These projections were based on the financial information available at the time of my main report (31 December 2017)

3.21 I have now been provided with an updated version of these projections based on financial information as at 30 June 2018 which reflect the expected assumption changes to be implemented at 31 December 2018, some modelling methodology changes, and a change to the allowance for future management actions.

3.22 These projections, along with the underlying methodology and assumptions have been produced by the HoAF of PIA and have been approved by the PIA Technical Committee.

3.23 The projections based on the 30 June 2018 position show a similar picture to those reviewed at the time of my main report although they reflect the fact that the PIA solvency coverage fell over the first half of 2018. That said it remains the case that, based on the new projections that take into account the solvency position of PIA at 30 June 2018:

- In the first year of the projection period, PIA's SCR coverage ratio post transfer is below the target level set out in the PIA RA Statement but it recovers to above the target level for the rest of the projection period;
- PIA's SCR coverage remains strong relative to the Solvency II required level of 100% of SCR; and
- PIA's solvency coverage remains at all times higher than the level required under the PIA RA Statement.

3.24 In relation to the first bullet point above, in my main report it was noted that PIA's SCR coverage was projected to recover above the target level and to exceed that target level for the rest of the projection period and in the refreshed projections PIA's SCR coverage is projected to recover above the target level after one year.

3.25 The reduction in the projected solvency since the projections described in my main report is largely a result of the proposal by the PIA Board that management actions to de-risk market risk (for example equity hedging or unit shorting) would be applied only if the solvency coverage were to be below the target solvency ratio of 150% and approaching the minimum level of 125% required by the PIA RA Statement. These management actions were allowed for in the projections reviewed for my main report and so not allowing for them has caused the solvency ratio to decrease.

3.26 In my view, not allowing for these management actions in the projections does not indicate a material reduction in the security that can be provided by PIA, and I am satisfied that the financial strength of PIA in the projections is such that there would not be a material reduction in the security of the policyholders' benefits. I am therefore satisfied that the updated projections of PIA's SCR coverage provide no reasons to change any of the conclusions set out in my main report.

My conclusions based on the financial information as at 30 June 2018

3.27 The financial information as at 30 June 2018 shows little change from that in my main report as at 31 December 2017 and, in particular, after the Scheme:

- I am satisfied that despite the deterioration in the solvency of PIA over the first half of 2018, it remains the case that PIA is financially strong as PIA's projected SCR coverage of 145% post transfer is comfortably in excess of the requirements of the Solvency II regulatory regime (100% of SCR) and the requirements of the PIA RA Statement; and
- PAC's solvency coverage is projected to be 207% for the PAC SH Fund and 258% for the PAC PH Fund which is comfortably in excess of the Solvency II regulatory regime requirements (100% of SCR) and the requirements of the PAC risk appetite statements.

3.28 I am therefore satisfied that the financial information as at 30 June 2018 provides no reasons to change the conclusions set out in my main report.

3.29 I have considered the effects due to changes since 30 June 2018 in Section 8 of this report.

My reliance on the financial information as at 30 June 2018

3.30 In respect of PAC's financial information as at 30 June 2018:

- The SCR has been calculated using the PGIM, updated for the major model change approved in April 2018 (as described in Section 2).
- Since 31 December 2017, the transitional measure on technical provisions ("TMTP") was recalculated to allow for the Rothesay reinsurance arrangement and the TMTP recalculated at 31 March 2018 was approved by the PRA. The financial results in this report reflect the linear run-off of the TMTP from 31 March 2018 to 30 June 2018.
- The Solvency II results have been subject to review by the PAC Chief Actuary, subsequent approval by the PAC Board Audit Committee, and have been submitted to the PRA.

3.31 In respect of the PIA financial information as at 30 June 2018:

- The SCR has been calculated using the PGIM with the exception of the contribution of the transferring business which has been calculated based on the Standard Formula.
- The Solvency II results have been subject to review by the PIA HoAF, subsequent approval by the PIA Finance Director, submitted to the CBI, and have been communicated to the PIA Board.

3.32 I have not carried out an independent review of the financial results as at 30 June 2018 for PIA and PAC but I have reviewed an analysis of the change in the financial results between 31 December 2017 and those at 30 June 2018 and concluded that the change is reasonable.

3.33 Given the level of scrutiny to which the financial information in respect of both companies has been subject, I consider it reasonable to rely upon it in the reconsideration of my conclusions for this Supplementary Report.

The loss of Financial Services Compensation Scheme ("FSCS") coverage for the transferring policyholders

3.34 In Section 8 of my main report I stated that it was likely (although not certain) that, if the Scheme were to be implemented, the transferring policies would no longer be covered under the FSCS. I considered the effect of this loss of FSCS coverage on the policyholders concerned and concluded that the loss of the FSCS coverage for the transferring policyholders would not lead to a material adverse effect on their security of benefits.

3.35 The PRA made reference to this analysis in their report to the Court and indicated that they did not object to the conclusion: "It was found that the loss of the FSCS coverage for the transferring policyholders would not lead to a material adverse effect on the security of policyholder's benefits. The PRA does not object to this conclusion within the [Independent Expert's] report."

3.36 In the time since I wrote my main report:

- There have been no changes to the PIA RA Statement or capital management policy of PIA;
- There have been no material changes to PIA's risk profile;
- The change in the PGIM resulted in an insignificant (£0.3 million) increase in PIA's SCR as at 31 December 2017 which would not be expected to affect the conclusions of the FSCS analysis in my main report;
- PIA's current solvency coverage ratio as at 30 June 2018 remains above the minimum level set out in the PIA RA Statement; and
- There have been no other developments that would materially change the outcome of the PIA analysis in respect of the loss of FSCS coverage.

3.37 The FSCS will continue apply to all PAC policies (including the transferring policies) in respect of claims due to events that occur prior to the Transfer Date.

3.38 Currently, as was the case at the time of writing my main report, it remains uncertain whether or not, in the event that the Scheme were to be implemented, FSCS coverage would be lost for transferring policies for events occurring after the Transfer Date. There is also a high level of uncertainty regarding whether the FSCS would continue to apply to the transferring policyholders after the UK leaves the EU (Brexit).

3.39 Because of this uncertainty, when analysing the effects of the Scheme on the transferring policyholders, I have assumed a “worst case scenario” that the FSCS would not cover the transferring policies after the implementation of the Scheme.

3.40 This being the case, if it turns out that the transferring policies would, if the Scheme were to be implemented, receive some coverage from the FSCS then that can only be to the advantage of the transferring policyholders and therefore my conclusions remain valid.

3.41 Therefore, there is no reason to change the conclusions set out in my main report in respect of the loss of FSCS coverage and I remain satisfied that the loss of FSCS coverage will not have a material adverse effect on the security of the benefits of the transferring policies.

4 THE EFFECT OF THE SCHEME ON THE BENEFIT EXPECTATIONS OF POLICYHOLDERS

4.1 It remains the case that if the Scheme were to be implemented there would be no material adverse effect on how and when policyholders would receive their benefits as they would continue to receive their benefits as guaranteed under the policy, on the dates and on the contingencies specified in the terms and conditions.

4.2 In respect of with-profits policies there would be no material adverse effect on:

- The level of discretionary benefits (i.e. declared bonuses) applied to the policies;
- The charges taken which are as specified in the policy conditions; or
- The level of bonuses received, which will reflect the investment performance of the appropriate with-profits fund (i.e. the With-Profits Sub Fund ("WPSF") or Defined Charge Participating Sub Fund ("DCPSF") as relevant) with appropriate levels of smoothing (where relevant) applied.

4.3 In respect of unit-linked policies there would be no material adverse effect on:

- The range of funds available, the management of those funds, the investment objectives applied to those funds, the charges applied to those funds or the pricing of those funds;
- The benefits received by the policyholders, as these will continue to reflect the investment performance of the assets in which their units are invested and the contractual charges payable under the policies; or
- The assets in which the units under unit-linked policies are invested, as these will continue to be materially in line with the target investment allocation in the relevant fund literature.

4.4 In respect of non-profit policies there would be no material adverse effect on:

- The likelihood that benefits will be received when due; or
- The size or frequency of those benefits.

4.5 Therefore, there are no reasons to change the conclusions set out in my main report in respect of the reasonable expectations of the policyholders of the transferring PAC policies, the existing PIA policies and the existing PAC policies with respect to their benefits.

5 THE EFFECT OF THE SCHEME ON THE STANDARDS OF ADMINISTRATION, SERVICING, MANAGEMENT AND GOVERNANCE

The transferring PAC policies

5.1 In terms of the administration and servicing of the transferring PAC policies, nothing has changed since I finalised my main report and I am therefore satisfied that there are no reasons to change the conclusions set out in my main report that the implementation of the Scheme would not have a material impact on the standards of administration and service applied to the transferring policies.

5.2 In terms of the management and governance of the transferring PAC business, there have been no changes to the proposals since my main report: that if the Scheme were to be implemented, the management and governance of the transferring PAC business would be the responsibility of the Board of PIA.

5.3 However, as stated in Section 2 of this Supplementary Report, in June 2018, the CBI published a consultation paper setting out a number of proposals in respect of the governance of the with-profits business of insurance companies in Ireland.

5.4 Having read the consultation paper (and the subsequent CBI feedback statement) and discussed it with various with-profits practitioners in the Irish insurance industry, it is my view that the proposals would strengthen the governance around with-profits business in Ireland compared to what exists currently. I consider this increased focus on the strength of the governance of with-profits business in Ireland to be a positive development for the transferring PAC with-profits policyholders.

5.5 The PIA HoAF has also considered the CBI's proposals and concurs that the governance regime proposed by the CBI in the consultation paper is an improvement on the current governance regime for with-profits business in Ireland.

5.6 The PAC WPA would not expect the CBI's proposals to have any material effect on the transferring with-profits business as this will be reinsured to PAC (as set out in Section 7 of my main report). These reinsurance arrangements require that PAC would determine the bonus rates in respect of the transferring with-profits policies in a manner consistent with the policy conditions and with the approach it has previously taken in respect of the transferring policies, and that PIA will declare bonuses in respect of the transferring policies in accordance with the bonus rates notified to it by PAC.

5.7 I am satisfied that there is no reason to change the conclusions set out in my main report that the implementation of the Scheme would not have a material adverse effect on the standards of management and governance that apply to the transferring PAC policies.

The PIA policies

5.8 Nothing is different, in terms of the administration and servicing of the PIA policies, to when I finalised my main report and I am therefore satisfied that there is no reason to change the conclusions set out in my main report that the implementation of the Scheme will not have a material impact on the standards of administration and service applied to the existing PIA policies.

5.9 In terms of the management and governance of the existing PIA business:

- Nothing has changed since my main report in respect of the management and governance of the existing PIA non-profit and unit-linked business; and
- In respect of the existing PIA with-profits business the CBI consultation paper applies to this in the same way as to the transferring business as set out above and I consider this to be a positive development for the existing PIA with-profits policyholders.

5.10 I am satisfied that there is no reason to change the conclusions set out in my main report that the implementation of the Scheme would not have a material adverse effect on the standards of management and governance that apply to the existing PIA policies.

The non-transferring PAC policies

5.11 It remains the case that the implementation of the Scheme will have no effect on the following in respect of the non-transferring PAC policies:

- The terms and conditions;
- The governance or management of the PAC with-profits business;
- The governance or management of the PAC non-profit and unit-linked business; and
- The administration, servicing and asset management arrangements for the non-transferring PAC policies.

5.12 Therefore, there is no reason to change the conclusions set out in my main report and I remain satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of administration, servicing, management and governance that apply to the existing PAC policies.

Conclusion

5.13 Given the developments since my main report, there is no reason to change the conclusions set out in my main report and I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the standards of administration, servicing, management and governance that apply to the transferring PAC policies, the existing PIA policies or the existing PAC policies.

6 CORRESPONDENCE AND QUESTIONS RECEIVED FROM POLICYHOLDERS

Introduction

6.1 PIA and PAC have received various correspondence from policyholders in respect of the proposed Scheme.

6.2 At the time of writing this report, there have been 50 objections to the Scheme and PAC has responded to all of these objections where it has the policyholder's contact details. There were 4 objections where no contact details were available and therefore it was not possible to provide a response. None of the 50 objections has ongoing correspondence and no policyholders that have raised an objection have indicated they intend to attend the Court for the Final Hearing.

6.3 The objections from policyholders are because of a range of concerns or issues expressed by the policyholders and an objecting policyholder may list more than one concern or issue as the reason for their objection. Whilst the objections cover a range of issues, there is overlap between the issues raised by individual policyholders and the concerns and issues can be broadly categorised as follows:

- The policyholders expressed concerns about the discontinuation of access to the FSCS. This concern was raised in 33 objections.
- The policyholders requested a refund of the premiums paid under the policy. This concern was raised in 25 objections.
- The policyholders expressed concerns in respect of PIA. Policyholders have objected to their policy moving to PIA as they have negative feelings towards PIA, have not heard of PIA before or have concerns in respect of the financial strength of PIA. This concern was raised in 6 objections.
- The policyholders expressed concerns over the Part VII transfer process. This concern was raised in 5 objections.
- ELAS policyholders expressed concern that payments from the Equitable Life Payment Scheme ("ELPS") would be lost or reduced as a result of the Scheme. This concern was raised in 3 objections.
- One policyholder objected on the basis that they did not want to transfer into PIA and wanted the option to opt out of the transfer and remain with PAC, and/or the option to transfer to a different provider.

6.4 I have been provided with copies of all the correspondence in respect of the 50 objections up to 3 December 2018.

Policyholders' concerns in respect of the loss of FSCS coverage

6.5 Some policyholders (33) expressed concerns regarding the impact of the loss of FSCS coverage on the security of their benefits.

6.6 My conclusions regarding the impact on the security of benefits of the transferring PAC policies of losing the protection conferred by the FSCS were provided in Section 8 of my main report and I have re-examined these conclusions in this Supplementary Report and I can see no reason to change my conclusions.

6.7 I remain of the view that the loss of FSCS coverage for the transferring policyholders would not lead to a material adverse effect on the security of their benefits.

Policyholders' request for a refund of premiums

6.8 A number of transferring policyholders (25) have asked whether they have the option to cancel/surrender their policies and receive a full refund of premiums.

6.9 These policyholders have been informed that they have the option to terminate their policies in line with the general terms and conditions of their policy which may entitle them to a surrender value but that this will depend on those standard terms and conditions. I am satisfied that this was an appropriate response. I understand that 7 policyholders have subsequently surrendered their policies.

Policyholders' concerns regarding PIA

6.10 A number of policyholders (6) had a negative impression of PIA and/or raised concerns regarding the financial strength of PIA. Such negative impressions included a lack of 'trust' in PIA and in one case the perception of PIA as an 'empty shell' company.

6.11 In Section 3 of this report I have considered the financial strength of PIA and PAC as at 30 June 2018 and in my main report I considered the financial strength of PIA and PAC as at 31 December 2017. I am satisfied that the financial information at both dates indicates that PIA has considerable financial strength and that if the Scheme were to go ahead there would not be a material adverse effect on the security of the transferring policies of PAC, on the existing PIA policies or on the policies remaining in PAC. I have also seen draft financial information for PIA as at 30 September 2018 as considered in Section 8 and I am satisfied that this provides no reason to change any of the conclusions in my main report.

6.12 Furthermore, in Sections 8, 9, 10 and 11 of my main report I concluded that if the proposed Scheme were to be implemented, there would be no material adverse effect on the policyholders' benefit expectations or on the standards of administration, service, management and governance applied to the PIA and PAC policies and, for the reasons set out in Sections 4 and 5 of this Supplementary Report there are no reasons to change these conclusions.

Policyholders' concerns in respect of the Part VII process

6.13 Some (5) policyholders expressed concerns regarding the role of the Court in the Part VII process and whether their benefits would be at risk if the Court were not to sanction the Scheme.

6.14 In Section 4 of my main report I set out an overview of the Part VII transfer process and of the role of Independent Expert and I described the protections provided by the UK legal and regulatory system for policyholders in relation to insurance business transfers.

6.15 I describe the potential outcome if the Scheme were not to be implemented in Section 12 of my main report and in this scenario, the transferring PAC policies would not become policies of PIA and would remain within PAC. Furthermore, PAC's ability to manage, administer and service the transferring business in Poland, France, Malta, Germany and Ireland may be threatened and would be subject to the outcome of Brexit negotiations. Further actions might be required from PAC to ensure a continuation of the ability to service these policies.

Policyholders' concerns in respect of ELPS payments

6.16 The ELPS was set up by the UK Treasury in 2011 to compensate policyholders who suffered loss in relation to certain policies written by ELAS. The ELPS is administered by National Savings and Investments ("NS&I") on behalf of the Treasury and is independent of ELAS and of PAC. The ELPS closed to new claims on 31 December 2015.

6.17 I understand that some (3) of the former policyholders of ELAS who were transferred to PAC under the 2007 ELAS Scheme and who currently receive payments from the ELPS in respect of with-profit annuity contracts have contacted PAC regarding the effect of the proposed Scheme on the payments they receive from the ELPS.

6.18 PAC provided an initial response to customers raising this issue to let them know that PAC would seek confirmation on this point from the ELPS. ELPS have since provided confirmation that ELPS payments will continue as normal and not be affected by the proposed transfer. PAC has issued a letter to the relevant policyholders to confirm this point.

6.19 I am satisfied that if the Scheme were to be implemented there would not be a material adverse effect on the compensation payments received from ELPS.

Policyholders' choice in respect of the Scheme

6.20 One policyholder expressed a wish to opt out of the transfer, to remain with PAC or to choose a different provider as the recipient of their policy.

6.21 The insurance business transfer process in the UK does not permit individual policyholders to opt out of a proposed Part VII transfer scheme or to choose to transfer their policy to a different provider. It is for the Court to decide whether it is appropriate to sanction the Scheme.

Other points regarding correspondence and communications with policyholders

Call handlers not following the pre-arranged script in the objection call handling process

6.22 When dealing with policyholder enquiries and objections in relation to the Scheme, a script of information has been provided to call handlers to ensure that the answers are accurate and consistent. During the process of addressing policyholder enquiries it was identified during the week commencing 24 September 2018 that some call handlers had not been following the pre-arranged script when dealing with policyholder objections. In some cases the information provided was simply incorrect and in other cases the information was based on an old script which was potentially misleading. Some examples are:

- Misleading references to the strength of the whole Prudential group; and
- The suggestion that the transfer is in any way contingent on Brexit occurring.

6.23 It was identified that of the policyholders affected by this, 22 had objected to the Scheme. It has not been possible to determine an exact number of non-objecting policyholders who might have been affected by this, however this number is expected to be low because:

- The majority of non-objecting queries related to business-as-usual queries rather than queries relating to the transfer; and
- Most customer queries that contained a substantive discussion of the transfer and/or the FSCS coverage were classified as objections.

6.24 In order to deal with this issue and to ensure that there is no material detriment to policyholders, all calls and transcripts for the policyholder objections have been reviewed, and, where it is identified that inaccurate or inconsistent information has been provided, the objection response letter issued to policyholders provides a full and accurate response to the questions raised on the call. The response letters to these objectors were sent over the period 10-19 October 2018.

6.25 Further training has been provided to call handlers and additional quality control measures were put in place in the call centre to reinforce the call handling process and procedures.

6.26 I am satisfied that the firm has taken reasonable steps to correct miscommunications with policyholders and that the policyholders receiving 'off-script' communications will not have been materially adversely affected.

The tax obligations for the transferring policyholders of PAC France

6.27 Some PAC France policyholders raised questions in respect of the effect of the Scheme on the tax obligations of transferring PAC France policyholders.

6.28 These were requests for information and not expressions of concern about the transfer so were not classified as objections to the Scheme.

6.29 PwC France, external tax advisors to PAC France confirmed that, for the transferring policyholders of PAC France, as the policies are with an insurer established outside of France (i.e. PIA), additional tax filing disclosures will be required as part of their 2019 French tax return that will be submitted by May 2020. Such additional disclosures include:

- From 2019 onwards, The PAC France policyholders should include an annex along with their annual French income tax return. This annex should contain specific information about their life insurance policy, such as the policy number, policyholder's address, date of birth, details of any redemptions from their policy during the year. PIA will provide a template of this Annex to the policyholder.
- Policyholders will have to report themselves any redemption proceeds in their annual income tax return. Prudential (PIA) will provide policyholders with the relevant amounts and filing instructions (in the past, PAC was reporting this directly to the French tax authorities through an IFU form and redemption proceeds of the calendar year were therefore automatically reported in the policyholder's annual income tax return).

6.30 PwC France have further confirmed that this will not result in any additional tax payment obligations for the policyholders concerned.

6.31 PAC will write to the PAC France policyholders (of whom there are approximately 733) as part of the "business as usual process" in June 2019 to inform them of these additional filing requirements. As the new requirements apply to their 2019 tax returns, this date has been chosen to avoid any confusion with the policyholders' 2018 French tax return.

6.32 I have relied upon the view of PwC France in this area as external experts in the French tax law. PwC France has not been retained by me and has no liability to anyone other than its client in respect of a particular piece of advice nor any liability for any advice that has been made available to me.

6.33 For the avoidance of doubt this is a distinct issue from that addressed by the mandate sought by PIA as described in Section 11 of my main report.

6.34 I am satisfied that this does not provide any reasons to change the conclusions of my main report.

Conclusion

6.35 I am satisfied that, by responding to policyholders directly addressing their specific concerns, PIA and PAC are dealing with the policyholder correspondence and any objections received in a reasonable way and are trying to resolve these as far as possible prior to the Final Hearing.

6.36 The policyholder enquiries received do not raise any issues that were not considered in the work leading up to my main report and therefore I am satisfied that there are no reasons to change the conclusions set out in my main report.

7 CORRESPONDENCE AND QUESTIONS RECEIVED FROM THE PRA,THE FCA AND THE CBI

Introduction

7.1 Following the publication of my main report I have been in correspondence with the insurance regulators in the United Kingdom (the PRA and the FCA) and in the Republic of Ireland (the CBI).

7.2 The PRA prepared a report dated 3 July 2018 and concluded that it did not have any objections to the directions sought at the Directions Hearing on 9 July 2018 but that its assessment of the Scheme was ongoing. The PRA expects to file a report at the Final Hearing giving its decision on the proposed Scheme.

7.3 The FCA prepared a report dated 4 July 2018 ("the FCA report") in which the FCA considered the proposed Scheme for the Directions Hearing on 9 July 2018.

7.4 In the FCA report, the FCA asked the following questions:

- If the Scheme were to be implemented, would the CBI, in its supervision of PIA, take account of a breach relating to the rules set out in the Dispute Resolution ("DISP") module of the FCA Handbook?
- Could PIA be considered to be carrying out regulated activities in the UK as a consequence of PAC's management of some UK assets on behalf of PIA in respect of the transferring with-profits business?

7.5 The FCA also concluded that it did not have any objections to the directions sought at the Directions Hearing on 9 July 2018 and that its assessment of the Scheme was ongoing. The FCA also expects to file a report at the Final Hearing giving its decision on the proposed Scheme.

Would the CBI consider the DISP rules in its regulation of PIA?

7.6 PIA provides certain undertakings in the Scheme document in relation to complying with the standards set out in the DISP section of the FCA Handbook and, if PIA were to fail to comply with the undertakings relating to the DISP standards, it would have failed to comply with an order of the Court and would be in contempt of the Court. PIA also acknowledges that it would be prevented from asserting that the requirements of DISP do not apply in the event of a claim being made by a policyholder in respect of the transferring business.

7.7 I understand that PIA will make a commitment that it will (if and when aware) inform the CBI of any failure to comply with the undertakings relating to DISP standards. It is expected that the CBI would take appropriate action commensurate with the nature and degree of the failure to comply.

Could PIA be considered to be carrying out regulated activities in the UK?

7.8 PIA and PAC have taken legal advice from their legal advisors (Slaughter and May) on this issue and I understand that PIA and PAC are satisfied that PAC is not managing these assets on behalf of PIA or in accordance with any instruction or direction from PIA.

7.9 I am satisfied that this question is now closed.

Questions from the CBI

7.10 The CBI asked a number of questions to PIA in relation to the Scheme and these have all been answered and I understand that the CBI has confirmed it is satisfied with the responses and has no further questions to raise.

8 OTHER CONSIDERATIONS IN RESPECT OF THE SCHEME

The restructuring of Prudential plc.

8.1 As stated in Section 12 of my main report, in March 2018 Prudential plc announced that:

- M&G Prudential would demerge from the Prudential Group, resulting in two separately listed companies; and
- The legal ownership of Prudential plc's Hong Kong insurance subsidiaries would be transferred from PAC to Prudential Corporation Asia Limited, another subsidiary of Prudential plc, by the end of 2019.

8.2 Since the writing of my main report it is still the intention for this restructuring of Prudential plc to take place by the end of 2019.

8.3 I have discussed the restructuring with senior management at PIA and PAC and they have shared with me some early draft financial information regarding the possible effects of the restructuring on the financial position of PAC.

8.4 The restructuring is not part of the proposed Scheme, is not dependent on the proposed Scheme and would occur whether or not the proposed Scheme is implemented. I am therefore satisfied that there are no reasons to change the conclusions of my main report.

The impact of the Scheme considering events since 30 June 2018

8.5 The relevant changes in financial market conditions in the period 30 June 2018 to 30 September 2018 were:

- The interest rates used to discount future cashflows in the calculation of the Solvency II technical provisions for business written in the UK have risen over the period by approximately 14 basis points.
- The equivalent interest rates used to discount future cashflows for business written in the Eurozone have risen over the period, with an increase of approximately 12 basis points.
- The difference in yields between those available on corporate bonds and those available on similar (in terms of duration and coupon) government bonds (the credit spread) has increased for shorter durations and reduced for longer durations.
- UK equity markets fell in the period between 30 June 2018 to 30 September 2018, with the FTSE 100 and FTSE Allshare experiencing decreases of less than 2%.

8.6 I have seen draft financial information for PIA and PAC as at 30 September 2018 that takes into account all of the above and I am satisfied that this financial information provides no reasons to change the conclusions set out in my main report.

The notification of other EEA states

8.7 The PRA has confirmed that they have notified the supervisory authorities in all EEA States in respect of the Scheme. As of 3 December 2018, responses have been received from 25 EEA states (Austria, Belgium, Croatia, Czech Republic, Estonia, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Latvia, Liechtenstein, Luxembourg, Malta, The Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden).

8.8 A number of the supervisory authorities have requested that Prudential should carry out additional publicity of the Scheme and/or should provide further information to them regarding the transfer. Additionally, a few regulators have requested further policyholder communication in relation to policyholder termination/cancellation rights and Prudential will be writing to these policyholders in order to satisfy such requests. As at 3 December 2018, Prudential has responded to all EEA regulator feedback and for certain regulators is awaiting further clarification in order to fulfil the regulator's specific requirements.

8.9 The PRA has confirmed that the three month consultation period with the EEA regulators has now ended. However, the PRA expects that Prudential will continue to engage with those regulators where conversations are ongoing and also noted that Prudential may yet receive responses from those regulators who have not responded to date.

8.10 At the time of writing this report, there have been no objections from the supervisory authorities in other EEA States and consequently there are no reasons to change the conclusions set out in my main report.

Failed delivery of mailing packs to policyholders

8.11 PIA and PAC have been monitoring the number of failed deliveries of the mailing pack and, as at 3 December 2018:

- Of the transferring non-Affinity Polish policyholders a total of 212 mailing packs were returned.
- Of the transferring ELAS business no mailing packs were returned.
- Of the transferring PAC Malta business, no mailing packs were returned.
- Of the transferring PAC France business, 1 mailing pack was returned.
- Of the existing PIA policyholders: 59 mailing packs were returned, and 188 mailing packs sent to trustees of policyholders were returned. In these 188 cases the policyholders for the relevant policies were also contacted directly so no further steps were taken to contact the trustees.

8.12 The non-Affinity Polish policyholders affected were first contacted through phone to attain an updated address.

8.13 Where phone correspondence was unsuccessful the agent who has the relationship with the policyholder was contacted.

8.14 I am satisfied that the number of failed deliveries is low and that PIA and PAC have taken all reasonable steps to contact the policyholders.

Failed messages to Affinity policyholders

8.15 Of the 13,986 Affinity policyholders sent an SMS message, a total of 1,817 messages were unable to be delivered after repeated attempts.

8.16 The policyholders affected were first emailed as an alternative means of informing them about the proposed transfer.

8.17 Where email addresses were unavailable or where email correspondence was unsuccessful, the affected policyholders were sent mailing packs containing the same information as the packs sent to the non-Affinity policies to inform them about the proposed transfer. As at 3 December 2018, 96 mailing packs have been returned.

8.18 I am satisfied that PIA and PAC have taken all reasonable steps to contact the Affinity policyholders.

The new Equitable Life Assurance Society ("ELAS") Scheme

8.19 As stated in Section 12 of my main report, PAC commissioned a review by Slaughter and May of the effect of the proposed Scheme on the previous schemes to which PAC has been party. Slaughter and May's conclusion from this review was that, with the exception of the ELAS Scheme from 2007, the implementation of the proposed Scheme would not have a material effect on any of the previous schemes to which PAC has been party.

8.20 In respect of the ELAS Scheme from 2007, as set out in my main report:

- There are amendments required to the ELAS Scheme;
- An application to amend the ELAS Scheme will be submitted to the Court at the time of the Final Hearing for the proposed Scheme; and

- The amendments to the ELAS Scheme will be contingent upon this Scheme becoming effective.

8.21 In the time since my main report there have been no changes to either the amendments proposed or to the plans for their implementation and I am satisfied that the amendments to the ELAS Scheme do not have a material adverse effect on the former ELAS policyholders and I am satisfied that there are no reasons to change the conclusions set out in my main report.

The PAC Principles and Practices of Financial Management ("PPFM")

8.22 Since the completion of my main report, there have been some changes to the PAC PPFM. These have been minor descriptive changes and there have been no changes to the treatment of the transferring with-profits policies or to how these policies would be treated after the transfer.

8.23 At the time of writing, the new PPFM is currently being reviewed internally with reviews by the risk team, the legal team, the Director of Financial Strategy and the WPC before sign-off from the PAC CFO/CEO in December.

8.24 Therefore I am satisfied that the new PPFM will be subject to appropriate governance processes and that there are no reasons to change the conclusions set out in my main report.

The Polish compensation scheme

8.25 Ubezpieczeniowy Fundusz Gwarancyjny ("UFG") is a compensation scheme in Poland that provides compensation for 50% of amounts due (up to a maximum of €30,000) from life insurance contracts in the case of bankruptcy of the insurance company.

8.26 The policyholder information booklet sent to Polish policyholders stated that :

- Based on its interpretation of the regulations, PAC did not believe the transferring policyholders of PAC Poland currently had recourse to the UFG; and
- This was not expected to change upon implementation of the Scheme.

8.27 I understand that this remains PAC's view and that PAC has attempted to confirm this interpretation with the Polish regulators but that at the time of writing have received no further clarifications on this point.

8.28 I am satisfied that there are no reasons to change the conclusions set out in my main report.

Capita Ireland

8.29 As set out in Section 5 of my main report, PIA and PAC both rely to some extent on Capita Ireland for outsourced policy servicing and administration and in Section 12 of my main report I mentioned that, on 31 January 2018, Capita plc, the parent company of Capita Ireland, released a 'profit warning' statement and announced a £700 million rights issue.

8.30 While PAC continues to monitor the situation at Capita there have not been any updates of note since my main report.

8.31 I am satisfied that there are no reasons to change the conclusions set out in my main report.

The new PIA Poland Branch

8.32 As stated in Section 7 of my main report, if the Scheme were to be implemented a PIA Poland Branch would be set up into which the PAC Poland Branch business would be transferred.

8.33 The business transferred from the PAC Poland Branch and any new business written in Poland would be administered by the PIA Poland Branch with the administration and servicing carried out by its own staff and infrastructure.

8.34 The CBI confirmed its approval of the PIA Poland Branch application on 7 September 2018.

The exit of the UK from the European Union ("Brexit")

8.35 As stated in my main report (Section 1 and Section 12) the effects on PIA and PAC of the imminent exit of the UK from the European Union ("EU") are unclear and, in the time since my main report, whilst there has been considerable speculation in the media as to the likely long-term effects of the decision to leave the EU, the situation is not significantly clearer than at the time my main report was finalised and there are no reasons to change the conclusions set out in my main report.

9 MY CONCLUSIONS

9.1 I have reviewed the updated financial information as at 30 June 2018 and the pro-forma figures showing PIA and PAC if the Scheme had been implemented on that date and I have reviewed the business developments and market movements since 30 June 2018.

9.2 I am satisfied that there are no reasons to change the conclusions in Section 13 of my main report and that if the Scheme were to be implemented there would not be a material adverse effect on:

- The security of the benefits under the policies of PIA and PAC;
- The reasonable expectations of the policyholders of PIA and PAC with respect to their benefits; or
- The standards of administration, service, management and governance that apply to the PIA and PAC policies.

9.3 I am satisfied that the Scheme is equitable to all classes and generations of PIA and PAC policyholders.

Oliver Gillespie 4 December 2018

Partner of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

APPENDIX 1: FINANCIAL INFORMATION AS AT 30 JUNE 2018 PRIOR TO THE IMPLEMENTATION OF THE SCHEME

Solvency II financial information as at 30 June 2018

£ million	Total PAC PH Funds[1]	PIA[2]	Total PAC SH Funds[3]
Assets	134,104	7,017	76,557
Technical provisions	117,107	6,670	57,638
Other Liabilities	7,079	138	4,012
Own Funds (post TMTP)	9,918	209	14,907
SCR	3,846	137	7,215
Excess Assets after SCR	6,071	73	7,692
Solvency coverage ratio	258%	153%	207%

Notes:

1. The figures for the PAC policyholder funds represent an economic view of the Solvency II balance sheet for the with-profits business, including the liability and associated capital requirements related to the present value of the future shareholder transfers. The surplus assets after SCR are distributed among the three ring-fenced funds as follows:
   - Circa £200 million inherited estate in SAIF. In addition SAIF receives capital support from the WPSF (including any support to meet solvency capital requirements) in return for charges levied on asset shares;
   - No surplus funds in the DCPSF. It is provided with capital support from the WPSF to meet guarantees and smoothing and to cover the risk margin and solvency capital requirements in exchange for charges levied on asset shares;
   - Remaining surplus funds held in the WPSF.
2. The assets and liabilities for PIA exclude the assets and liabilities of Prudential Insurance Management Services Limited (“PIMS”).
3. The PAC shareholder-backed business position allows for the Rothesay reinsurance arrangement.

Pre-Scheme Balance Sheets

£ million	Poland NP	Poland WP	France NP	France WP	ELAS	Malta	PIA[1]	Total PAC PH Funds[2]	Total PAC SH Funds
Assets[3]	6	6	10	36	22	3	7,017	134,104	76,557
Technical provisions	(22)	(2)	7	36	22	3	6,670	117,107	57,638
Other Liabilities	26	-	4	-	-	-	138	7,079	4,012
Own Funds (post TMTP)	2	8	-	-	-	-	209	9,918	14,907
SCR	13	8	-	-	-	-	137	3,846	7,215
Excess Assets after SCR	(11)	-	-	-	-	-	73	6,071	7,692
Solvency coverage ratio	N/A	N/A	N/A	N/A	N/A	N/A	153%	258%	207%

Notes:

1. The assets and liabilities for PIA exclude the assets and liabilities of PIMS.
2. The figures for the PAC policyholder funds represent an economic view of the Solvency II balance sheet for the with-profits business, including the liability and associated capital requirements related to the present value of the future shareholder transfers.
3. Where the assets are presented for the transferring blocks of business under the Scheme, the assets associated to the with-profits blocks of business are part of the 'PAC PH Funds' assets and the assets associated to the non-profit blocks of business are part of the 'PAC SH Funds' assets.

APPENDIX 2: FINANCIAL INFORMATION AS AT 30 JUNE 2018 AFTER THE IMPLEMENTATION OF THE SCHEME

Post-Scheme Balance Sheets

£ million	Poland NP	Poland WP	France NP	France WP	ELAS	Malta	PIA [1, 2]	Total PAC PH Funds[3]	Total PAC SH Funds
Assets[4]	-	6	4	36	22	3	7,091	134,104	76,625
Technical provisions	(18)	6	4	36	22	3	6,724	117,107	57,706
Other Liabilities	6	-	-	-	-	-	144	7,079	4,012
Own Funds (post TMTP)	12	-	-	-	-	-	223	9,918	14,907
SCR	16	-	-	-	-	-	154	3,846	7,215
Excess Assets after SCR	(4)	-	-	-	-	-	69	6,071	7,692
Solvency coverage ratio	N/A	N/A	N/A	N/A	N/A	N/A	145%	258%	207%

Notes:

1. The assets and liabilities for PIA exclude the assets and liabilities of PIMS.

2. This reflects updates in the methodology and the assumptions to accommodate the transferred business. This includes:

   - Set up of expense overrun reserve for Non-Profit business (£10 million increase in best estimate liability ("BEL"), £1 million increase in SCR).
   - An allowance for currency translation risk which relates to the risk of exchange rate fluctuations affecting the consolidated PIA position: a £1 million increase in SCR.
   - An allowance for future cost increases in the normal course of business: a £2 million increase in the BEL.

3. The figures for the PAC policyholder funds represent an economic view of the Solvency II balance sheet for the with-profits business, including the liability and associated capital requirements related to the present value of the future shareholder transfers.

4. Where the assets are presented for the transferring blocks of business under the Scheme, all the assets are part of PIA. PIA has no ring-fenced funds.

APPENDIX 3: DATA RELIED UPON

Document	Date of document
The supplementary report of the Chief Actuary of PAC on the Scheme	September 2018
The supplementary report of the With-Profits Actuary of PAC on the Scheme	November 2018
The supplementary report of the Head of Actuarial Function of PIA on the Scheme	November 2018
Financial Impact Tables of the Scheme from Prudential at 30 June 2018	22 September 2018
PAC UK Shareholder Funds Board approval paper	25 July 2018
Policyholder Communications MI	23 November 2018
EEA Comms Log	22 November 2018
Log of communications with regulators	1 November 2018
Internal model MMC approval notice from the PRA	19 April 2018
Objection transcripts and response letters	November 2018
Prudential UK Solvency II Pillar 1 valuation at 30 September 2018	25 October 2018

APPENDIX 4: GLOSSARY OF TERMS

A glossary of abbreviations used in the main report and this report is given below.

A

APS	Actuarial Profession Standards
Asset share	A measure of a policy's value in the absence of guarantees, defined as the total premiums paid by policyholders, accumulated by actual investment returns, less attributable expenses, benefits paid and other relevant deductions.

B

BEL	The best estimate liability under Solvency II

C

CBI	**The** Central Bank of Ireland – one of its roles is the regulation and supervision of the financial services industry in Ireland

D

DCPSF	Defined Charge Participating Sub Fund
DISP	Dispute Resolution Standards – part of the FCA's Handbook

E

EEA	The European Economic Area
EIOPA	The European Insurance and Occupational Pensions Authority
ELAS	The Equitable Life Assurance Society
ELPS	Equitable Life Payment Scheme
EU	The European Union

F

FCA	The Financial Conduct Authority – the supervisory body in the UK responsible for conduct of business regulation and supervision
FSCS	The Financial Services Compensation Scheme: the UK's statutory fund of last resort for customers of authorised financial services firms that provides compensation (100% of the policyholder's entitlement) to individual holders of long-term insurance policies issued by UK insurers (after 2001) in the UK or another EEA state in the event of the insolvency of an insurer.
FSMA	The Financial Services and Markets Act 2000
FTSE	The Financial Times Stock Exchange

H

HoAF	Head of the Actuarial Function – a statutory role in Ireland as approved by the CBI

P

PAC	The Prudential Assurance Company Limited
PCA	Prudential Corporation Asia Limited
PH Fund	The Policyholder Fund
PIA	Prudential International Assurance plc
PIMS	Prudential Insurance Management Services Limited
PGIM	The Prudential Group Internal Model
PPFM	Principles and Practices of Financial Management
PRA	The Prudential Regulation Authority – the supervisory body in the UK responsible for prudential supervision and regulation

S

SCR	The Solvency Capital Requirement under the Solvency II regulatory regime
SH Fund	The Shareholder Fund

T

TAS	Technical Actuarial Standards
TMTP	Transitional Measure on Technical Provisions

W

WPA	The With-Profits Actuary – a statutory role in the UK as approved by the PRA and FCA
WPOP	The With-Profits Operating Principles
WPSF	The With-Profits Sub Fund