Supplementary Report of the Head of Actuarial Function of

Prudential International Assurance plc

on the proposed transfer of the Polish branch and certain other historic overseas business

of

The Prudential Assurance Company Limited

to

Prudential International Assurance plc

Gemma O'Neill FIA
Head of Actuarial Function

Prudential International Assurance plc

04 December 2018

Contents **Page**

SUPPLEMENTARY REPORT OF THE HEAD OF ACTUARIAL FUNCTION OF PRUDENTIAL INTERNATIONAL ASSURANCE PLC

The following is the Supplementary Report by Gemma O'Neill, the Head of Actuarial Function ('HoAF') of Prudential International Assurance plc ('PIA'), to the Directors of PIA on the proposed transfer by The Prudential Assurance Company Limited ('PAC') of its local European life business to PIA, a subsidiary of PAC, which is domiciled and regulated in Ireland. The proposed transfer will take place on 1 January 2019, or on such other date as may be agreed by PAC and PIA, and approved by the Court.

1. INTRODUCTION

1.1 In my capacity as HoAF of PIA, I produced a report dated 29 June 2018 for the Directors of PIA (the 'Main Report') in which I reviewed the proposed transfer of the local European life business of PAC to PIA. A copy of the Main Report was provided to the PRA and FCA and was presented to the High Court at the Directions Hearing which took place on 9 July 2018.

1.2 The details of the proposed transfer are set out in the Main Report, but in summary it is proposed that all of the local European life insurance business of PAC (excluding the UK) will be transferred to PIA. As of 30 June 2018, the business proposed for transfer is:

(i) The with-profits business from PAC Poland with asset shares of c.£7m.

(ii) The non-profit business from PAC Poland, which has a negative liability of c.£26m (reflecting the fact that the value of future charges exceeds expenses).

There are approximately 19,400 with-profits policyholders and 35,800 non-profit policyholders in PAC Poland.

(iii) All of the business from PAC France, comprising 733 policies and liabilities of c.£40m.

(iv) All of the business of PAC Malta, comprising 21 policyholders and liabilities of c.£3m.

(v) The policyholders of business written by Equitable Life Assurance Society ('ELAS') in Germany and Ireland:

1. 233 policyholders holding with-profits annuity contracts originally written in Ireland, with a liability of c.£10m.

2. 426 policyholders holding with-profits annuity contracts originally written in Germany, with a liability of c.£12m.

1.3 Reinsurance treaties will be put in place between PIA and PAC in respect of the transferring with-profits business to reinsure the business back into the respective PAC With-Profits funds. This arrangement is set up to ensure that the transferring policyholders continue to effectively participate in the respective With-Profits funds from which they have been transferred on the same terms and with the same level of protection as they had pre-transfer.

1.4 The purpose of this Supplementary Report is to review any developments that have occurred since the Main Report was issued and to consider whether any of the conclusions, as set out in the Main Report, need to be changed as a result.

1.5 This report should be read in conjunction with the Main Report. The terms used in this Supplementary Report are the same as those used in the Main Report unless otherwise stated.

1.6 Supplementary Reports have also been produced by Jonathan Hughes, the Chief Actuary of PAC, and Peter Needleman, the With-Profits Actuary of PAC, which confirm that the conclusions set out in their Main Reports each dated 29 June 2018 remain valid.

1.7 A copy of this report, together with the reports of the PAC Chief Actuary and PAC With-Profits Actuary, has been provided to Oliver Gillespie of Milliman LLP in his capacity as Independent Expert.

This report is structured as follows:

- Section 2 sets out information on the current financial position of PIA, and considers the impact of the proposed transfer on that position.
- Section 3 considers any material developments arising since the Main Report was produced together with any material points that have arisen from policyholders' responses to the proposed transfer.
- Section 4 sets out my conclusions.

1.8 This report is subject to, and complies with, all relevant Technical Actuarial Standards (TASs) adopted by the Financial Reporting Council ('FRC') in the UK, in particular:

- TAS 100: Principles of Technical Actuarial Work, and
- TAS 200: Insurance.

1.9 The intended users of this report are the Court, the Board of Directors of PIA (the 'Board') and PAC, the PAC With-Profits Committee, the PAC With-Profits Actuary, the PAC Chief Actuary, the Independent Expert, the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the Central Bank of Ireland ('CBI').

1.10 In accordance with Actuarial Profession Standards (APS) issued by the Institute and Faculty of Actuaries, APS X2: Review of Actuarial Work requires Members of the profession to consider whether to apply work review to actuarial work for which they are responsible, and whether it would be appropriate and proportionate for this work to be in the form of independent peer review.

I have produced this report in my capacity as the HoAF of PIA. As HoAF, I am also responsible for the financial information presented in this report. In light of this and the materiality and importance of my conclusions, I have sought independent peer review from Bruce Gunn, Chief Risk Officer of PIA, and my report incorporates his feedback.

2. PIA - FINANCIAL IMPACT OF THE PROPOSED TRANSFER

2.1 The Main Report set out the impact of the proposed transfer on PIA's Solvency II surplus assuming that the transfer had occurred on 31 December 2017[1]. These results are summarised in Figure 2.1 below (as shown in section 6 of the Main Report).

Figure 2.1 – PIA Solvency II valuation before and after the transfer (as at 31 Dec 2017)

(£m)	**Pre transfer**	**Post transfer**
Assets	6,752	6,828
Liabilities	6,549	6,614
Own Funds	**203**	**214**
SCR	130	146
Surplus	**74**	**68**
Solvency ratio	**157%**	**147%**

2.2 The financial information in this report sets out the impact of the proposed transfer on PIA as at 30 June 2018. These results are summarised in Figure 2.2 below. The financial information for PIA pre transfer is consistent with that produced for the Solvency II regulatory reporting to the CBI at 30 June 2018.

Figure 2.2 – PIA Solvency II valuation before and after the transfer (as at 30 June 2018)

(£m)	**Pre transfer**	**Post transfer**
Assets	7,017	7,091
Liabilities	6,808	6,868
Own Funds	**209**	**223**
SCR	137	154
Surplus	**73**	**69**
Solvency ratio	**153%**	**145%**

2.3 It can be seen that PIA's pre transfer surplus reduced from £74m at 31 December 2018 to £73m at 30 June 2018, with a corresponding reduction in solvency ratio from 157% to 153%. The key drivers of this reduction are:

(i) new business written over the period which has a small negative impact on surplus;

(ii) higher than expected demographic experience;

(iii) modelling changes to allow for negative interest rates in stress scenarios; offset by

(iv) positive surplus generated by in-force business and lower than expected spending in relation to development expenses.

[1] The financial impacts do not take account of the expense overrun incurred during H2 2018 as PAC will be responsible for this.

2.4 The transfer results in a small reduction in PIA surplus. This is driven by the Polish non-profit business, where the negative Best Estimate Liability of £36m is offset by the expense overrun reserve (£10m), risk margin (£7m), deferred tax liability (£6m) and SCR (£16m). However, the transfer is expected to have a positive impact on PIA surplus in future years as the Polish business reaches critical mass and the expense overrun reserve is released.

3 OTHER CONSIDERATIONS

3.1 Policyholder enquiries

3.1.1 I have been provided with a summary of the objections and enquiries that arose following the issue of the Policyholder Information booklet to PIA policyholders over the period 20 July 2018 to 23 November 2018 inclusive.

3.1.2 966 phone calls or letters have been received from existing PIA policyholders (as at 23 November 2018). An analysis of the calls and letters indicated that approximately 170 enquiries were related to the transfer, and that the remainder were general policy enquiries not related to the transfer. Of those calls and letters that related to the transfer, the majority were seeking clarification regarding the impact of the transfer on their plan. No objection to the transfer has been received from PIA policyholders.

3.2 Other considerations

3.2.1 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). A number of the supervisory authorities have requested that Prudential carries out additional publicity of the Scheme and/or provides further information to them regarding the transfer. Additionally, a few regulators have requested further policyholder communication in relation to policyholder termination/ cancellation rights, we will be writing to these policyholders in order to satisfy such requests. As at 3 December, Prudential has responded to all EEA regulator feedback and believes it has or will be able to satisfy all specific requirements. The PRA have confirmed that the 3 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 we may yet receive responses from those regulators who have not responded to date.

4 CONCLUSION

4.1 The Main Report reviewed the Scheme from the perspective of the PIA policyholders and concluded that the proposed scheme will not result in any material adverse effect on either:

(a) the security of the existing policyholders of PIA, or,

(b) the reasonable benefit expectations of the existing policyholders of PIA.

4.2 I have considered the changes in the financial position of PIA both before and after the transfer since the Main Report was issued, together with the responses from policyholders to the proposed transfer and the responses received from other EEA regulators.

Based on the considerations set out in this Supplementary Report, it is my view that the conclusions set out in the Main Report, as summarised in section 4.1 above, remain valid.

Gemma O'Neill

04 December 2018