With-Profits Actuary Report

on

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

of

The Prudential Assurance Company Limited

to

Prudential International Assurance plc

pursuant to Part VII of the Financial Services and Markets Act 2000

1. Introduction

1.1. Background

1.1.1. Following the decision of the UK government to trigger Article 50 of the Lisbon Treaty and leave the European Union, Prudential has reviewed its business in the European Union. Currently Prudential's European operations are split across two companies, The Prudential Assurance Company Limited (PAC) and Prudential International Assurance (PIA), a subsidiary of PAC, which is domiciled and regulated in Ireland. The outcome of the review is that it is proposed to transfer all of PAC's long-term European business (excluding the UK) into PIA. This change streamlines Prudential's operating model and allows for simpler management structures. In addition it provides flexibility given that post-Brexit it might not be possible for PAC as a UK insurance company to operate in the same way it has done previously within the EU.

1.1.2. The proposed transfer will take effect by means of an insurance business transfer scheme ("the Scheme") under Part VII of the Financial Services and Markets Act 2000 (FSMA). In parallel, the with-profits business that is transferred to PIA will be reinsured back to PAC.

1.1.3. This report, on the proposed transfer of PAC's European liabilities to PIA , has been prepared in my capacity as With-Profits Actuary of PAC, and sets out my opinion on the impact of the Scheme on the security and reasonable benefit expectations of both the existing with-profits policyholders who will be transferred to PIA and the with-profits policyholders remaining in PAC following the transfer.

1.1.4. In considering the impact of the Scheme I have taken into account the associated reinsurance arrangements and other agreements related to the current and proposed future operation of the business, and in particular those relating to the allocation of the Polish Branch Costs and the operation of the Shareholder Underpin.

1.2. Other advice and opinions

1.2.1. Stewart Gracie, the PAC Chief Actuary has produced a report which considers the impact of the Scheme from the perspective of the PAC policyholders, while the Head of the Actuarial Function of PIA has produced a report which considers the Scheme from the perspective of PIA's policyholders. In addition Oliver Gillespie of Milliman has been retained by PAC and PIA, and approved by the PRA, after consultation with the FCA, to produce a report on the terms of the Scheme in the capacity of Independent Expert. I have read and considered these reports and provided a copy of this report to Mr Gracie, the Head of the Actuarial Function of PIA and Mr Gillespie.

1.2.2. This report should be read in conjunction with the Scheme, reinsurance agreements and other associated documents as well as the reports of the PAC Chief Actuary, the Head of the Actuarial Function of PIA and the Independent Expert.

1.3. Disclosures

1.3.1. I am a Fellow of the Institute and Faculty of Actuaries, having qualified as such in 1982, and hold a certificate issued by the Institute and Faculty of Actuaries to act as a Life Actuary (including with-profits). I am an employee of Willis Towers Watson and I have been the PAC With-Profits Actuary since February 2015.

1.4. Structure of report

1.4.1. This report is structured as follows:

- Section 2 provides information on the current operations of PAC and PIA;
- Section 3 sets out relevant details of the Scheme;
- Section 4 considers the effect of the Scheme on the transferring PAC with-profits policyholders;
- Section 5 considers the effect of the Scheme on the remaining PAC with-profits policyholders;
- Section 6 sets out my conclusions.

1.5. Compliance with Technical Actuarial Standards

1.5.1. 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 it complies with TAS 100: Principles for Technical Actuarial Work.

1.5.2. 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 an appropriate level of review for the actuarial work for which they are responsible. This report has been reviewed internally within PAC and has also been subject to peer review by Trevor Fannin of Willis Towers Watson.

1.6. Intended Users

1.6.1. The intended users of this report are the Court, Board of Directors of PAC, the Board of Directors of PIA, the Independent Expert, the PRA and FCA, the PAC With-Profits Committee, the PAC Chief Actuary and the PIA Chief Actuary

2. Company Information

2.1. The Prudential Assurance Company Limited

2.1.1. PAC is a proprietary company, the shares of which are wholly owned by its immediate parent company Prudential plc, whose principal activity is long-term insurance business which includes conventional with-profits, accumulating with-profits, non-linked non-profit and linked business.

2.1.2. PAC has a Shareholder Fund and also maintains a long term insurance fund, in which it writes its long-term insurance business. The long term insurance fund is made up of the Non-Profit Sub-Fund (NPSF) and the With-Profits Fund with the latter comprising three ring-fenced funds: the With-Profits Sub-fund (WPSF), the Defined Charge Participating Sub-Fund (DCPSF) and the Scottish Amicable Insurance Sub-Fund (SAIF).

2.1.3. The with-profits business of PAC's Polish and Maltese branches is written within the WPSF while the non-profit Polish and Maltese branch business is written in the NPSF.

2.1.4. The with-profits business of PAC's French branch and also the business transferred from the Equitable Life Assurance Society (ELAS) are written in the DCPSF, while the unit linked business of PAC France is written in the NPSF.

2.1.5. The with-profits business written in the WPSF shares in the funds divisible profit, with their proportion being at least 90% and the balance being attributable to shareholders.

2.1.6. For the business written in the DCPSF, only the investment element is retained within the fund. The charges paid by the policyholders in respect of this business accrue to the NPSF which then meets all the expenses. The shareholder thus receives the profits or losses arising from any difference between the charges and expenses, and the policyholder receives 100% of the investment related profits.

2.1.7. PAC operates as the main insurance company in the UK and Europe business unit of the Prudential group (referred to as Prudential UK & Europe). In August 2017, Prudential plc announced that it was combining two businesses within the Prudential group, Prudential UK & Europe and its asset manager, M&G, to form a combined business called M&G Prudential. In March 2018, it was also announced that M&G Prudential would demerge from the Prudential group, resulting in two separately listed companies. I do not expect this merger and demerger to change the conclusions in this report.

2.2. <u>Polish Branch business</u>

2.2.1. PAC Poland was set up in 2012 as a local Polish branch of PAC under the EU freedom of establishment rules. The prudential regulation of the branch remains with the PRA as PAC's home state regulator, while conduct of business matters in the local market fall under the control of the KNF (Polish Financial Supervision Authority) as the local Polish regulator.

2.2.2. PAC Poland's business comprises conventional with-profits, regular premium endowments, protection rider benefits and standalone term assurance plus riders. At 31 December 2017 the with-profits business had asset shares of c£3m while the non-profit business had a negative liability of c£21m which reflected the fact that the value of future charges exceeded expenses.

2.2.3. Prudential Polska Sp. z o.o. (Prudential Polska) is a local Polish entity which acts as an agent for PAC Poland and manages the agency sales force. It is a wholly owned subsidiary of Prudential Financial Services Limited (PFSL) which is a wholly owned subsidiary of Prudential plc.

2.3. Funding of Polish Branch development costs and Shareholder Underpin

2.3.1. The costs of establishing PAC Poland were met by contributions from both the Shareholder Fund and the estate of the With-Profits Fund. The total contribution from the estate consists of an initial contribution equal to the proportion of the set-up costs that related to with-profits business and subsequent contributions equal to the expense overruns allocated to the with-profits business. This funding is repaid by a specific development recovery charge levied on the asset shares of PAC Poland with-profits policyholders throughout the life of their policies.

2.3.2. When PAC Poland was established it was expected that the funding from the estate of the With-Profits Fund would be repaid, with interest equal to the expected return on Polish asset shares, within 12 years. However given the possible risks to the estate, the directors of PAC agreed that the funding would be subject to a Shareholder Underpin.

2.3.3. The total outlay from the estate less the amounts recovered from charges levied on the asset shares of PAC Poland with-profits policyholders, are all accumulated at the expected return on Polish asset shares. The Shareholder Underpin would be invoked after 12 years or if PAC Poland was closed within the first 12 years, and when invoked if the accumulated outlay exceeded the expected value of future development recovery charges on the with-profits business written, then the shareholder would pay the difference to the WPSF. To retain some flexibility there was an option to extend the payback period to 15 years with the agreement of the With-Profits Committee.

2.3.4. It is intended that this funding of expense overruns from PAC's estate will continue to be provided by the WPSF, in respect of the Polish with-profits business which is reinsured into the WPSF, and subject to the Shareholder Underpin.

2.4. Other Overseas long-term business

2.4.1. PAC France began writing business in 2000 but ceased writing new business in 2003, although it remains open to top-up business. At 31 December 2017 there were 769 policies in PAC France representing liabilities of c£44m on a Solvency II basis. The business is all single premium bonds invested in a mix of with-profits and unit linked funds, with the former written in the DCPSF and the latter in the NPSF.

2.4.2. PAC Malta was established in 1955 but ceased writing business in 1982, since when it has been in run-off. At 31 December 2017 PAC Malta had 21 policies remaining of which 17 were with-profits whole of life plans and 4 were non-profit whole of life plans, which together had liabilities of c£3m on a Solvency II basis. The with-profits business is written in the WPSF and the non-profit in the NPSF.

2.4.3. The ELAS business in the DCPSF includes a small number of with-profits annuity policies written in Germany and Ireland. At 31 December 2017 there were 439 policies, mostly with-profits annuity contracts, originally written in Germany and 237 policies, mostly retirement annuities, originally written in Ireland, which together represent liabilities of c£24m on a Solvency II basis.

2.5. Prudential International Assurance plc

2.5.1. PIA is a public limited company, the shares of which are 100% owned by PAC. PIA is an Irish regulated entity and is subject to the relevant requirements and guidelines of the Central Bank of Ireland (CBI). In October 2014, PIA established an overseas branch operation, Prudential International Assurance UK Branch (PIA UK Branch), in the United Kingdom.

2.5.2. PIA plc is an insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus is the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe and the Crown Dependencies.

2.5.3. PIA's current markets outside of the UK include France, Spain, Malta, Cyprus, Gibraltar and the Crown Dependences (Isle of Man, Jersey, and Guernsey). PIA has two lines of business: unit-linked insurance and insurance with-profits participation. PIA UK Branch sells only unit-linked insurance business (onshore bonds). Insurance with-profits participation business comprises all single premium investment products that are invested, via a reinsurance arrangement, in the DCPSF.

3. Proposed Scheme

3.1. The Proposed Transfer

3.1.1. Under the proposed scheme the business of the Polish branch, and certain other overseas long-term business, of PAC will be transferred to PIA. The proposed transfer will take effect by means of an insurance business transfer scheme ("the Scheme") under Part VII of the Financial Services and Markets Act 2000 (FSMA). Following the transfer it is expected that the PAC Poland branch, the PAC France branch and the PAC Malta branch will cease to transact insurance business. The PAC Poland branch will not be closed as it may be necessary for it to remain open as a shared services centre.

3.1.2. In transferring the business described in sections 2.2.2, and 2.4.1 – 2.4.3, from PAC to PIA, the liabilities attributable to the transferring business will be allocated to PIA.

3.1.3. Assets attributable to this business will also be allocated to PIA. For with profits business this will be those corresponding to the asset share and net cost of guarantees and smoothing (except in respect of the with-profits business of PAC Poland, where smoothing is not applied), for unit linked business it will be the face value of units and for non-linked non-profit business it will be the underlying technical provisions.

3.1.4. PIA proposes to pay for the transferred business through the issue of one or more additional shares in PIA to PAC, subject to the terms of a subscription agreement entered into between PIA and PAC that will take effect on the transfer date.

3.2. Effective Date of Transfer

3.2.1. If the Scheme is sanctioned by the Court, the transferring policies (along with the associated assets and liabilities) will transfer from PAC to PIA on 00:01 am GMT/01:01 CET on 1 January 2019.

3.3. Reinsurance Arrangements

3.3.1. PAC currently has a quota share reinsurance arrangement in place with Swiss Re under which 75% of the mortality risk in respect of the non-profit protection business, the non-profit protection riders on the with-profits business and the mortality risk on the with-profits business sold by PAC Poland, is reinsured. If the Scheme were to be implemented, the reinsurance arrangement with Swiss Re will be transferred to PIA with no other changes to the terms and conditions and the corresponding reinsurance asset will be allocated to PIA. The part of the arrangement in respect of the mortality risk on the with-profits business of the PAC Poland Branch will be novated back to PAC (together with the corresponding reinsurance assets in respect of mortality risk only) immediately after the scheme becomes effective, as the risk will remain with PAC by virtue of the reinsurance arrangement between PIA and PAC described in section 3.3.3. The reinsurance arrangements between PIA and Swiss Re and PAC and Swiss Re will continue to cover future new business written in the PIA Poland Branch in accordance with the terms of the current arrangement between PAC and Swiss Re in respect of the PAC Poland Branch business.

3.3.2. Two high value with-profits whole of life policies, written by PAC in Malta, are currently reinsured with Swiss Re under a separate reinsurance arrangement If the Scheme were to be implemented the PAC Malta business would be transferred to PIA and reinsured to PAC and so this reinsurance arrangement would remain with PAC.

3.3.3. The with-profits business sold by PAC Poland and written in the WPSF, offers policyholders access to two separate asset pools within the WPSF, one offering a strategic asset allocation with a 25% Equity Backing Ratio (EBR) and the other offering a strategic asset allocation with a 50% EBR. Following the transfer the with-profits business will retain access to the same underlying assets and have their policies managed according to the same principles and practices as they currently do, through a reinsurance treaty between PIA and PAC.

3.3.4. The business covered by this treaty includes both Polish with-profits business written prior to the transfer and any new with-profits business written through PIA Poland after the transfer.

3.3.5. The treaty helps to ensure that both the transferring and new with-profits policyholders will receive the same economic benefit following the transfer that they would have if the policies had not been transferred and had been written through the PAC Poland branch.

3.3.6. Under the terms of the treaty:

- PIA will automatically cede and PAC shall automatically accept 100% of PIA's liabilities in respect of the benefits specified in the policy conditions.
- PIA will pay to PAC the gross premiums due from the policyholder, while PAC will pay to PIA the claim amount.
- PAC will determine the bonus rates in respect of the policies covered by the treaty in a manner consistent with the Policy conditions and with the approach it has previously taken in respect of the transferred policies.
- PIA will declare bonuses in respect of the covered policies in accordance with the bonus rates notified to it by PAC.

- PAC will have no liabilities in respect of any such bonuses, if and to the extent they are declared by PIA over and above the level declared by PAC.
- PIA will provide full customer administration and service support and shall be responsible for all expenses incurred as a result. In return PAC shall pay out of the With-Profits Sub-Fund an amount equal to these expenses.
- PAC, as PIA's sole shareholder, has oversight of the administration expenses and expected new business volumes. In addition the methodology by which PIA's administration expenses in respect of the policies covered by the treaty are calculated will be that as agreed between PAC and PIA.
- PAC may impose a maximum limit on any new business written by the PIA branch
- The treaty can be terminated for new business with either party giving no less than three months' notice.
- The treaty can be terminated in full by
  - either party where the treaty becomes unenforceable in law or the other party fails to pay any amounts due within six months,
  - PIA where PAC becomes insolvent
  - mutual consent
- Any termination (other than termination for insolvency) is subject to the agreement of an independent actuary and the WPC (or any replacement or successor committee) of PAC that the termination is appropriate and that the reasonable benefit expectations of individuals who are Beneficiaries or policyholders of PAC immediately prior to the termination would not be materially adversely affected by such termination.

3.3.7. Similar reinsurance treaties will be put in place between PIA and PAC in respect of PAC France, PAC Malta and the business previously written by ELAS.

3.4. Administration

3.4.1. A PIA Poland branch will be set up to administer both the transferred Polish business and any new business to be written in Poland. The intention is that PIA Poland will replicate the current service standards for PAC Poland as much as possible and ensure there is no deterioration in the service standard.

3.4.2. As a result of the transfer, Prudential Polska will cease to be an agent of PAC Poland and will become a tied agent of the PIA Poland branch. The ownership of Prudential Polska will change from PFSL to Prudential International Management Services (PIMS). PIMS is an Irish domiciled non-regulated services company providing management services to both PAC and PIA in which PAC has a 100% interest.

3.4.3. The PAC France business is currently administered on behalf of PAC by PIMS, with the relevant services provided by Capita Life and Pensions Services (Ireland) Limited (CLPSI) pursuant to an outsourcing arrangement with PIMS. Currently the Managing Director of PIA exercises a delegated authority over the French business. As part of the transfer, the existing arrangement between PAC and PIMS in respect of the business of PAC France will be transferred to PIA, but in substance otherwise will remain unchanged.

3.4.4. The PAC Malta business is currently administered by Prudential Distribution Limited (PDL), with PIA's Managing Director exercising a delegated authority over the business. Following the transfer these policies will come within the terms of the existing PIA/PIMS outsourcing arrangement. Given the nominal number of policies, there will be no outsourcing agreement in place to cover this business between PIMS and CLPSI, and PIMS will administer the business itself (at that time it will have in place the necessary regulatory authorisations to do so).

3.4.5. The business transferred from ELAS (including the German and Irish policies) is currently serviced by Equiniti under an outsourcing agreement between PAC and Equiniti. These policies will be transferred to PIA but, under the reinsurance agreement relating to the ex-ELAS business, PAC will continue to be responsible for servicing this business through its agreement with Equiniti, which will not transfer to PIA.

3.5. Governance

3.5.1. Under the terms of the reinsurance treaty and as the sole shareholder of PIA, PAC has oversight of the volume and nature of the new business written in Poland following the transfer through its review and approval of PIA's business plan. This will enable PAC to retain oversight over the terms on which business is written, so that it complies with its minimum pricing framework, and the level of administration costs incurred in respect of the Polish with-profits business. Under the terms of the treaty, any changes in the allocation of PIA expenses to the Polish with-profits business must also be agreed between PAC and PIA.

3.6. Costs

3.6.1. The total costs have been split between those for considering the Brexit Strategy, the Part VII transfer, closing the PAC Poland branch to new business and establishing a new PIA Poland branch.

3.6.2. The costs of the Part VII transfer in relation to PAC Poland and the closure of the PAC Poland branch will be allocated to PAC Poland, with these costs then being allocated between the WPSF and NPSF in proportion to the current mix of sales volumes. This is in line with the current methodology and those allocated to the WPSF will be recouped through the development recovery charge.

3.6.3. The costs of the Part VII transfer associated with the transfer of the non-Polish European business will be allocated to the NPSF of PAC.

3.6.4. The majority of the costs involved in setting up the PIA Poland Branch will be allocated to the new branch with the exception of the project governance and support costs being incurred by PIA. The costs incurred by the PIA Poland Branch will be allocated between the WPSF and PIA in the same proportion as for the PAC Poland costs, with the WPSF costs again being recovered through the development recovery charge.

3.6.5. The costs associated with considering the Brexit Strategy will be allocated to PIA and thus borne by the shareholder. The costs incurred in the purchase of Prudential Polska by PIMS, from PFSL, will be met in full by PIMS.

4. Effect of Scheme on Transferring PAC with-profits policyholders

4.1. Security of Policyholders' Benefits

4.1.1. A key consideration in assessing the Scheme is whether it has any significant impact on the security of policyholders' benefits.

4.1.2. For the transferring with-profits business their security, prior to the transfer, is in the first instance dependent upon the surplus assets (the 'estate') which is available to support the associated with-profits fund. Additional support is also provided to the PAC WPSF from the Shareholder Undertaking that was given in July 1998.

4.1.3. As set out in section 3.3, as part of the overall transfer reinsurance treaties will be implemented between PIA and PAC to reinsure the business back to PAC. Given the operation of these treaties the security of the business transferred will remain supported by the WPSF surplus assets and any additional support provided from the Shareholder Undertaking.

4.1.4. Additional security for the transferring with-profits policyholders, is also provided by the reinsurance treaties, as they can only be terminated in limited circumstances and when they are it is subject to the agreement of an independent actuary and the WPC (or any replacement or successor committee) of PAC that the termination is appropriate (other than termination for insolvency).

4.1.5. In addition to the reinsurance arrangements being set up, PAC will grant PIA a 'pari passu' charge on the assets of PAC such that in the event of PAC becoming insolvent, PIA would rank alongside the direct written policies of PAC.

4.1.6. The transferring with-profits policyholders are currently protected under the Financial Services Compensation Scheme (FSCS) which in the case of PAC's insolvency would provide them with 100% of their entitlement. However currently it is likely that the transferring policyholders will lose this protection when the business is transferred to PIA.

4.1.7. Given the regulatory capital that PIA is required to hold and the level of its risk appetite, which represents a capital buffer of 50% of the regulatory capital requirements, the likelihood of PIA not being able to pay the policyholders their contractual benefits is remote. In addition, the loss of the FSCS protection should be considered against the risk that the Brexit outcome may be unfavourable if the policyholders were not transferred to PIA.

4.1.8. Overall I consider that the security of the transferring policyholders' benefits will not be materially affected by the Scheme.

4.2. Policyholders' Reasonable Benefit Expectations

4.2.1. The reasonable benefit expectations of the transferring with-profits policyholders depend on the payment of their contractual benefits set out in their policy terms and conditions, as well as the principles and practices that are used to determine the discretionary benefits which they expect.

4.2.2. Under the terms of the Scheme the contractual benefits will not change. In addition as set out in section 3.3, under the terms of the reassurance treaties, put in place between PIA and PAC:

- The transferred with-profits policyholders will retain access to the same underlying assets and continue to participate in profits on the same 90:10 or 100:0 basis as they do at present
- PAC will determine the bonus rates in respect of the policies covered by the treaty in a manner consistent with the Policy conditions and with the approach it has previously taken in respect of the transferred policies, and
- PIA will declare bonuses in respect of the covered policies in accordance with the bonus rates notified to it by PAC

Given this I consider that the reasonable benefit expectations of the transferring with-profits policyholders should not be changed as a result of the transfer, provided the reassurance treaty remains in place.

4.2.3. The reassurance treaties can only be terminated in limited circumstances and when they are it is subject to the agreement of an independent actuary and the WPC (or any replacement or successor committee) of PAC that the termination is appropriate (other than termination for insolvency).

4.3. Other considerations

4.3.1. As set out in section 3.4 the administration arrangements following the transfer will replicate the current approach as much as possible and ensure there is no deterioration in service standards. Thus there should be no adverse impact on the transferring policyholders.

4.3.2. As set out in section 3.5 PAC will, following the transfer, retain control of the volume and nature of the new business to be written as well the administration costs incurred in respect of the transferred with-profits business through its oversight as the sole shareholder of PIA. Thus there should be no adverse impact on the transferring policyholders.

4.3.3. All transferring policyholders will be provided with details of the proposed transfer including a summary of the Scheme, a summary of the independent expert report, the notice of transfer and a Policyholder Information Booklet. This I consider to be appropriate to meet their needs.

4.3.4. I have been advised that for the business written in Poland, PAC France, PAC Malta and the ELAS business originally written in Germany and Ireland, the tax position of the transferring policyholders will not be impacted by the transfer.

4.3.5. Under the term of the reassurance treaties PAC will in determining bonus rates do so in such a manner that is no less favourable to the beneficiaries of these policies than would have been the case if they had remained in PAC. Thus the transferring policyholders, whilst not having an expectation of a distribution of surplus from the estate of the PAC with-profits fund, will retain the same interest in the estate as was the case prior to the transfer.

5. Effect of Scheme on remaining PAC With-Profits Policyholders

5.1. Factors potentially affecting remaining PAC policyholders or the WPSF estate

5.1.1. The interests of the remaining PAC with-profits policyholders in the WPSF and DCPSF could be affected, through

- changes in their security and benefit expectations
- the impact on the estate of the funding of the development costs and expense overruns for the reinsured business
- the pricing and terms of new business written after the transfer and reinsured into PAC

5.2. Security and Policyholders' Reasonable Benefit Expectations

5.2.1. The liabilities of the transferring business represent an immaterial proportion of the total WPSF and DCPSF liabilities. In addition the transferred business and future new business written in Poland will be reinsured back into PAC on the same terms as currently applied. Thus the transfer is not expected to have any material impact on the surplus and financial strength of the PAC With-Profits Fund.

5.2.2. I thus consider that there will be no material change in the security and the reasonable benefit expectations of the remaining PAC policyholders.

5.3. Funding of expense overruns and development costs

5.3.1. As set out in section 2.3.2 when PAC Poland was established, the PAC directors agreed that the funding provided by the With-Profits Fund would be subject to a Shareholder Underpin, the operation of which is set out in section 2.3.3.

5.3.2. The Shareholder Underpin was due to be invoked if either PAC Poland was closed within the first 12 years since its launch or if after 12 years, with an option to extend to 15 years, the With-Profits Fund had not recovered its outlay.

5.3.3. The effect of the Scheme is that the PAC Poland branch will cease to transact insurance business but will not be closed following the transfer of its business to PIA Poland. However it has been agreed that as part of the transfer the Shareholder Underpin will not be invoked. It is also proposed, as part of the transfer, that in future the Shareholder Underpin will only be invoked if either PIA Poland is closed within 12 years of PAC Poland being established or if after 12 years, with an option to extend to 15 years, the With-Profits Fund had not recovered its outlay. I consider this to be appropriate.

5.3.4. As set out in 2.3.4 it is intended that the funding of expense overruns from PAC's estate will continue to be provided by the WPSF and be subject to the Shareholder Underpin,. Thus no material change is expected in the outcome of the Shareholder Underpin, nor therefore in the resultant reasonable benefit expectations of the existing with-profits policyholders in the With-Profits Fund.

5.4. Pricing and terms of new business

Following the transfer PAC, as PIA's sole shareholder, will, under the terms of the reinsurance treaty, retain control of the volumes and nature of the new business written by the PIA Poland branch and covered by the treaty.

5.5. Other Considerations

5.5.1. I have been advised that the proposed transfer is not expected to have a material impact on the tax position of PAC in aggregate nor on the tax position of the remaining policyholders and thus the Scheme is not expected to have any effect on policyholder taxation.

5.5.2. The proposed transfer is not expected to result in any changes to the PAC With-Profits Fund Principles and Practices of Financial Management (PPFM), other than those to reflect the changes in PAC Company structure and a change to the ELAS Principles of Financial Management to allow the German and Irish policies to be transferred from PAC to PIA. Thus there will no change as a result of the transfer in the way that the With-Profits Fund is managed and no impact on the reasonable benefit expectations of existing policyholders.

5.5.3. PAC is not proposing to write to its remaining policyholders as it would be disproportionate to do so given the cost of such an exercise and the impact of the transfer on these policyholders. On this basis a waiver is being requested from the PRA and FCA. I consider this approach to be appropriate.

5.5.4. The reassurance treaties can only be terminated in limited circumstances and when they are it is subject to the agreement of an independent actuary and the WPC (or any replacement or successor committee) of PAC that the termination is appropriate (other than in the event of insolvency).

5.5.5. While not having an expectation of a distribution of surplus from the estate of the PAC with-profits fund the remaining with-profits policyholders do have an interest in the estate. As under the terms of the reassurance treaties the reassured policyholder will be treated as if there policies had been written directly in PAC, interest in the estate of the remaining with-profits policyholders will not be affected by the transfer.

6. Conclusion

6.1. In my opinion the proposed scheme will not result in any material adverse effect on either the security or the reasonable benefit expectations of the transferring PAC with-profits policyholders nor the remaining with-profits policyholders of PAC.

Peter Needleman FIA
Willis Towers Watson
PAC With-Profits Actuary
29th June 2018