Report of the LGAS With-Profits Actuary

on the proposed transfer of long-term insurance business

from

Legal & General Assurance Society Limited

to

ReAssure Limited

pursuant to Part VII of the Financial Services

and Markets Act (2000)

26 June 2019

PROPOSED PART VII TRANSFER FROM LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED TO REASSURE LIMITED

REPORT BY THE LGAS WITH-PROFITS ACTUARY

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1. EXECUTIVE SUMMARY

I have considered the information supplied to me in relation to the Part VII transfer of the Mature Savings Business which includes the Legal & General Assurance Society ("**LGAS**") With-Profits Fund ("**WPF**"). Based on this information, which has been summarised in this report, in my view the proposed transfer of the WPF to ReAssure Limited ("**ReAssure**") is unlikely to result in material detriment to the benefit expectations, benefit security or the fair treatment of with-profits policyholders.

In assessing the benefit expectations of with-profits policyholders (section 6.1) I have considered the changes to the operation of the business after the proposed transfer to ReAssure and to some of the policy terms and conditions. I have concluded that these changes will not have a material impact on policyholders. Furthermore, in the event of the proposed transfer going ahead, the participating policyholders (i.e. those policyholders in the WPF who participate in the profits arising within it) are expected to benefit from the agreed expense deal with the ReAssure shareholders.

In assessing the security of with-profits policyholder benefits (section 6.2) I have considered the following factors: the solvency position of LGAS and ReAssure and the regulatory regimes applying to them, how these companies manage their capital, the profile of the risks that each company is running and the solvency position of any parent company or majority shareholder.

LGAS and ReAssure are subject to the same regulatory regime and, under this regime, the solvency positions are both reasonably strong as measured at 31 December 2018. Both companies have capital policies of holding significantly more capital than the minimum statutory requirement to help protect their financial positions in the event of poor experience against the risks the companies run. Finally both Legal & General Group (the parent company of LGAS) and Swiss Re Ltd (who have a majority holding in ReAssure) have been assessed as financially strong companies by the rating agent Standard and Poor's.

I have concluded that ReAssure is sufficiently strong that the proposed transfer does not materially alter the security of policyholder benefits. The announcement by Swiss Re in August 2018 that they are exploring a potential Initial Public Offering ("**IPO**") of ReAssure created some uncertainty. The ReAssure Board have approved how they plan to manage benefit security post IPO should that proceed. Based on the ReAssure approved policy, I am comfortable that policyholder security is not materially impacted regardless of whether Swiss Re proceeds with the potential IPO.

In assessing the fair treatment of with-profits policyholders, I have compared how ReAssure will run the WPF after the proposed transfer against how it is run within LGAS and I anticipate, based on the information supplied to date, that with-profits policyholder's treatment after the proposed transfer to ReAssure will be materially the same as at present within LGAS. (Section 6.3)

Work to enable the proposed transfer to conclude successfully continues. A joint decision by LGAS and ReAssure on whether to proceed in accordance with the timelines in this report is expected to be taken shortly before the Directions Hearing, but after the date of this report. I have reviewed the criteria for assessing the readiness of the joint programme to proceed and am comfortable that a robust assessment process in in place. In preparation for this meeting I have been assured by the Chief Executive Officer and Chief Risk Officer of ReAssure that they have plans in place to deliver the migration and implementation without material detriment to customers and I have relied on their assurances. My report is based on the understanding that the joint programme will not proceed as currently planned unless there is a strong probability of a successful migration and implementation. I will consider readiness further in my Supplementary Report in advance of the Sanctions Hearing.

There are some outstanding items that could potentially affect my conclusions, if the work currently underway does not proceed to a satisfactory conclusion. Items to note are:

- Any changes by ReAssure to their capital management policy post their possible Initial Public Offering to reflect regulator feedback and the treatment of the Transitional Measure on Technical Provisions ("**TMTP**") for the transferring business;

- As discussed above work to migrate the in scope business to the ReAssure administration and actuarial platforms and processes is underway and will continue to be developed and tested.

These items are to be covered in my Supplementary Report in advance of the Sanctions Hearing, scheduled for 17 October 2019.

2. INTRODUCTION

2.1. PURPOSE OF THIS REPORT

This report, addressed to the Board of Directors of LGAS, is made in my capacity as With-Profits Actuary ("**WPA**") and concerns the proposed transfer of the WPF to ReAssure as part of the sale of the Mature Savings business. The WPF forms part of the business being transferred which is to be carried out by way of an insurance business transfer scheme under Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 ("**FSMA**"), (the "**Scheme**").

The purpose of this report is to provide the Board of LGAS (the "**Board**") with my advice in relation to the transfer of the business to ReAssure as it impacts with-profits policyholders concerning their fair treatment and security of benefits. In addition, the report will consider the ongoing management of with-profits policyholders and their policies following the implementation of the proposed transfer. My advice is based on information provided to me.

In addition to the LGAS Board, this report is also intended to be provided to the Independent Expert (as defined in section 2.5), the High Court of England and Wales ("**the Court**"), the Prudential Regulatory Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). This report has also been shared with the LGAS Chief Actuary, the With-Profits Committee (WPC) and with ReAssure.

2.2. SCOPE OF THIS REPORT

This report sets out my opinion on the fairness of the proposed transfer to the participating policyholders of the LGAS WPF, specifically the impact on their policies and the WPF overall.

The WPF contains the following product groups:

- participating business: predominantly unitised with-profits life and pensions business, with smaller volumes of deferred annuities, with-profits annuities and traditional with-profits business (including endowments); and

- non-participating business: predominantly unit linked personal and group pensions business and savings products with a smaller volume of other business.

This report is based on information made available to me up to 25 June 2019 and takes no account of developments after this date.

A Supplementary Report will be issued after the Directions Hearing (scheduled for July 2019). This Supplementary Report will update my advice following any objections or expressions of dissatisfaction raised by with-profits policyholders, any proposed changes to the Scheme, any new financial information (including the Solvency II positions of LGAS and ReAssure, detailed in 6.2.1 and 6.2.2 respectively) and other significant new information. The Supplementary Report will also consider further those items in development which are not planned to conclude before the Directions Hearing. These include: the readiness of LGAS and ReAssure to migrate the business from LGAS to ReAssure; PRA responses to ReAssure on their capital management policy and TMTP and the ReAssure operating model for derivatives. This Supplementary Report will be shared with the Independent Expert and regulators prior to the Sanction Hearing.

2.3. ROLE OF THE WPA

The duties of the With-Profits Actuary are set out in rules SUP 4.3.16A and SUP 4.3.17 of the FCA handbook. The fourth paragraph of which states:

> *A firm must require and allow any* actuary *appointed to perform the* with-profits actuary function *to perform his duties and must:*
> *….. (4) request his advice about the likely effect of material changes in the firm's business plans, practices or other circumstances on the fair treatment of the relevant classes of the firm's with-profits policyholders.*

I regard the changes proposed as part of the transfer of the WPF to ReAssure as a material change in the running of the business and so it is appropriate for me to comment on the impact on the fair treatment of with-profits policyholders.

2.4. DISCLOSURES

This report is written in my capacity as LGAS's WPA, a position I have held since 1 January 2015. I am an employee of L&G Resources Limited and a Fellow of the Institute of Actuaries.

I confirm that my financial and personal interests in L&G as set out in the Appendix to this report have not influenced me in reaching any of the conclusions detailed in this report.

An Independent Expert (appointed under the terms of Section 109 of FSMA 2000 in relation to the Scheme) and LGAS's Chief Actuary have prepared separate reports on the proposed Scheme and this report should be read in conjunction with their reports as well as the Scheme.

2.5. THE INDEPENDENT EXPERT

An Independent Expert, Mr O Gillespie, of Milliman LLP has been retained by the Boards of LGAS and ReAssure and has been approved by the PRA. The purpose of the role of the Independent Expert is to provide an independent report assessing the impact of the Scheme on, amongst others, the transferring policyholders to aid the Court in deciding whether to sanction the Scheme. In finalising my report, I have read a draft of his report and considered its conclusions. A copy of this report will also been provided to Mr Gillespie.

2.6. RELIANCES AND LIMITATIONS

In preparing this report I have relied upon the material supplied to me by LGAS and ReAssure. In addition, I have relied on the advice supplied in relation to technical matters outside my field of expertise (for example, legal and tax) and have set out in the report where I have done so.

3. BACKGROUND

On 6 December 2017, LGAS entered into a Risk Transfer Agreement ("**RTA**") with ReAssure. The RTA took effect on 1 January 2018 and the objective of the agreement was to transfer the majority of the LGAS shareholder's economic interest in the LGAS Mature Savings business and certain other lines of business (the "**Portfolio**"), including the associated risks, to ReAssure. The WPF is part of the Portfolio.

On the same date LGAS also entered into a Business Transfer Agreement ("**BTA**") with ReAssure. As the Part VII has evolved amendments to the BTA have been required and are being carried out through amendment agreements. The BTA and amendment agreements set out the approach to transferring the Portfolio to ReAssure (including the approach to the Scheme).

Under the terms of the BTA and amendment agreements, from the Signing Date (6 December 2017) to the Effective Date of transfer under the proposed Scheme (4 November 2019), LGAS will administer the transferring business in line with applicable law and regulations, good industry practice, good tax practice and in line with the management of the business over the 12 months prior to the Signing Date. LGAS also has to comply with its conduct of business obligations during this period.

Under the proposed transfer the rights and obligations that exist between ReAssure and LGAS will be deemed as becoming effective on the Economic Effective Date (1 November 2019).

Under the terms of the BTA and amendment agreements, for the 12 month period following the Economic Effective Date of transfer, ReAssure are to endeavour to administer the transferred business in the manner the policies were administered in the 12 month period prior to the Signing Date. Following that, ReAssure are to administer the transferred business to a standard that is equal to, or better than, the standards applied to ReAssure business generally.

The proposed Scheme, if sanctioned by the Court, will result in the transfer of the LGAS WPF to a newly established with-profits fund of ReAssure ("**LGWPF**"). This transfer is intended to occur over the period 1 November 2019 to 4 November 2019. This process may be deferred to complete no later than 4 February 2020 if both parties agree. In the event of the transfer, the LGWPF will then be one of four separate with-profits funds within ReAssure, with ReAssure being responsible for the management of the LGWPF from the Effective Date.

A small number of policies within the portfolio were written in Jersey or Guernsey. In connection with the Scheme, similar schemes are being enacted in Jersey and Guernsey, the purpose of which is to concurrently transfer the Jersey and Guernsey policies from LGAS to ReAssure.

In the event of any WPF policies being unable to transfer at the proposed transfer date or later (with appropriate consents, permissions and other requirements), these are to be retained by LGAS. The Scheme facilitates a later transfer of these policies to ReAssure (at the Subsequent Transfer Date).

During the period leading to the proposed transfer the administrative arrangements for the WPF remain unchanged with LGAS making direct payments to the policyholders, although in the immediate period leading up to the Effective Date some customer facing processes will be stockpiled and completed after the proposed transfer. Over the period between 6 December 2017 and the Effective Date, some additional governance arrangements have been established giving ReAssure input into certain matters.

In the event of Court sanction of the proposed transfer, the RTA terminates on the Effective Date of transfer. At the same time, the following agreements between the LGWPF and ReAssure come into effect:

- Investment Management Agreement ("**IMA**") - covering the ongoing provision of investment management services by Legal & General Investment Management ("**LGIM**"), and

- Annuity Introducer Agreement ("**AIA**") - an agreement to offer LGAS annuities to holders of certain pension policies in scope of the transfer who subsequently retire.

These agreements are discussed in more detail in sections 6.1.7 and 6.1.11 respectively.

It is proposed that following the Directions Hearing policyholders affected by the proposed transfer will be written to. Mailing will commence shortly after the Directions Hearing and complete in early to mid-August 2019. Each policyholder will receive a generic communication pack and a targeted covering letter. The covering letter is designed to direct the policyholder to pertinent areas within the communication pack relevant for their product and highlight to the policyholder their rights to object to the transfer and the mechanism for doing this. I cover these communications in section 6.4

The following costs, in connection with the proposed transfer shall be borne equally by LGAS and ReAssure:

- Appointed counsel's costs,
- Court fees,
- Fees of any regulatory authority,
- Costs, charges and expenses incurred in relation to the Independent Expert,
- Costs of communicating with transferring policyholders and third parties (and the associated response management) as required by applicable law and regulation, and
- Costs of UK and overseas newspaper advertising.

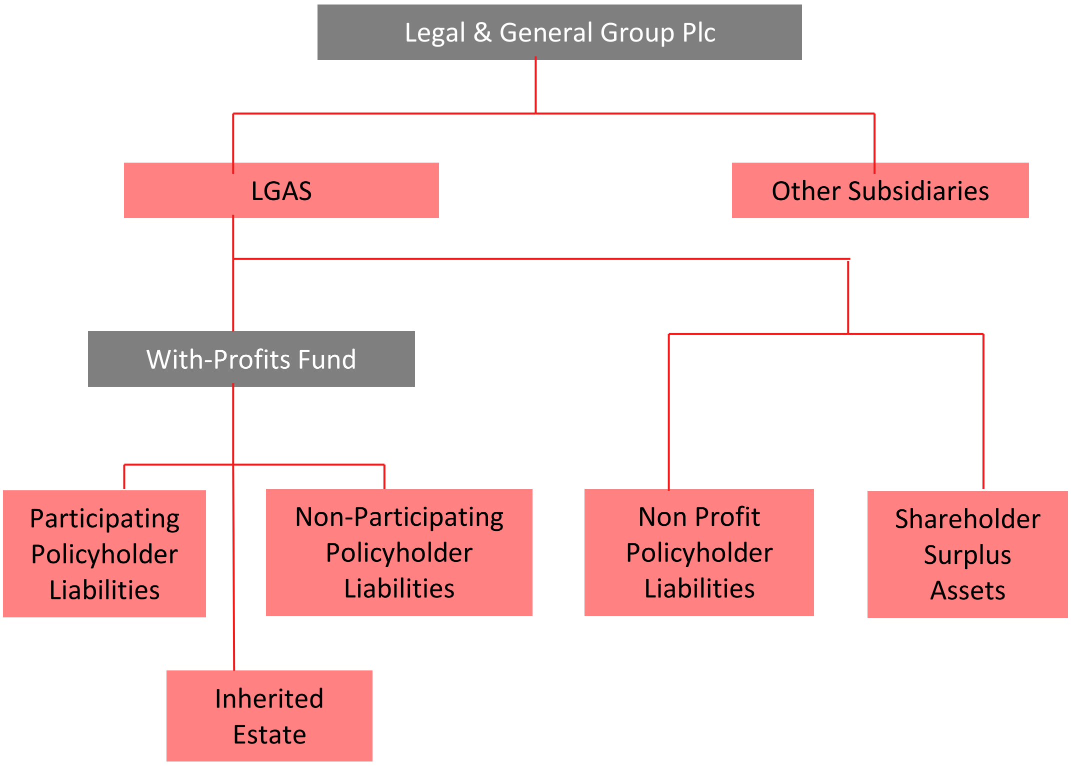
Otherwise LGAS and ReAssure are responsible for their own costs in connection with the proposed transfer.

Details of the impacts of the transfer on the WPF policyholders are set out in section 6.

In the event of the proposed Scheme not going ahead, the management of the WPF will remain with LGAS, with the RTA and parts of the BTA remaining in place. The parties will aim to transfer the Portfolio using an alternative scheme or, if this is not possible, to outsource the management of the WPF to ReAssure. More detail is given in section 8.

4. LGAS WITH-PROFITS FUND

With-profits policies form part of the WPF, which is part of LGAS, which is a wholly owned subsidiary of Legal & General Group Plc ("**L&G**"). The LGAS structure, as set out in the Principles and Practices of Financial Management of the With-Profits Fund ("**PPFM**"), is shown in the diagram below.



A summary of the LGAS in-force long term business at 31 December 2018 is shown in the table below:

	Number of policies	**Solvency II Best Estimate Liability (£bn)**
Non Profit	11,022,988	96.9
With-profits fund	681,216	17.8
- *Participating*	*318,722*	*8.8*
- *Non-Participating*	*362,494*	*9.0*
Total LGAS	**11,704,204**	**114.7**

Both policies eligible for bonuses (participating policies) and policies currently ineligible for bonuses (non-participating policies) are present within the WPF. The current range of with-profits policies has been written since 1954. The range is extensive, comprising:

- participating business: predominantly unitised with-profits life and pensions business, with smaller volumes of deferred annuities, with-profits annuities and traditional with-profits business (including endowments); and
- non-participating business: predominantly unit linked personal and group pensions business and savings products with a smaller volume of other business.

The non-participating policies in the WPF generally have been eligible for bonuses previously, or include an option to become eligible for bonuses in the future. Typical non-participating policies are unitised policies with an option to switch into Unitised With-Profits ("**UWP**") units, or pension policies which have passed their selected retirement date.

The Board of LGAS are responsible for the management of the WPF. The Board have delegated a number of aspects of the management of the WPF to the With-Profits Management Committee ("**WPMC**"). The Board have also appointed a With-Profits Committee to provide independent oversight and challenge of the management of the WPF.

The PPFM is a regulatory required document to assist the with-profits policyholders in understanding the way in which LGAS manages its WPF business. It is available on the LGAS website and in paper form on request by policyholders. The LGAS management are required to operate the WPF in accordance with this document. Compliance with the document is assessed annually, with the LGAS Board reporting their assessment to policyholders on the LGAS website.

Each year, following an actuarial valuation, the Board decides the amount of profits, if any, which may be set aside as available for with-profits policyholders' bonuses and for transfer to the shareholders' profit and loss account.

For profits set aside for distribution in this way and which are certified by the Board as derived from the WPF, at least 90% are available for bonuses to with-profits policyholders. The remainder is available for shareholders; this is referred to as the shareholder transfer.

Profits arising from outside the WPF are available for the shareholders. With-profits policyholders are not eligible to participate in these profits.

The WPF has an inherited estate. This is the excess of WPF assets over and above the amount required to meet its liabilities. The LGAS Board are required to consider the management of the inherited estate annually and to consider making distributions from it to policyholders. In November 2018, the Board decided to make a distribution of part of the estate which was reflected in the bonuses declared in February 2019.

The WPF formally closed to new business on 31 January 2015. Following this closure the WPF continues to accept new members to existing Group Pension schemes, increments (where permitted by policy terms and conditions) and continuation of regular premiums. At the end of 2018 there were 681,216 policies in the WPF with best estimate Solvency II liabilities of £17.8bn.

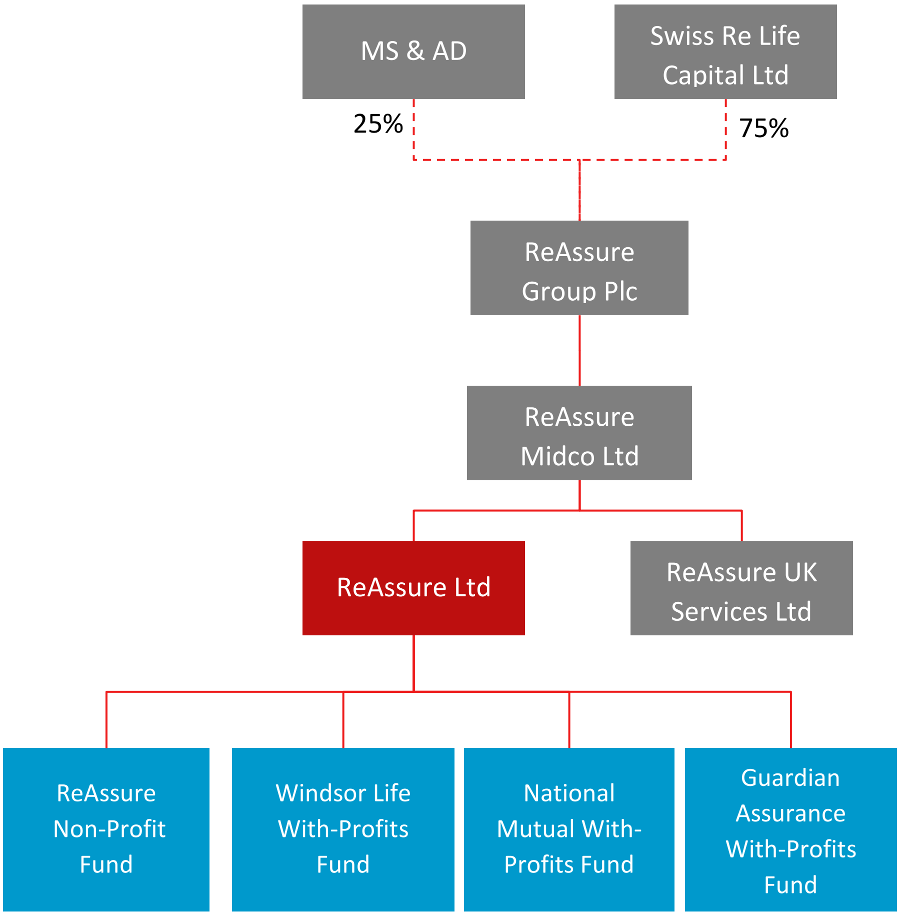
The WPF is ring-fenced (as defined under Solvency II regulations) and so is managed as standalone fund within LGAS under the Solvency II regulatory regime.

There are no previous Court schemes relating to the LGAS WPF.

5. REASSURE

ReAssure is a UK registered company with a strategy of being a major consolidator in the UK market for closed books of life and pension business. In recent years, ReAssure has grown by transferring in existing blocks of business acquired from other companies, both with and without with-profits, or by entering into reinsurance arrangements with other entities.

The position of ReAssure in the ReAssure group is shown in the following chart which has been supplied to me by ReAssure.



Swiss Re Life Capital Ltd is a wholly-owned subsidiary of Swiss Re Limited ("**Swiss Re**"), the ultimate holding company of the Swiss Re Group (which is a listed company on the Swiss stock exchange). Swiss Re is the ultimate majority parent of ReAssure.

ReAssure Group Plc ("**RGP**") is a recently established company for the purposes of the IPO, to be the ultimate parent company in the ReAssure Solvency II group. RGP is a 75% owned subsidiary of Swiss Re Life Capital Ltd with MS&AD Insurance Holdings Inc ("**MS&AD**"), a Japanese insurance conglomerate, owning the remaining 25% stake since February 2019. The Swiss Re Life Capital Ltd and MS&AD holdings in RGP are through investments in a hierarchy of holding companies.

ReAssure Midco Ltd is the UK holding company which owns 100% of ReAssure and ReAssure UK Services Limited.

ReAssure UK Services Limited provides services to ReAssure for the administration of policies and related activities. It also has third party administration contracts with Aviva, MetLife, and Genworth.

The long-term insurance business of ReAssure has three ring-fenced (as defined under Solvency II regulations) with-profits funds. Liabilities held outside these funds are referred to as the Non Profit Fund:

- ReAssure Non-Profit Fund - This fund contains shareholder assets and the remaining long-term insurance business of ReAssure not held within one of the three with-profits funds. It comprises a mix of non-profit and unit-linked policies arising from a number of transactions and includes:
    - Immediate annuities in payment.

  - Deferred annuities and certain benefits of with-profits deferred annuities written in the Guardian Assurance With-Profits Fund but internally reinsured to the Non-Profit Fund.

  - A unit-linked portfolio comprising acquired portfolios of unit-linked life and pensions business from a series of acquisitions. The policyholder unit series have largely been consolidated into pooled base funds with common underlying investment objectives.

  - A portfolio of non-profit protection and income protection policies.

- Windsor Life With-Profits Fund ("**WLWPF**") - This fund contains the with-profits business of Windsor Life. The fund is closed to new business (apart from a small number of increments to existing policies) and is being run so as to distribute its surplus assets over time to with-profits policies as they mature or otherwise discontinue. With-profits policyholders receive 90% of profits distributed through declared bonuses, with shareholders receiving the balance.

- National Mutual With-Profits Fund ("**NMWPF**") - This fund contains the with-profits business (and a small number of non-profit policies) originally written by the National Mutual Life Assurance Society. The fund is closed to new business (apart from a small number of increments to existing policies) and is being run so as to distribute all its surplus assets over time to with-profits policies as they mature or otherwise discontinue. The shareholders have no entitlement to any of the future surplus. The operation of the fund is governed by a scheme of transfer entered into by ReAssure in December 2007. This scheme of transfer includes a requirement for ReAssure to provide financial support to the fund, if required.

- Guardian Assurance With-Profits Fund - This fund contains the with-profits business originally written by the Guardian Assurance and transferred into ReAssure in 2016. The fund is closed to new business (apart from a small number of increments to existing policies) and is being run so as to distribute all its surplus assets over time to with-profits policies as they mature or otherwise discontinue. With-profits policyholders receive 90% of distributed profits through declared bonuses, with shareholders receiving the balance. The operation of the fund is governed by a scheme of transfer entered into by ReAssure Life Limited (formerly Guardian Assurance) and ReAssure in December 2016.

The three with-profits funds are ring-fenced under Solvency II and so are managed as standalone funds within ReAssure under the Solvency II regulatory regime.

On 3 August 2018, Swiss Re announced that it is exploring a UK listing of ReAssure during 2019 via an IPO in order to provide access to new capital to grow the business. Swiss Re stated that it expected to remain a significant investor in ReAssure after the potential IPO but that it would likely no longer hold a majority stake. On 14 June 2019 RGP confirmed its intention to proceed with the IPO, and this is expected to take place in July 2019. At the time of writing this report the precise terms of the IPO are unknown.

6. IMPACT ON WITH-PROFITS POLICYHOLDERS

In this section I consider the impact of the transfer on the WPF policyholders and I consider this in three parts:

- The WPF policyholder benefit expectations in the LGWPF (section 6.1),

- The financial security of benefits in the LGWPF (section 6.2), and

- Other aspects affecting transferring policyholders (section 6.3).

Finally, in section 6.4, I consider the LGAS and ReAssure communications to the WPF policyholders relating to the proposed transfer.

In commenting on the impact of the transfer I focus on changes that are proposed to the way the business is currently managed and administered relative to the way the business is currently managed by LGAS.

6.1. LGWPF POLICYHOLDER BENEFIT EXPECTATIONS

Benefit expectations for with-profits customers are generally determined by the terms of the policy, the guarantees within them, any charges which are deducted and the bonuses which are added to policies. Bonuses are generally set by reference to the asset share for a group of policies. Asset shares accumulate the premiums paid less any charges, expenses or relevant benefit payments with the investment return achieved on the assets backing these policies after allowance for tax where appropriate. For with-profits policies the most important items affecting Asset Share are generally the premiums and the investment return. Bonuses are also influenced by the view of future investment conditions, the effects of smoothing, the type of policy and any guarantees within it, any distribution of the estate or additional charges such as those for guarantees and options and the overall financial position of the Fund.

There are a number of areas in which management of the business can influence policyholder benefit expectations. The main factors are:

- The way in which bonuses are set (covered in section 6.1.1)
- The way in which bonus rates are applied (covered in section 6.1.2)
- Investment strategy (covered in section 6.1.3)
- The capital measure used to manage the WPF (covered in section 6.1.4)
- The estate distribution mechanism (covered in section 6.1.5)
- Expenses (covered in section 6.1.6 and 6.1.7)
- Tax (covered in section 6.1.8)
- Charges (covered in section 6.1.9)
- Changes to the way in which products are administered or to terms and conditions (covered in section 6.1.10).

6.1.1. Bonus Methodology

When determining bonus rates to apply to participating policies, LGAS adopts an approach which incorporates some pooling and sharing of experience between policyholders. This is a fundamental part of the management of with-profits policies. For UWP policies the detailed methodology adopted by LGAS is complex.

Assuming the transfer proceeds ReAssure will adopt a largely unchanged approach to setting bonus rates, however they will simplify the approach for bonus declarations taking place after February 2020. As part of this simplification certain experience, such as profits and losses arising from policyholders who surrender, will be shared over larger groups of policyholders than is currently the case. This change will not alter the total amount of profits and losses credited to policyholders but will reduce the volatility of individual future claim amounts as the fund decreases in size. It is similar in spirit to changes that LGAS have made previously for certain classes of business. I regard this change as beneficial to policyholders in the longer term.

I have reviewed all the proposed changes and considered their impact on individual customers. The simplifications, which mainly relate to the sharing of experience mentioned above and the construction of the actuarial models, may result in some small changes to future individual bonus rates when compared to those which would have arisen from the current methodology, however I do not believe there will be any systematic increase or decrease overall. I do not believe that these changes will be materially adverse for any group of policyholders and are consistent with actions that LGAS might have taken in the future. I thus have no objection to these simplifications.

For bonus declarations up to and including February 2020 the current approach will continue but with some minor changes to the timings of setting the necessary assumptions and the practical implementation of the declared bonuses on ReAssure systems. This is covered further in sections 6.1.2 and 6.3.2.

As part of the proposed transfer of the WPF to ReAssure, the majority of the actuarial software used for financial reporting and setting bonuses at LGAS will not be transferred to ReAssure. The proposed transfer involves building and testing replacement models by ReAssure which are planned to follow the LGAS approach for setting bonuses (other than areas detailed in this report). I will comment on the progress of these developments in my Supplementary Report.

It is planned that the asset shares as at 31 December 2018 will be transferred to ReAssure by LGAS with ReAssure using these as the starting point for the calculation of future asset shares. I am currently in discussion regarding the details of how this will operate and the plans and progress towards achieving this. In principle this approach is reasonable as it should avoid any material discontinuity being inadvertently introduced as a result of the change to the administration and modelling platforms. I do not anticipate any material issues arising as a result of this proposal, but should any emerge then I will comment on them in my Supplementary Report.

Other aspects of bonus setting methodology are to remain unchanged immediately following the transfer. Any future changes to the bonus methodology after the transfer will be required to be approved through the ReAssure governance process (considered in section 6.3.4). Therefore, in my opinion, after allowing for the differences in approach detailed above, outcomes for policyholders with respect of the bonus methodology should not be materially affected by the transfer of the business.

6.1.2. Application of Bonuses

There are number of proposed changes to the mechanisms used to apply bonuses to policies. These will have small impacts on the balance between different types of bonus. In summary these changes are:

- LGAS add annual bonuses in February, when the rates are declared, based on policy values as at the previous 31 December. ReAssure will use the policy values when the bonuses are allocated which will be shortly after the bonus declaration in February. Interim bonuses will be included in any payments to policyholders. For conventional policies I do not believe this will have any impact. Unitised and accumulating polices operate with different bonus rates payable for each year of investment and therefore the overall impact on policyholders is small due to small impacts occurring in respect of premiums received after 31 December.

- Where regular withdrawals are taken from a with-profits bond, LGAS reflect this in the amount of annual bonus added at the next declaration rather than adding interim bonus at the time of payment. ReAssure will add interim bonus instead, without changing the amount of the income payment. In the event that the annual bonus rate is different from the previously applying interim bonus rates this could result in an increase or decrease in the value of the policy.

- Many of the bonus rates are currently applied as a percentage multiplied by the duration inforce. The approach to calculating the duration varies by product and ReAssure propose some changes so for example where the duration was previously calculated in days this may now be calculated in whole months. The impact of this varies by product type and may result in small increases or decreases to future payments to participating policyholders.

- When adding bonuses, contractual annual interest and contractual minimum addition (which are non-discretionary additions to policy benefits for certain policies), LGAS calculate the amounts due based on the average unit holdings in a policy. ReAssure will instead use the unit value on the date of allocation. This may result in some increases or decreases to the amounts added.

I have reviewed these proposals and the worked examples provided by ReAssure and I am comfortable that, in normal circumstances, the benefits payable to customers will not be materially impacted. If annual bonus rates differ from the previous interim bonus rates then there may be some impact to customers, however this circumstance is not generally expected to occur. This is in line with the LGAS approach where such changes may occur in extreme conditions. However, I do not believe there will be any systematic increase or decrease overall and I do not believe that these changes will be materially adverse for any group of policyholders.

6.1.3. Investment Strategy

LGAS's current approach to investment strategy is, in outline, to:

- invest the assets backing asset shares in a mix of investments between equity, fixed interest securities, property and other assets,
- invest unit linked policies in the relevant unit linked funds, and
- invest the remainder of the assets to minimise the impact on the WPF of changes in economic conditions. This is measured by the impact on the estate on an Economic Capital ("**EC**") basis.

As part of the sale of the LGAS shareholder interest in the Portfolio, ReAssure committed that in the normal course of events they would not change the investment strategy of the WPF within a reasonable period, which they have confirmed is expected to be two years, following the proposed transfer. This investment strategy is articulated through the WPF run off plan (a regulatory required document detailing how the WPF is to be managed as the WPF decreases in size) and the various With-Profits Assets and Liabilities Committee ("**WP ALCO**") and other committee and Board papers. After this period, the investment strategy will be a consideration for ReAssure as would generally be the case for a With-Profits fund in run off and would be subject to ReAssure governance to protect the interests of the LGWPF participating policyholders.

As part of the proposed transfer, ReAssure has reiterated this commitment and ReAssure has informed me that this has been discussed with and ratified by the ReAssure Board and ReAssure Fairness Committee in October 2018.

For the avoidance of doubt the investment strategy includes the management of liquidity.

The target operating model for derivatives owned by LGWPF post transfer is currently being developed by ReAssure and ReAssure has shared their draft approach with me. The derivatives held by the LGWPF sit either within the individual investment mandates (in-mandate derivatives) or in a number of dedicated overlay funds (overlay derivatives). Under the draft approach LGIM will continue to manage the in-mandate derivatives held in the LGWPF in the same way as they currently do. For the overlay derivatives the draft ReAssure operating model is that ReAssure will issue instructions for any derivative trades and LGIM will execute the instruction as well as performing mandate related margin and collateral operations. LGIM will report open and traded positions to ReAssure daily and also supply the information required by ReAssure for regulatory reporting purposes.

HSS, the custodian bank, will perform pricing and report on transactions, fund accounting, valuations and cash reconciliation.

The activity in relation to derivatives will be monitored by ReAssure.

Based on the information supplied to date, I am satisfied that the intention is for the strategy relating to derivatives to continue the current approach and I therefore currently have no concerns that this will be detrimental to policyholders. Should there be any material changes to the derivative operating model I will comment on these in my Supplementary Report.

The WPF owns a small part of the unit linked box (the amount by which the unit linked assets exceed the unit linked liabilities) and this will transfer to ReAssure as part of the proposed Scheme. ReAssure have stated that they intend to transfer this WPF box to their Non-Profit Fund as at the Economic Effective Date and calculate a corresponding settlement amount. This will be subject to the governance of their Board and Fairness Committee and, should it occur, will result in a small reduction to the risks in the LGWPF. The details of this intended transaction have not yet been finalised and so I will comment on this in my Supplementary Report.

As mentioned above, there are not expected to be any material changes to the investment strategy for a period of two years from the date of the proposed transfer. Subsequent to that any changes would be considered by ReAssure and assessed for fairness to policyholders. In particular any change to the strategy would be considered by the ReAssure Fairness Committee. LGAS also keep the strategy under regular review and could have made changes in future. Consequently I do not expect the investment strategy in the event of the transfer of the WPF to adversely impact the benefit expectations of policyholders relative to the expectations they would have had if the WPF had remained within LGAS.

6.1.4. Capital Measure used to Manage the WPF

LGAS currently use an EC solvency measure to inform the running of the WPF. This measure is used primarily to:

- Provide information about the risks within the WPF and to inform actions taken to manage those risks. In particular it is used to guide the investment strategy of the assets in the WPF, other than those backing the asset shares or the unit linked funds.

- Inform any decisions to increase policyholder benefits by distributing the estate or to reduce policyholder benefits by making charges to asset shares.

This measure is based on the LGAS Solvency II Partial Internal Model with a number of adjustments. It is assessed for the WPF on a standalone basis; i.e. it includes only those risks within the WPF and does not consider any impacts of the wider LGAS.

ReAssure will not have access to the LGAS EC model after the proposed transfer and so it is necessary for ReAssure to create a suitable alternative measure to inform the running of the WPF after the proposed transfer. ReAssure has provided me with details of their proposed capital measure which I have reviewed. The aim of ReAssure is to create a measure which is broadly comparable with that currently used to manage the WPF. The proposed methodology is similar to the Solvency II Standard Formula methodology with the addition of risks relating to market volatility and the spread between gilts and swap rates. The methodology aims to calibrate all risks at the 1 in 200 year level (consistent with the Solvency II methodology) and to combine them using a correlation matrix. This is a similar approach to that used in the Solvency II Standard Formula, although the correlation matrices are structured differently. The proposed measure will cover the same risks as that covered by LGAS, aside from some smaller risks which have been excluded on grounds of materiality. The proposed measure will be calculated on a standalone basis.

ReAssure's current proposals have been reviewed by key stakeholders within ReAssure, including the Chief Actuary and Chief Risk Officer. The proposals have been presented to the ReAssure Fairness

Committee and ReAssure Board for review and comment and they were supportive of the approach. Any future changes to the approach on capital management would be subject to appropriate governance including consideration by the ReAssure Fairness Committee.

LGAS have provided me with a review of this approach and I have considered both that review and my own views. My observations are summarised below:

- ReAssure's proposed risks to be reflected in their capital measure are broadly comparable to those used by LGAS other than the exclusion of two risks which are not material in the context of the WPF (credit risk on bank deposits and derivatives; and changes to the European Insurance and Occupational Pensions Authority ("**EIOPA**") credit risk adjustment which affects the discount rate at which liabilities are valued). I consider the risks covered to be those that are relevant to the WPF.

- The aim to calibrate individual risks at the 1 in 200 year stress level is consistent with the approach under the Solvency II framework. The stress for operational risk at ReAssure will be based on their own operation following the transfer and this is appropriate in my view.

- The conversion of the individual risk modelling to a capital requirement under this modelling approach requires correlation matrices. I have reviewed the matrices that ReAssure intends to use for the LGWPF. I consider the correlations to be reasonable.

- An approximate allowance is made currently in the modelling for non-linearities between risks. At the level of extreme events being modelled for setting capital, the combination of two risks together will sometimes give different results from that obtained by considering them separately and applying a correlation.

- ReAssure intend to review the approach to the EIOPA credit risk adjustment and to the non-linearities between risks in due course. This will provide comfort that these limitations are not materially influencing any future actions which ReAssure may take.

- LGAS currently includes within its EC measure certain management actions, such as additional charges to participating policyholders, which could be taken in extreme scenarios. In the normal course of events ReAssure do not plan to include similar management actions in their measure. However in a situation where the assets are insufficient to cover the liabilities and the capital requirements, ReAssure plan to make allowance for a simplified set of assumed management actions which could be taken in extreme scenarios. I have reviewed the details of this proposal and whilst they are simpler than the LGAS approach the philosophy behind them is similar. It should be noted that should such an extreme scenario ever occur in practice ReAssure intend that these assumed management actions would act as a guide, however any management action that is taken would consider the full set of circumstances which had arisen and this could result in a different action being taken at the time.

In summary, I am comfortable that the overall methodology covers all the material risks and is sufficiently comparable to the principles underpinning the LGAS approach.

I have compared the 1 in 200 year stresses for the risks modelled by LGAS and utilised by ReAssure as at 30 June 2018. For most of the risks, the level of stresses between the two approaches is generally close. For credit risk and interest rate risk the way the stresses are expressed makes them difficult to compare, however I draw some comfort from the capital results as discussed below.

ReAssure has provided estimated capital calculations as at 30 June 2018 and 31 December 2018 based on the information and approximations set out above. Due to these approximations and the danger of relying too heavily on a small number of data points my conclusion on the precise value is tentative; nevertheless the results provided are reasonably close to those under the LGAS model after adjusting for the different treatment of management actions and operational risk, as discussed above. I draw some comfort from this.

ReAssure have committed that they will update the calculations to the year end 2018 position using information on economic and non-economic stresses supplied by LGAS. Accurate calculations will only be possible following the migration of the transferring business to ReAssure's systems when the Scheme is implemented. If these calculations show any material differences between the LGAS and ReAssure's results then ReAssure has advised me that the matter would be escalated to the Fairness Committee to ensure a fair outcome for the transferring with-profits policyholders.

I therefore conclude that, based on the modelling to date and ReAssure governance, the approach proposed by ReAssure is not expected to lead to any material detriment to policyholders.

6.1.5. Guarantee Charges and Inherited Estate Distribution

Each year, the Board are required to consider the management of the Inherited Estate and whether part of the Inherited Estate should be distributed. The Board may also decide to make a charge to asset shares in relation to the cost of guarantees and options or to refund any earlier charges. The Board consider any distribution and any charge or refund as separate, but related, items. As a result of these considerations, the Board may increase or decrease the investment returns applied to policyholder asset shares which will result in increases or decreases to policyholder benefits via the bonuses added to policies. This approach has been previously communicated to WPF policyholders.

Following the proposed transfer ReAssure has confirmed that any charges for guarantees and options or distribution of the Inherited Estate will continue to be achieved by way of an adjustment to the investment return. They have shared with me the way in which they propose to assess the amounts of any charges or distributions in future; the proposed approach is simpler than that currently operated but I believe it is reasonable since it is likely to result in similar outcomes to that under the methodology that would have been used by LGAS in future, particularly now the Inherited Estate distribution has commenced. I therefore believe that the proposal will not have any material adverse impact on customers.

6.1.6. Expenses

Expenses charged to the WPF influence the future benefit expectations of participating policyholders either directly, by being charged to asset shares, or indirectly, by being charged to the estate and therefore influencing future distributions of that estate.

As part of the Scheme, in the event of the proposed transfer, an expense agreement will commence between the LGWPF and ReAssure. The pertinent details are as follows:

- The annual fee charged to the LGWPF will be based on a per policy amount schedule. The per-policy amounts have been set to equate to a nominal charge using 2018 average volumes of business in-force. The nominal charge covers part of the derivative management of the WPF and investment fund accounting / tax services;

- The agreement will commence on the Legal Effective Date of the Part VII transfer of the WPF to ReAssure (expected to be 4 November 2019);

- The deal is evergreen in nature so that it continues until the last policy leaves the WPF unless varied as a result of Sunset or Merger clauses (detailed in 6.3.9);

- Each year the per policy fees will escalate based on the Retail Price Index ("RPI") plus 0.5%;

- The annual fee would cover Business As Usual ("**BAU**") expenses, future exceptional regulatory expenses, non-regulatory exceptional expenses initiated by ReAssure (in its capacity as shareholder of the LGWPF), any compensation or redress payments arising from actions on or after 31 July 2009 and all expenses relating to compensation or redress payments;

- No additional charges will be made to the LGWPF in respect of non-regulatory exceptional projects initiated by ReAssure (in its capacity as shareholder of the LGWPF) (pursuant to agreed governance arrangements);

- Under the agreement ReAssure will provide all investment management services to the LGWPF in respect of its own derivative exposure;

- A one-off, fixed payment of £50m from the LGWPF to contribute to migration costs incurred by ReAssure in respect of the WPF; and

- The WPF or LGWPF will not be required to fund any of LGAS's separation costs or any other costs relating to the Part VII transfer.

A comparison has been made of the financial benefits of the expense deal for the WPF with the result being favourable overall for the WPF.

My opinion relies on financial projections and analysis performed by LGAS management. I have reviewed the projections and analysis for reasonableness.

In my opinion, the benefits offered to the LGWPF through this expense agreement are sufficient, in reasonable future scenarios, to warrant the upfront payment by the LGWPF in lieu of integration costs. I am conscious that no direct precedent for such a payment has been identified in similar transactions. Nevertheless I am of the view that a payment is appropriate as the resulting benefits to the LGWPF are sufficient.

Although the WPF is formally closed to new business it is still accepting increments on pension business and new members into certain workplace contracts. As a result the fixed charge arrangement covers new business written in the LGWPF, including increments. The volumes of new business are relatively modest. For each of these the charge under the agreement with ReAssure is slightly lower than that incurred by LGAS in 2017 and so I conclude that this part of the arrangement is fair to the WPF.

Having assessed the intended future expenses to be charged to the WPF, including the initial payments of £50m, against an alternative approach whereby the WPF meets its own costs as they occur, I have concluded that when assessed over the future lifetime of the WPF the proposed charges are likely to be beneficial to policyholders.

6.1.7. Investment Management Agreement

LGAS currently has an arrangement in place with LGIM regarding the management of the assets backing the Portfolio (other than in relation to the existing external mandates). Following the Effective Date, these assets will continue to be managed by LGIM under the terms of a long term IMA between LGIM and ReAssure that was entered into on 6 December 2017. The term of the replacement IMA is seven years from the Effective Date.

Subsequent to the initial agreement on the sale of the business changes to the operation of derivatives are proposed as outlined in section 6.1.3. Derivative management services are within the Evergreen expense deal detailed in section 6.1.6. There is no material impact on policyholders arising from the changes to these services.

In considering the fairness of the deal for the transferring WPF policyholders I have considered, and, following management analysis, been advised on the following aspects of the deal:

- The level of investment fees charged to the LGWPF post transfer for the length of the agreement.

- The level of services being provided to the LGWPF for these fees.

- The treatment of VAT, both during the period of the agreement and thereafter (as LGIM is not part of the ReAssure Group, VAT will be payable in addition to the fees). It has been agreed that the VAT will be met by ReAssure for the period of the IMA and, after this time, no VAT on IM fees would be charged to the LGWPF to the extent that such a charge would result in an increase in IM fees charged to the LGWPF for a similar level of IM services to that received during the LGIM agreement.

- The scope for the fees to be reviewed at a point during the period of the agreement.

- The application of any withdrawal penalties in the event of the LGWPF wishing to withdraw assets.

- The assessment monitoring regime for the performance of the assets, including termination provisions.

I have been informed by L&G's legal advisors that the protections for with-profits policyholders are generally better than the market standard for these deals – specifically, that the underperformance criteria in the proposed IMA are tighter than is typically the case.

Based on these protections together with management's analysis, I am satisfied that overall the agreement is not unfair for with-profits policyholders.

6.1.8. Tax

Within LGAS, the WPF is taxed as if it is a separate legal entity with the residual LGAS tax being charged or credited to that part of LGAS excluding the WPF. Payment of shareholder transfers from the WPF results in a tax charge for LGAS and this amount is met by the WPF. Following the transfer of the WPF to ReAssure, the LGWPF will continue to be taxed on a standalone basis and will continue to pay the tax on shareholder transfers.

I have received tax advice from L&G Group Tax in connection with the potential transfer. Areas of particular focus in this advice are:

- Some capital allowances in the WPF at the time of the proposed transfer will not transfer to ReAssure and so an appropriate level of compensation is being sought for this from the LGAS shareholder. These capital allowances act to reduce the value of the deferred tax liability for the WPF. At year-end 2018, these allowances reduced the value of this liability by £3.5m.

- In the event of the proposed transfer going ahead the 2019 tax calculation will be the total of two separate part year calculations. This would not be expected to impact the tax charged to the fund unless there were insufficient investment income and gains such that the fund were no longer taxed on an Income less Expenses basis in one of those periods. If this were the case there should not be a material impact on the total tax charged to the With-Profits Fund.

- The WPF is taxed on a standalone basis. As a result of untested legislation, it is possible that at the time of the transfer a tax charge may arise on the deferred tax liability of the WPF resulting in an upfront tax charge being paid by the WPF to LGAS. LGAS have given written confirmation, and ReAssure has given written acceptance that they will seek this payment from ReAssure under the terms of the BTA rather than from the WPF.

As part of the proposed Scheme, should any of the above tax impacts materialise ReAssure will ensure that there is no detrimental impact on the LGWPF.

LGAS have outstanding claims against HMRC and some European Union tax authorities in respect of tax that has been paid to these authorities. The WPF has an interest in these outstanding claims. Following the proposed transfer of the WPF to ReAssure, no material changes in the way in which these claims are to be pursued by LGAS is intended. Any amounts recovered relating to the LGWPF will be transferred to ReAssure and credited to the LGWPF, net of costs.

LGAS Group Tax have advised me that there is not expected to be any change to the qualifying status of life policies in the event that the proposed transfer goes ahead.

As a result of these observations and the advice I have received I do not expect there to be any material changes to the way tax is charged to the WPF or to asset shares and hence I do not expect any material impact on the benefits payable to customers.

6.1.9. Charges

Many participating policies in the WPF have explicit charges deducted from them to determine the guaranteed benefits to which bonuses are added. In general these charges will not be affected by the proposed transfer. There is one minor exception which is that there are proposed changes to the way deductions for mortality and morbidity benefits are calculated. I have reviewed these and the worked examples provided and note that, for most products included in the transfer, there are some small increases to the amounts likely to be deducted (a few pence per month). I have considered this in the context that LGAS has from time to time reviewed and amended the basis of making risk deductions and that ReAssure will also carry out similar reviews. I have therefore concluded that the changes do not constitute a material adverse impact on these policyholders.

6.1.10. Product Changes

LGAS and ReAssure have undertaken a “discovery” process to identify differences in the product features currently supported by ReAssure’s administration systems and the current product features of LGAS. LGAS have provided ReAssure with the policy terms and conditions for all transferring policies together with other information on how the business is operated. ReAssure has then carried out an analysis to identify where the current operation of the products cannot be supported by their current administration systems.

In many cases ReAssure has committed to carry out systems developments to support the existing LGAS product features. However, some changes to products are proposed in order to provide operational consistency with ReAssure’s current ways of working where this can be achieved without any material adverse effect on policyholders, and thereby facilitate ReAssure’s administration of the transferring business. These changes have been approved by ReAssure’s Product Management Committee (PMC), a sub-committee of the Treating Customers Fairly Management Committee.

In my view, the more significant changes, concerning the WPF, are listed below:

- There are a number of minor changes to the ways in which ReAssure intend to collect premiums and make payments to policyholders when compared with the approach which LGAS adopts. I have reviewed these proposed changes and am comfortable that there is no material adverse impact on policyholders provided the changes are adequately communicated.

- Some products are periodically reviewed in the light of performance and changes to premium or sum assured may result. There are a number of proposed amendments to the way in which these performance reviews will work. I have reviewed these amendments and the views of LGAS personnel who manage this process currently. Although there may be small changes to the future review outcomes, it is worth noting that LGAS could change the review mechanism at any time (and have done so in the past) and in this context small changes do not constitute a material detriment to policyholders in my view.

The principle of no material detriment to customers has been agreed between LGAS and ReAssure. I have received confirmation from the product and proposition team within LGAS that they regard the product changes as acceptable. In forming this view they have relied on the information supplied to them by ReAssure. I have relied on their analysis in forming my conclusions in relation to product and administration changes.

Therefore, I do not believe that these changes result in any material detriment to policyholders. Whilst the principle of no material detriment to customers has been agreed, as the migration process progresses new items may emerge which require discussion between LGAS and ReAssure. If appropriate I will comment on any such issues in my Supplementary Report.

6.1.11. Annuity Introducer Agreement

Alongside the agreement entered into on 6 December 2017 between LGAS and ReAssure an additional agreement was signed to offer, after the proposed transfer, LGAS annuities to holders of certain pension policies in scope of the transfer who subsequently wish to purchase guaranteed income products upon retirement.

In forming my opinion on the fairness of the agreement for the WPF, I have considered four key elements. These are:

- Whether the referral process to LGAS relating to policyholders whose benefit is expressed as an annuity provides the LGWPF with a fair annuity rate;

- Whether the referral process to LGAS relating to policyholders whose benefit is expressed as a cash sum provides the with-profits policyholders with a fair annuity rate;

- Whether the payment of the annuity introducer fee to ReAssure by LGAS is fair to with-profits policyholders; and

- Whether the arrangement provides a fair customer journey.

I am satisfied that protections within the agreement are appropriate for the provision of a fair annuity rate and cash sums to with-profits policyholders. The annuity rates used where benefits are expressed as an annuity payment will be based on LGAS retail annuity terms which is the same basis as currently used. Additionally enhanced underwriting will be used which may result in a financial benefit to the LGWPF with no impact on policyholder benefits. The introducer fee which is payable will not increase the cost charged to the WPF since it is an arrangement between the LGAS and ReAssure as shareholders and therefore I am comfortable that this arrangement is not detrimental to customers. Furthermore, I am satisfied that policyholders will be sufficiently informed during the referral and quotation process in order to make an informed purchasing decision.

Therefore, I believe that the Annuity Introducer agreement does not have an adverse impact on fairness of the transaction to with-profits policyholders.

In addition to the agreement, there are some amendments under discussion. I will comment on any material implications arising from any amendments in my Supplementary Report.

For the avoidance of doubt the Annuity Introducer agreement does not cover the With-Profits Annuity contract.

6.1.12. Conclusion on Benefit Expectations

As discussed above there are a number of items which influence policyholder benefit expectations. In my opinion the most notable of these is the expense deal discussed in section 6.1.6 which as discussed in that section is likely to be beneficial to policyholders. A further important factor is the capital measure used to manage the WPF discussed in 6.1.4 as this can influence future management of the LGWPF and estate distributions in particular. Additionally there are a number of minor changes to the way bonuses and products operate which may have some small impacts on policyholders. As discussed in the relevant sections I do not regard these minor changes as having a materially adverse effect on any group of policyholders.

6.2. FINANCIAL SECURITY OF POLICYHOLDER BENEFITS

On the Effective Date of the proposed transfer, ReAssure will set up a new with-profits fund (the LGWPF) and transfer all of the WPF assets and liabilities into it, subject to some minor exceptions such as those discussed in this report relating to tax which will be settled for cash. The LGWPF will be a ring-fenced fund (as defined under Solvency II regulations) within ReAssure, maintaining the separate treatment of the fund consistent with how it is managed in LGAS (aside from the Sunset, Merger and transfer of Non-Participating business to the ReAssure Non-Profit Fund clauses, detailed in sections 6.3.9 and 6.3.10). As a result there are no material implications relating to the security of benefits which result from the new structure alone.

The WPF is a standalone fund which is ring-fenced for Solvency II reporting and management purposes. In managing the WPF it is an overriding principle, stated in the PPFM, that the WPF will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities and other regulatory and capital requirements without the need for additional capital from outside the WPF.

In certain situations it may not be possible to achieve the overriding principle and in those situations capital from outside the WPF may be needed. The guaranteed benefits of with-profits policyholders must be honoured as long as LGAS is solvent. A similar position will exist following the transfer to ReAssure. The solvency of the company supporting the WPF is relevant as financial support from the company may be required should the WPF ever get into financial difficulties and so is a valuable source of security for the WPF.

Bearing in mind these points, it is necessary for me to consider the capital position of LGAS and how this will compare to the position at ReAssure after the proposed transfer. In making this assessment I have considered below the solvency positions as at 31 December 2018, the respective capital management policies and risk profiles of LGAS and ReAssure.

6.2.1. LGAS

Following the implementation of the Solvency II regulatory regime, LGAS's capital resources are managed on a Solvency II basis, as adopted by the PRA.

The principle that underlies the valuation methodology for Solvency II purposes is that the assets and liabilities are valued at the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction. The excess of the value of assets over the value of liabilities is referred to as Own Funds.

The capital required under the Solvency II regime ("**Solvency Capital Requirement**" or "**SCR**") is a risk-based capital assessment, based on a 1-in-200 year adverse event over a one year time horizon. The SCR is calculated using L&G's Partial Internal Model, which has received regulatory approval. LGAS also has the following additional regulatory approvals in respect of Solvency II:

- Approval to use the Matching Adjustment, which applies as an addition to the discount rate, in the valuation of non-profit annuity business.

- Approval to use the Transitional Measure on Technical Provisions, which has the effect of phasing in the difference from the Solvency I regulatory balance sheet (reflecting the regulatory regime prior to Solvency II) over a period of 16 years from 1 January 2016.

For the WPF the security of benefits is supported by:

- the Solvency II regulatory requirements, which are intended to ensure that insurance companies can remain solvent after a 1-in-200 year adverse event;

- the LGAS capital policy, which provides additional security over the Solvency II requirements;

- LGAS taking appropriate management actions if their capital policy is breached;

- the PRA taking actions if its minimum requirements are breached; and

- the LGAS capital policy being reviewed annually with any changes required to be approved by the LGAS Board.

The solvency position of LGAS at 31 December 2018 is summarised below (all business, including the business to be transferred as part of the proposed Scheme). In the calculation, LGAS has used its best estimate of the impact of recalculating its TMTP, with the next formal calculation being required no later than 1 January 2020 as per the Solvency II rules.

£m	**31 December 2018**
Own Funds	10,574
Solvency Capital Requirement	(7,039)
Surplus Capital	3,535
Capital Coverage Ratio	**150%**

LGAS's business involves the acceptance and management of risk. The Board of LGAS has established a risk appetite within the L&G Capital Management Framework. As part of this risk appetite, LGAS has set quantitative limits for the Solvency II capital coverage ratio.

A review of the LGAS capital management policy is undertaken as part of the annual Own Risk and Solvency Assessment ("**ORSA**") process. If changes are recommended these need to be approved by the LGAS Board. Changes would also be reported to the regulator as part of the ORSA process.

Additionally, the LGAS Board has agreed a number of principles to guide decisions regarding dividends, which reflect the LGAS capital risk appetite. In the normal course of business, to meet other commercial objectives, including demonstrating financial strength to potential pension risk transfer counterparties and rating agencies, LGAS will seek to maintain a target solvency ratio in line with their capital risk appetite. LGAS will consider capital releases which leave the coverage ratio above this target to be available to be paid as a dividend.

To the extent that a material risk event crystallises, or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating increased capital resources, LGAS has the option to seek additional financial resources from L&G Group (rated A by Standard & Poor's).

6.2.2. ReAssure

ReAssure is subject to the same Solvency II regulatory capital requirements as LGAS. In assessing its capital requirements ReAssure has recently been granted use of their Partial Internal Model for the risks in its Non-Profit Fund with exception of those risks in the RTA; the Standard Formula is used for the remainder of their business. This Partial Internal Model has been used from 31 December 2018. Prior to this ReAssure used the Solvency II Standard Formula in assessing its regulatory position.

The Standard Formula aims to capture the material quantifiable risks to which most insurance undertakings are exposed, with a calibration equivalent to a 1-in-200 year adverse event over one year. In order to use the Standard Formula, a firm is required to assess whether the assumptions underlying this formula are consistent with its own risk profile. ReAssure has carried out this assessment, both before and after the proposed transfer and in both cases determined that the Standard Formula is appropriate with no capital add-on required.

ReAssure has the following regulatory approvals in respect of Solvency II:

- Approval to use the Matching Adjustment, which applies as an addition to the discount rate, in the valuation of certain non-profit annuity business.
- Approval to use the TMTP, which has the effect of phasing in the difference from the Solvency I regulatory balance sheet over a period of 16 years from 1 January 2016.
- Approval to use the Volatility Adjustment, which applies as an addition to the discount rate, in the valuation of the guaranteed liabilities of its with-profits business and the non-profit annuity business to which the Matching Adjustment does not apply. The Volatility Adjustment will not apply to the transferring business at the proposed transfer date.

In respect of the business that is proposed to be transferred to ReAssure, the ReAssure Board intend to apply to the PRA to apply a TMTP from the Effective Date. I will provide an update on this in my Supplementary Report.

For the transferring WPF, the Matching Adjustment and Volatility Adjustment approvals will not apply immediately post transfer and I am not aware of any intention to apply them in future.

For transferring WPF policies, the security of benefits will be supported by:

- the Solvency II regulatory requirements, which are intended to ensure that insurance companies can remain solvent after a 1-in-200 year adverse event;
- the ReAssure capital policy, which provides additional security over the Solvency II requirements;
- ReAssure taking appropriate management actions if their capital policy is breached;
- the PRA taking actions if its minimum requirements are breached; and
- the controls on how the ReAssure capital policy can be changed.

The solvency position of ReAssure at 31 December 2018, after inclusion of the business being transferred is shown below. The position includes the estimated impact of using the TMTP in respect of the transferring business for which approval is required from the PRA.

£m	31 December 2018
Own Funds	4,210
Solvency Capital Requirement	(3,067)
Surplus Capital	1,143
Capital Coverage Ratio	**137%**

ReAssure has provided me with their Group Capitalisation Policy, describing the capital management framework that currently applies to ReAssure. The Policy constitutes an agreement between the Swiss Re Group and ReAssure on its capitalisation framework and describes the process whereby any additional capital contributions are made by Swiss Re Group.

To the extent that a material risk event crystallises, or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating increased capital resources, ReAssure will seek additional financial resources from Swiss Re Group and MS&AD. The ReAssure Group Capitalisation policy sets out the process and the timescale for additional capital to be provided.

The ReAssure Group Capitalisation Policy may be reviewed upon any significant change affecting the business, such as an acquisition (such as the one discussed in this report) or a material change to the regulatory requirements. Any changes would be subject to Board approval and would be notified to the PRA.

ReAssure are not updating their Capital Management Policy in the event of the proposed transfer being sanctioned.

On 3 August 2018, Swiss Re, the majority shareholder in ReAssure, announced that it is to explore the possibility of an IPO of ReAssure in 2019 with a view of giving ReAssure access to new capital to acquire closed books of business in the future. For this purpose, the company RGP has been established and is designed to act as the holding company for the ReAssure Group after any IPO.

In January 2019, the RGP Board approved their capital policy to apply following an IPO. The assessment of any dividends to be paid by ReAssure in 2019 will take account of this new policy. At the same time the Board of ReAssure Ltd. approved their capital policy to apply following an IPO. In the event of a successful IPO, RGP will replace Swiss-Re as the direct parent company of ReAssure Ltd.

The Capital Management Policy of RGP and ReAssure following any IPO was provided to the PRA as part of the Change in Control application. This application has now been completed. Should there be any further developments regarding the proposed IPO I will comment on them in my Supplementary Report.

6.2.3. Comparison

LGAS and ReAssure are both firms subject to the Solvency II requirements in the UK and are subject to supervision from the PRA in this regard. In addition, both LGAS and ReAssure have capital management policies that have been approved by their respective Boards. These policies articulate target levels of excess capital under the Solvency II regulatory regime and triggers to take management actions if the actual capital level fell below these points.

ReAssure have supplied me with their capital management policies, both current and the policy applying after any IPO. I have reviewed these policies and compared them with the LGAS policy. I am comfortable that policyholder benefits security is materially maintained in the event of the proposed transfer for the following reasons:

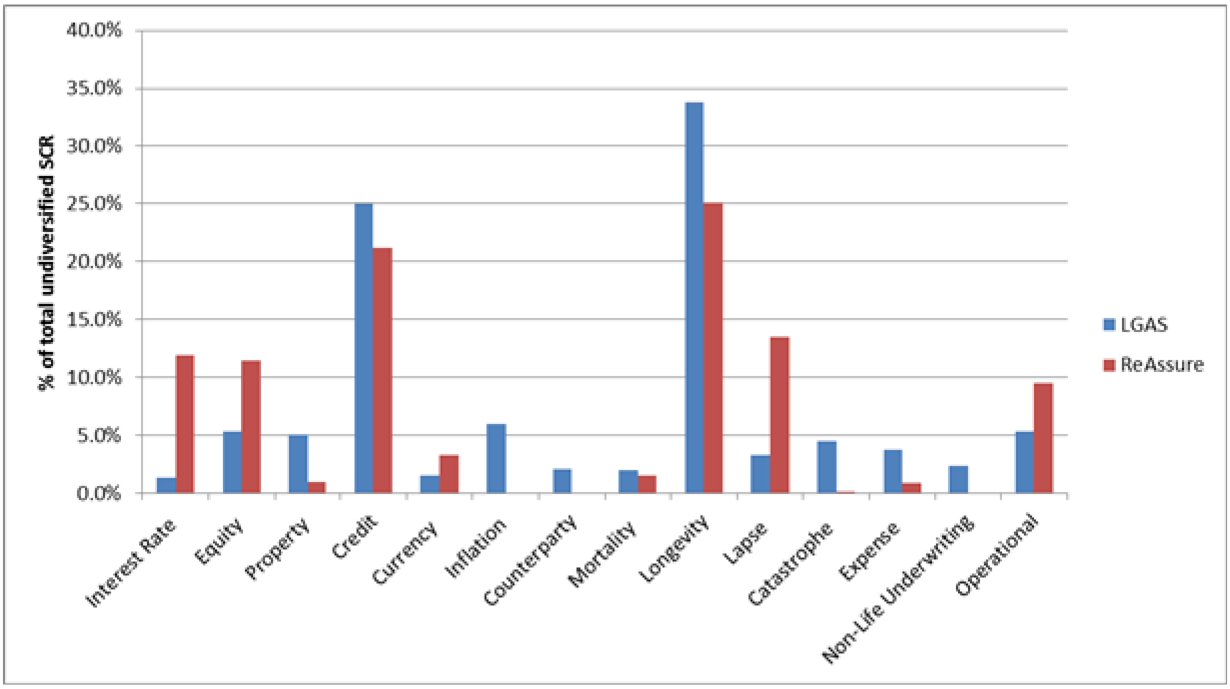
- Both companies are subject to the same regulatory regime, and are required to hold capital to ensure that assets are sufficient to cover Technical Provisions after a 1-in-200 year event. The regulatory regime ensures that, in both companies, the risk of the company being unable to meet liabilities is less than 1-in-200 over a one year period.

- The level of excess capital required by the capital management policies further reduces the risk of the company being unable to meet liabilities below 1-in-200 years. However, when considering events at the extreme edges of the distribution of possible events, it is difficult to be precise regarding the likelihood of those events occurring. Furthermore, continuing to increase the level of capital held has a diminishing effect on the level of risk to policyholders, which can never be reduced to zero by holding capital.

- Both LGAS and ReAssure have recourse to parental support. For ReAssure this includes a defined process and timescale for capital injections, and the potential for risks to be transferred to another group company to reduce capital requirements. In this respect, policyholders of ReAssure benefit from being part of the much larger Swiss Re Group as the majority investor in ReAssure. Swiss Re is a strong company, rated AA- by Standard & Poor's (compared with A for the L&G Group) and with a capital coverage ratio of 251% in the 2019 Swiss Solvency Test assessment. Whilst there is no legal requirement for Swiss Re to provide capital injections, I draw some comfort from this agreed policy which indicates to me that any requests for capital from ReAssure would be seriously considered.

For both ReAssure and LGAS, changes to the capital management policy would require Board approval, and would be notified to the PRA. Each of these bodies are required to consider the interests of policyholders in assessing any change in order to ensure that policyholders are not materially adversely impacted.

I have also compared the material risk profiles of the LGAS NPF (pre transfer) and the ReAssure NPF (post transfer) as at 31 December 2018 which is summarised in the following graph:



Both sets of numbers include the transferring business and are therefore comparable. It can be seen that the most material risks in both companies are longevity and credit risk. However, the balance between these risks is different. In particular, LGAS has proportionately higher longevity risk, reflecting the large volume of non-profit annuity business.

I would not expect these changes in the risk profile to have a material impact on the security of benefits for the policyholders in the WPF.

The Board of ReAssure approved their capital management policy in the event of an IPO in January 2019. ReAssure's analysis, which they have presented to me, shows that this level of risk appetite broadly equates to the strength currently used by LGAS. I am therefore comfortable with the level of protection for the transferring policyholders.

6.2.4. Conclusion on Benefit Security

As discussed above both LGAS and ReAssure are insurance companies operating in the UK under the Solvency II framework, and regulated by the PRA and FCA and have a similar risk profile. There is therefore a significant degree of commonality between the two organisations which means that comparable minimum standards apply to both.

Having compared the capital positions and capital management policies of both organisations I conclude that, although ReAssure's current capital coverage ratio is lower than LGAS' at 30 June 2018, both organisations hold more capital than is required to meet a 1 in 200 year adverse event. I have also noted that there is some level of comfort to be drawn from the position of Swiss Re as the main owner of the ReAssure entity.

I have also considered the capital management policy for ReAssure post the possible IPO. The strength of this policy is such that my opinion is unchanged in the event of the IPO.

My opinion therefore is that although ReAssure has a lower current capital position than LGAS it is sufficiently strong that the benefit security of policyholders within the LGWPF is not likely to be materially adversely impacted. I am also of the opinion that this conclusion remains true should the potential IPO proceed.

6.3. OTHER ASPECTS AFFECTING TRANSFERRING WITH-PROFITS POLICYHOLDERS

This section of the report covers a number of other aspects which impact customer outcomes and which I therefore consider for fairness. Most notably these include administration (including communications) and service levels, treatment of new business and the Sunset and Merger clauses which are to be included in the transfer Scheme.

6.3.1. Customer Communications

Following the proposed transfer of the business, the materials used for customer communications will be ReAssure branded and use ReAssure's current formats, with modifications made to reflect any differences in product features.

I have reviewed a sample of routine customer letters provided by ReAssure including bonus notices, annual statements, pre-retirement letters and new business communications. In addition, I have been informed of changes that will occur to other communications as a result of differences of treatment between LGAS and ReAssure. The most notable differences are:

- For With-Profits Annuity contracts, LGAS bonus statements provide a gross and net of tax estimate of the amounts to be paid for the next year. The ReAssure proposition is to only provide the gross of tax amount and direct the policyholder to the HMRC website to help the policyholder estimate their net of tax position. There will be no changes to the amounts paid to customers. Having considered the proposals by ReAssure I am persuaded that, whilst the reduction in information is not ideal and some customers may find this inconvenient, it does not constitute a material disadvantage to customers.

- LGAS currently issue bonus notices to participating customers in the period following the bonus declaration in February each year. Customers of unitised polices generally also receive an annual statement. ReAssure has proposed that policyholders will receive annual statements once a year based on the policy anniversary or the policyholders birthday but no specific bonus notice. I have reviewed an analysis of the information available in the current communications and those proposed by ReAssure and they are broadly comparable to the information in the bonus notice and annual statement current received by policyholders. The proposal does mean that information relating to bonus will be less timely for some policyholders. However policyholders will be able to access information via the ReAssure website or by phoning them and therefore I have concluded that this does not constitute a material disadvantage to customers.

6.3.2. Data migration and Readiness of Systems

After the proposed transfer, it is necessary to ensure that the transferring WPF policyholders can be administered by ReAssure without any material detriment to those policyholders. This includes ensuring a relatively seamless transition for those policyholders for whom a process has been started at the time of the transfer but not yet competed. To facilitate this, the proposed transferring business is being separated out within LGAS and then transferred.

The work concerning the separation and transition of the LGAS business proposed to be transferred to ReAssure is being managed within a project management framework involving both parties. The separation and transfer process has been split into a number of work streams and is managed within a governance process that requires monthly reporting of status as well as a mechanism for assessing readiness in advance of key stage dates (Directions Hearing, Sanctions Hearing and the period over which the transfer is planned to occur, if sanctioned).

ReAssure has over 20 years of experience of migration of data and systems onto their in house policyholder administration system (ALPHA). Over this time 54 source systems and over 6 million active policies have been migrated, along with over 10,000 different product combinations.

ReAssure has developed a standardised approach and process for migrating information which factors in developments to their systems in cases where there are features peculiar to the business being taken on that are to be transferred.

In summary, the transitioning process is as follows:

a) Data is migrated to the ReAssure systems and reconciled.

b) Workshops involving both parties are carried out in order to assess the business requirements of the transferring business. This includes definitions of the products being transferred and a gap analysis against ALPHA functionality required against that already provided.

c) The data transferred is assessed to ensure that it is of sufficient quality for use on the ALPHA policyholder administration system after transfer. If insufficient, an iterative process is carried out between the parties until the quality of the data is sufficient.

d) The ALPHA system is updated for the data and the developments required for the transition are carried out. The system is tested against minimum acceptance testing criteria with modifications being made as required. Provided the minimum criteria are met then the ALPHA system is cutover to production on the transfer date. Contingency arrangements are in the process of being developed should such criteria not be met.

e) Migration of the customer correspondence is carried out with success measured against an agreed set of acceptance criteria.

The process of reconciliation of the policyholder data on the LGAS and ReAssure systems, obfuscated for Data Protection reasons, commenced in May 2018. The data quality process has started and expectations are for ReAssure data quality targets to be met in time for the proposed transfer.

The build of the transferring products on the ReAssure ALPHA administration system is being closely monitored. Some aspects of the ALPHA build are not expected to be fully complete by the Effective Date and ReAssure are currently planning a number of manual processes and additional recruitment to supplement the system build.

In the event that the business cannot transfer on the Effective Date, contingency arrangements exist for a later transfer.

To ensure a transfer of business between operationally stable environments, LGAS and ReAssure has established metrics to measure business operational stability. These metrics will be monitored by the Oversight Committee (a joint Committee comprising LGAS and ReAssure representatives who monitor the operational performance of the business) on a regular basis over the period leading to the migration date.

LGAS provide secure web based customer and employer access for their products. This access gives the facility for policyholders or employers to manage their WPF policies. ReAssure do not provide this functionality at present and, as a result, are building similar secure web based functionality for their policyholders (called "**ReAssure Now**") and employer pension schemes (called "**ReAct**") in advance of the Effective Date of the proposed Scheme.

ReAssure Now has been built and demonstrated to LGAS with the result being that the functionality is very similar to the LGAS proposition and is, in several places, better.

ReAct has not yet been built but a comparison of the planned ReAssure functionality against the LGAS offering has been completed. The ReAssure offering does not the offer the facility for Automatic Enrolment eligibility criteria to be assessed or for members to opt out online. However alternative arrangements are offered. Aside from this the planned functionality is similar.

LGAS contracts with third parties to provide services covering the proposed transferring business are to be transferred to ReAssure in full, or split where the contracts cover both the proposed transferring business and the business retained within LGAS. I understand that the arrangements in place should ensure transfer of all the third party contracts and therefore I do not expect any detriment to customers as a result.

Initial communications with some third parties has already taken place regarding the proposed transfer, with the remainder being communicated in the period up to June 2019. Formal notification letters are scheduled to be sent in the week following the Directions Hearing. I understand that the contracts are suitable for ReAssure's supplier policy and the terms of the contracts are such that no material financial risk is borne by the WPF as part of the proposed transfer.

In the period leading up to the date of the proposed transfer, processes are being established to minimise any disruption for transferring policyholders with regards to the day to day running of the WPF. Transfer activity will largely take place over the period 1 to 4 November 2019 with some processes before and after this period affected.

Over the month leading up to the transfer an increasing number of processes will be stockpiled, generally if they cannot be completed prior to the proposed transfer. Systems will be frozen at close of business on 31 October with read only systems available to contact centre staff on 1 November. Stockpiled processes are to be completed by ReAssure after the proposed transfer.

ReAssure are to commence receipt of customer calls in respect of the transferring business on 5 November, with contact details being available to transferring policyholders as part of the ReAssure warm up letter which is planned to be issued shortly before transition.

For the processes that are being established, there are go/no go criteria being established along with agreed actions for each of these outcomes.

Although the plans for the transfer of the business are well advanced they are not yet fully complete. I am currently satisfied that the approach being followed is sufficiently robust to identify and manage the large number of processes involved. I expect to be able to comment further on the transitioning of the business in my Supplementary Report.

6.3.3. Service Standards

In the event of the proposed transfer proceeding, it is important that the service provided to the policyholders is compatible with the service seen prior to the transfer. Therefore, a comparison of target customer service standards, and their effectiveness, between LGAS Mature Savings and ReAssure has been carried out by the Mature Savings Risk and Compliance team across a large range of factors. This comparison looked at typical customer enquiries and captured the following information:

- The standard set as a target for each enquiry type (for example the expected time to process a surrender payment),
- The level of service against each standard that is considered acceptable (for example, at least 95% of surrender payments to be processed within the target),
- The historical performance against these metrics over a 6 month period ending in March 2019, and
- Customer satisfaction scores.

I have reviewed the results of this exercise and noted the following points:

- The ReAssure target is generally longer (10 working days) than the Mature Savings equivalent (5 working days). However, the actual performance has been similar between ReAssure and Mature Savings over this period.
- ReAssure’s customer service scores have been marginally lower than those received by Mature Savings. However, the scores remain high by industry standards and have improved over the measurement period such that they are above the Mature Savings accepted level.
- The Mature Savings Risk and Compliance Team carried out an assessment in April 2019 based on the information supplied at that point in time. They were satisfied that there was no expectation of material detriment relating to the administration and servicing experience for transferring policyholders.

The amount of business being transferred to ReAssure is significant for them and so comfort is required to ensure that the appropriate level of skills, IT systems and resources are in place to ensure that customers receive a reasonable standard of service from ReAssure at the point of the proposed business transfer and thereafter. ReAssure has plans in place to consider and manage the level of resources required post transfer and these are being monitored in the period leading up to the transfer.

The monthly information and preparedness will continue to be monitored over the period leading up to the transfer. This will enable me to assess the capability of ReAssure to administer the business to a satisfactory level after the proposed transfer. I will consider this aspect further in my Supplementary Report.

The WPF has been in existence since 1954 and as such has a significant proportion of policies which were sold many years ago. For a subset of the policies in the WPF LGAS does not have up to date contact details for the policyholder and has in place procedures to periodically attempt to trace these customers. ReAssure has similar processes and I have compared these with the L&G approach. ReAssure do not use as many sources of data as LGAS. I also note that LGAS is currently undergoing a more extensive exercise which means that all policyholders for whom details are not currently available will have been through this process. It is a possibility that some customers may not be traced by the current activity or the future activity at ReAssure who could be traced if further data sources were used. I do not expect that cases of this nature would be very common and thus I am content that the proposed activity is not unreasonable.

6.3.4. Governance

The Board of LGAS are responsible for the management of the WPF. The Board have delegated a number of aspects of the management of the WPF to the WPMC and appointed a WPC to provide independent oversight and challenge of the management of the WPF, in accordance with section 20.5 of the FCA’s Conduct of Business Sourcebook.

The WPMC have delegated some investment management functions to the WPALCO which is a Sub-Committee of WPMC.

Within the ReAssure Group, each legal entity and subsidiary is bound by the Group Governance Framework, subject to their constitutional documents and legal and regulatory obligations. Each ReAssure Group entity (of which ReAssure Limited is one) has created delegated authorities for effecting any future changes to these governance arrangements.

Each of the legal entities in the ReAssure Group and their activities are governed by their respective boards of directors. The Boards reserve certain matters and decisions for themselves and delegate certain matters to Board Committees (on an ad-hoc or Standing Committee basis).

The Board of ReAssure has a Fairness Committee to provide independent oversight and challenge of the management of ReAssure. The responsibilities are varied and cover the interests of policyholders and shareholders of ReAssure to ensure that all parties are treated fairly. One of the responsibilities is to act as the With-Profits Committee of ReAssure.

The LGAS Mature Savings Chief Risk Officer (“MSCRO”) has undertaken a comparison of the governance arrangements that LGAS has currently against those envisaged by ReAssure with a view to ensuring appropriate oversight in the event of the policies transferring. However, it should be noted that some of the changes envisaged by ReAssure are currently going through an approvals process.

On the basis that these changes are approved, the MSCRO concluded that the level of governance to be provided in the event of the business transferring is broadly equivalent to that in operation prior to the proposed transfer, with no material impact on policyholder reasonable expectations anticipated as a result.

Based on this assessment, I am comfortable that the governance arrangements at ReAssure will be comparable to those at LGAS and will offer a similar level of focus on customers' interests. If there is any change to the envisaged ReAssure governance structure then I will comment on this in my Supplementary Report.

6.3.5. Reinsurance

The WPF currently makes limited use of reinsurance, although there is some reinsurance of unit linked funds and a small amount of risk reinsurance. For the reinsurance of unit linked funds there are no proposals to change this following the transfer to ReAssure with the contracts being novated to ReAssure, with the exception of a reinsurance between LGAS and Legal and General Assurance (Pensions Management Limited) which will be replaced by a new contract between Legal and General Assurance (Pensions Management Limited) and ReAssure. The small amount of risk reinsurance is to be recaptured after the proposed transfer. Therefore no material impact on customers is expected.

6.3.6. New Business and Premium Increments

The WPF currently allows new members to existing GPP 2000 pension schemes ("**new business**") and increases to existing contracts where terms and conditions permit ("**increments**"). All such business is currently allowed the option to participate in profits.

Following the proposed transfer there will be no changes to the approach adopted in respect of new members and increments to pension policies and therefore there will be no impact on customers.

Some life policies, most notably unitised whole of life policies with the option to invest in with-profits, are regularly reviewed to reflect the performance of the policies. This review may result in a policyholder electing to top-up their policy. LGAS currently write these top-ups into a new policy without the option to invest in with-profits which means they are not within the WPF. ReAssure intend to offer the original variant of the policy including a with-profits option, to any customers in this position. As customers are being offered a top-up which is the same as the product they originally purchased I do not regard this change as detrimental to customers.

6.3.7. Retirement Journey

Following the transfer of the business any LGWPF vesting pension policyholders considering the purchase of an annuity will be sign posted by ReAssure to LGAS aside from: (i) policyholders who have an in force pension policy with ReAssure and (ii) a small number of endowments and defined benefits pension schemes. For these sign posted policyholders LGAS will provide quotations and relevant information to policyholders. If required, LGAS will then provide an annuity to the policyholder. This arrangement is covered by an annuity introducer agreement between ReAssure and LGAS.

ReAssure and LGAS are developing the customer journey for those transferring WPF policyholders as they approach retirement, with this development substantially complete.

The principles underlying this development are to:

- Replicate the current retirement journey as closely as possible to that currently experienced, and
- Make the interaction for the policyholder between ReAssure and LGAS as smooth as possible (so minimising the policyholder going back and forth between the two entities).

Differences that have been identified for this development are as follows:

- Where there is a biting annuity guarantee, the overall cost to the LGWPF should be reduced in aggregate as there is to be a greater degree of underwriting of the annuitant than currently;

- Post transfer, the policyholder will be offered a telephone journey with LGAS, replacing the existing paper journey followed today. Policyholders will be supported by LGAS telephone agents who are knowledgeable and experienced in dealing with annuity guarantees;

- In order to accommodate the second principle of making the process as smooth as possible, for the Personal Retirement Plan product the information in the retirement statement to the policyholder will not match precisely that shown using the LGAS methodology. This arises from the use of ReAssure annuity factors as part of the illustration. The impacts on the policyholders are small and not systematically to the advantage or disadvantage of the policyholders affected;

- At ReAssure, policyholders are to be communicated to every year with retirement options from 54½ onwards until the benefits are taken and on the policyholder's request. This is more frequently than currently where policyholders are communicated with 6 months prior to the contractual retirement date or at the policyholder's request; and

- Should the application of the lifetime tax allowance result in any adverse impact to policyholders as a result of the change in arrangement for the provision of annuities then ReAssure will provide the annuity directly to the policyholder in order to avoid that detrimental impact.

I am comfortable that the process developed to date will not cause any material detriment to customers in terms of service or benefits offered; however this process is not yet fully established and so I will provide my final opinion on this topic in my Supplementary Report.

6.3.8. Risk & Control

A comparison has been carried out on the management and control of risks between LGAS and ReAssure, including the management information used for reporting to management committees. The comparison was carried out by the Chief Risk Officer function within LGAS Mature Savings.

Inevitably, for two distinct businesses, there are some differences in approach regarding the management of risks between LGAS and ReAssure. However, the core activities of risk and control self-assessment, scenario analysis to determine risk-based capital requirements, continuous control monitoring, issue management and reporting are broadly comparable.

The report concludes that the ReAssure risk management framework and MI should be appropriate for the transferring business and I am therefore comfortable that there is not expected to be any detriment to transferring WPF policyholders relating to the management of risks and controls at ReAssure.

6.3.9. Sunset and Merger clauses

Within the Scheme are a number of matters which may particularly impact policyholders in the WPF when the fund size has fallen below certain levels. The purpose of these clauses is to avoid constraining ReAssure's ability to take sensible actions to manage the business in run-off, and avoid the issues that would otherwise arise in managing a small and mature with-profits fund.

The clauses relate to the possible merger of the LGWPF with another WPF and the merger of the LGWPF with the ReAssure Non-Profit Fund. These are considered separately below.

Merge the LGWPF into the ReAssure Non-Profit Fund

The Scheme sets out conditions under which the residual LGWPF may be merged with the Non-Profit Fund of ReAssure. The Scheme allows this to take place once the market value of the LGWPF assets has fallen below £400m (this figure to be increased based on the RPI). This action would result in the remaining policies in the LGWPF being converted to non-profit policies. The policy benefits would be amended after appropriate allowance for the benefits which would have applied but for the conversion.

The Scheme sets out various conditions which must be met before this action could be taken including:

- If the LGWPF market value of assets exceeds £80m increased annually in line with the Retail Price Index from the Effective Date then an opinion must be obtained from an independent actuary that policyholders in the LGWPF will not be materially adversely affected by the action.
- The action must not be inconsistent with applicable laws and regulations.
- The action must be subject to consultation with ReAssure's Fairness Committee.
- Scheme amendments as a result of the merger need to be necessary, related to the merger and fair to the policyholders in the judgement of the ReAssure Board. The ReAssure Board are required to consider the implications on LGWPF policyholders regarding the expense deal between the ReAssure shareholders and the LGWPF (detailed in section 6.1.6).

The PRA and the FCA must be notified with no objections being raised within two months of notification.

I believe that clauses of this nature are common in schemes of this kind. In my view there are a number of likely impacts of maintaining a small fund which can include:

a) As the number of policies becomes low it can be increasingly difficult to share profits and losses across the policies in a way that is fair to the remaining customers;

b) As the number of policies becomes low it can be increasingly difficult to smooth benefits in line with the funds established approach which holds back some investment return in years when the return is favourable so that the impact when returns are less favourable is not fully passed on to policyholders;

c) As the LGWPF becomes small, distribution of the remaining estate may be hampered by the need to hold capital in respect of the risks that still exist in the fund. This can result in an estate distribution that isn't entirely fair across the different generations of policyholders;

d) As the LGWPF becomes small it can be increasingly difficult to maintain the asset mix that policyholders expect; and

e) The activity involved in running the LGWPF can become disproportionate when compared to the number of policies remaining, which could result in the activity being carried out in a less robust way.

The £400m limit represents approximately 2% of the current WPF size. It will thus be many years before this clause is likely to be applicable and I estimate this will occur around 2045. The £80m limit represents approximately 0.4% of the current WPF size and I estimate this will occur about 2050 assuming no future new business is written and that no non-participating business has been transferred out of the WPF. This is accelerated by around three years if all the non participating business has been transferred out. These estimates are based on current expectations of future experience which are unlikely to be borne out precisely and so in practice the timing may be different from that quoted here.

With these points in mind I am comfortable that inclusion of this clause in the scheme is reasonable and that there are sufficient safeguards in place to avoid policyholders being materially adversely affected.

Merge the LGWPF into another WPF

The Scheme sets out conditions under which the LGWPF may be merged with another with-profits fund. The Scheme allows this to take place once the LGWPF market value of assets has fallen below £400m increased annually in line with the Retail Price Index from the Effective Date. The participating policies of the LGWPF would remain participating policies after this action. The Scheme sets out various conditions which must be met before this action could be taken including:

- An opinion must be obtained from an independent actuary that policyholders in the LGWPF will not be materially adversely affected by the action.
- The action must not be inconsistent with applicable laws and regulations.
- The action must be subject to consultation with the ReAssure's Fairness Committee.
- The PRA and the FCA must be notified with no objections being raised within two months of notification.
- Scheme amendments as a result of the merger need to be necessary, related to the merger and fair to the policyholders in the judgement of the ReAssure Board. The ReAssure Board are required to consider the implications on LGWPF policyholders regarding the expense deal between the ReAssure shareholders and the LGWPF (detailed in section 6.1.6).

As outlined above there are a number of undesirable outcomes which can result when a fund becomes small. The option to merge the LGWPF with another with-profits fund provides a way in which, if a suitable alternative fund exists within ReAssure at the time, the remaining business could continue to be managed as with-profits business without adversely impacting policyholders. I am comfortable that inclusion of this clause in the scheme is reasonable and that there are sufficient safeguards in place to avoid policyholders being materially adversely affected.

Merger of another WPF into the LGWPF

The Scheme sets out conditions under which another with-profits fund may be merged with the LGWPF. The policies of the LGWPF would remain policies of the LGWPF after this action. The Scheme sets out various conditions which must be met before this action could be taken including:

- An opinion must be obtained from an independent actuary that policyholders in the LGWPF will not be materially adversely affected by the action.
- The action must not be inconsistent with applicable laws and regulations.
- The action must be considered by ReAssure's Fairness Committee.
- The PRA and the FCA must be notified with no objections being raised within two months of notification.
- Scheme amendments as a result of the merger need to be necessary, related to the merger and fair to the policyholders in the judgement of the ReAssure Board. The ReAssure Board are required to consider the implications on LGWPF policyholders regarding the expense deal between the ReAssure shareholders and the LGWPF (detailed in section 6.1.6)

In my view, the protections of an independent actuary view, along with consultation with the ReAssure Board Fairness Committee and non-objection from the Regulators provide sufficient protections to ensure that the LGWPF policyholders remaining at the time would be treated fairly.

6.3.10. Transfer of Non-participating Business

The Scheme sets out the conditions under which part or all of the non-participating business of the LGWPF may be re-allocated to the Non-Profit Fund of ReAssure. The scheme sets out various conditions which must be met before this action could be taken including:

- The action must not be inconsistent with policy terms and conditions and applicable laws and regulations.
- The cash or assets re-allocated must have a market value consistent with the value of the liabilities being transferred on a basis that is fair and reasonable.
- The ReAssure Fairness Committee must be consulted on the action.
- If the value of such transactions exceeds £150m (indexed by RPI) over a 12 month period then the PRA and the FCA must be notified with no objections being raised by either the PRA or the FCA within two months of notification.
- If the value of such transactions exceeds £150m (indexed by RPI) over a 12 month period, an independent actuary must have provided a certificate to the effect that the re-allocation will not have a material adverse effect on any group of the Reallocation Policyholders.
- The ReAssure Board are satisfied that the transfer, combined with any similar planned or made transfers, will not have a material impact on the transferring policyholders and those in the LGWPF that remain.

In my view this clause includes within the Scheme, actions that LGAS could undertake currently, and indeed has done so in the past. However the Scheme sets out the minimum governance steps that must be followed before such action could be undertaken and in my view these steps are consistent with good governance.

It should be noted that the involvement of the regulators and an independent actuary is only required if the value of the assets to be transferred exceeds £150m in a 12 month period. The WPF currently has an established practice of re-allocating certain policies between the WPF and Non-Profit Fund as each individual policyholder retires. As this is an established practice, it would generate a disproportionate level of activity in my view to require the involvement of the regulators and an independent actuary in such re-allocations at individual policy level and therefore some limit must be set. In theory it would be possible to make multiple transactions just under £150m in order to transfer a larger block of business without recourse to PRA and FCA notification and non-objection or certification from an independent actuary, I note that currently it would take around 65 such transactions to reallocate the whole of the non-participating business. Since the involvement of the Fairness Committee is still required and they would be unlikely to support this activity and bearing in mind that the only one such transfer is permitted in a 12 month period I believe this concern to be more theoretical than real. My expectation is that the involvement of the Fairness Committee in the reallocation of smaller blocks of business will be sufficient to ensure fair customer outcomes, since the Fairness Committee have the ability to raise any concerns they may have.

The scheme is comparable with the actions that LGAS could currently undertake and so I believe inclusion of this clause is fair to policyholders in the WPF.

6.3.11. Changes to the PPFM

In the event of the proposed transfer of business being sanctioned by the High Court, the current PPFM will be updated to convert it to the ReAssure style without any changes to substance and to include changes necessary as a result of the transfer.

I have reviewed a number of drafts of the revised PPFM which is structured in a different way to the existing LGAS PPFM. This major rewrite is sufficiently extensive that I regard the changes as major changes that need to be communicated to customers in advance of the proposed transfer date in accordance with Conduct of Business rules. In particular I note that some changes to the principles are proposed which move content from practices to principles and vice-versa without changing the intent of the PPFM overall. Additionally the changes incorporate the elements of the Scheme discussed in sections 6.3.9 and 6.3.10 of this report. I am satisfied that the change in structure and wording is not detrimental to customers.

6.3.12. Conclusion on other aspects affecting transferring policyholders

The range of other aspects is diverse and in my opinion the most significant are the Sunset and Merger clauses (discussed in 6.3.9) and the transfer of non-participating business (discussed in section 6.3.10) since they would involve significant changes to the way the WPF is currently run. The remaining changes are also important, but are not expected to lead to any material changes in policyholder outcomes.

As discussed in the relevant sections it is my opinion that the changes proposed would not be expected to lead to any material customer detriment. Not all of the areas on other aspects are complete and, in particular, further planning is underway to ensure the administration processes are operational by the Effective Date. Should any material issues arise in relation to these aspects, they will be considered in my Supplementary Report.

6.4. COMMUNICATIONS TO POLICYHOLDERS ON THE PROPOSED TRANSFER

6.4.1. Regulatory requirements

Requirements for communications with policyholders are set out in regulations made under the Financial Services and Markets Act 2000.

The regulations require that a notice is sent to every policyholder of both LGAS and ReAssure informing them of the proposed transfer. The regulations also require that a notice stating that an application to Court has been made for an order sanctioning the proposed transfer must be published in (i) the London, Edinburgh and Belfast Gazettes; (ii) two national newspapers in the UK; (iii) where an European Economic Area ("**EEA**") state other than the UK is the jurisdiction in which the contracts were concluded, in two national newspapers in that EEA state; and (iv) in relation to a contract of reinsurance, where an EEA state other than the UK is the jurisdiction in which a policyholder is situated at the date when the contract was entered into, in one business newspaper in that EEA state.

6.4.2. Communications strategy

LGAS has developed a Communications Strategy setting out how they will communicate with LGAS policyholders in relation to the proposed transfer in accordance with the regulations.

In respect of the mailing to transferring policyholders, LGAS intends to follow the statutory definition, regulatory guidance and market practice in determining which individuals are considered "policyholders" in this context. LGAS intends to send each transferring policyholder a communications pack, consisting of a covering letter specific to their circumstances together with a standardised brochure containing full details of the transfer, a summary of the Independent Expert's report, the date of the proposed final hearing and information on how to object (should they wish to do so). In addition, paper copies of the full Scheme document and full Independent Expert's report will be provided without charge upon request and will be available on both the L&G and ReAssure websites.

It is proposed to carry out a programme of newspaper advertising within the UK that exceeds the legal requirements set out in the regulations. LGAS will also publish notice of the application in five national UK newspapers. A similar programme of advertising will be carried out in Jersey and Guernsey. In respect of other EEA states, advertisements will be placed in the international editions of certain UK newspapers. In addition, the other newspapers that are being used in the UK are available for purchase overseas. LGAS does not propose to advertise in any local newspapers of EEA states other than the UK. Social media will also be used.

6.4.3. Dispensations

LGAS intends to seek a number of dispensations from the obligation in the regulations to write to all policyholders. Those pertinent to the WPF are set out below.

- **"Gone-aways":** "Gone-aways" are policyholders for whom LGAS does not have current addresses. These policyholders will already have been through LGAS's standard gone-away tracing process at the time they were reported as gone-away and then generally every three years thereafter. Prior to the proposed transfer, LGAS has instigated an additional bulk tracing process with a third-party supplier who has attempted to trace gone-away policyholders in the 12 months prior to the mailing. Other tracing efforts made include such sources as Experian, Google searches, BT directory enquiries and the Department of Work and Pensions tracing service. Any policyholders for whom LGAS has been unable to obtain contact details following all of these processes will be excluded from the mailing. The level of gone-away policies for the Mature Savings business was 6.4% of the transferring policies as at February 2019, a reduction from the value of 7.1% as at June 2018. This demonstrates that the tracing activity has had an impact in reducing the numbers of gone-aways. As at February 2019 the level of gone-away polices for the whole transferring book was 6.5%.

- **Minors (people under age 18):** There are around 2,700 transferring policies where the policy is in the name of a minor. LGAS intends to send the communications pack to the responsible adult rather than the minor, on the grounds that the complexity of the process is such that it would be in the minor's best interests for any decision making to be assisted by or made by an appropriate adult.

- **Multiple policyholders:** LGAS will follow its standard practice for communicating with such policyholders. The communications pack will be sent to named policyholders at the same address or only to the policyholder who has been nominated by the other policyholders to receive communications. LGAS has, over the term of the policy, only written to one policyholder address and details of the additional policyholders are not typically held. The nominated policyholder will be asked explicitly in the covering letter to share the contents with the other policyholders.

- **Unknown policyholders:** LGAS intends to seek a dispensation from the strict requirement of the regulations to notify every policyholder to cover situations such as individuals becoming policyholders without LGAS having been notified (e.g. contingent annuitants where written on an "any spouse" basis).

- **Not in force policyholders**: LGAS intends to seek a dispensation from notifying policyholders who are no longer in force where past business reviews and remediation payments have not been completed by the proposed transfer date. In this case, LGAS and ReAssure are to ensure that such business is dealt with appropriately after the proposed transfer.

- **Beneficiaries and Dependents:** LGAS intends to seek a dispensation in respect of policies where a dependent or beneficiary would have a right in the event of the death of the main policyholder, which will have the effect that such beneficiaries will not receive any communications relating to the proposed transfer.

- **Members of Trust Based Pensions:** LGAS intends to seek a dispensation not to write directly to members of trust based pensions but instead arrange for the communication to be provided through the pension trustees.

In all cases where policyholders do not receive any direct communications from LGAS about the transfer, this is mitigated by indirect methods of communication such as newspaper advertising.

LGAS also intends to seek a dispensation from the requirement to advertise in other EEA states where contracts were concluded. LGAS's administration systems do not record the state where the contract was concluded. As at September 2018 there were 7,584 policies with a current address in an EEA state other than the UK, equivalent to 0.8% of the transferring policies with known addresses. However, it is considered that this is largely due to migration since the policies were taken out on the grounds that the policies were marketed exclusively in the UK, Jersey and Guernsey and the terms and conditions state that the policyholder must be resident in the UK, Jersey or Guernsey when the policy is taken out. LGAS considers it more appropriate to communicate to these policyholders via the international editions of UK newspapers rather than through local newspapers.

I understand that these dispensations are fairly typical for a transfer for this type and my opinion is that no customer detriment is likely to arise from them.

6.4.4. Customer Communications

As detailed in section 6.4.2, following the Directions Hearing, LGAS will write to policyholders setting out the details of the Scheme. These communications will follow a standard format but allow for the covering letter to be tailored to the type of policyholder.

I have reviewed the communication strategy and considered the results from the customer research and I am comfortable with the general approach. I have also reviewed the communications to be sent to the transferring policyholders and I am of the opinion that the proposed communications to WPF policyholders will provide sufficient information so that WPF policyholders are adequately informed about the Scheme and the impact on them.

In the event of the Scheme being sanctioned by the High Court, the WPF policyholders are expected to transfer on 4 November 2019 (the Transfer Date), although this may, with the agreement of both parties, be delayed to no later than 4 February 2020. Once transferred, ReAssure will provide the transferring WPF policyholders with contact details and other introductory information.

7. COMPLIANCE WITH THE PPFM

The proposed transfer of the WPF from LGAS to ReAssure will involve some changes in the way that the business will operate, including: the management of the fund, some changes to terms and conditions and the communications policyholders will receive (including the options available to policyholders, where appropriate) as detailed and discussed in section 6.

These changes have been assessed against the current WPF PPFM (October 2018) for compliance, with no areas of concern found and so my assessment concludes that the proposed changes under this transfer are consistent with the current PPFM.

8. IMPACT IF TRANSACTION DOES NOT PROCEED

In the event of the Scheme not being sanctioned, the BTA (and amendments) detail the required actions. In summary these are as follows in relation to the WPF:

- LGAS and ReAssure must use reasonable endeavours to transfer the WPF under an alternative scheme. Until the point of transfer the administration of the business would be retained by LGAS.

- If no such transfer is achieved by 1 January 2021 then negotiations will commence between the parties with the aim of outsourcing the operation of the WPF business to ReAssure, with this targeted to be achieved by 1 January 2022 (or later if both parties agree). Negotiations are to be carried out in good faith to enable all decision making in respect of the WPF business to be outsourced to ReAssure. The BTA ceases on the outsourcing date but the RTA remains active. LGAS and ReAssure will each bear their costs of implementing this outsourcing.

- As part of the outsourcing negotiations a new IMA will be agreed on terms similar to the existing IMA and ceasing no earlier than 1 November 2026. In addition an Annuity Introducer agreement will be agreed on terms similar to that as part of the Scheme and ceasing no earlier than 1 November 2024.

- If outsourcing terms cannot be agreed then a new Part VII transfer will be considered (in accordance with section 19.1 of the RTA). This would periodically consider whether a Part VII transfer may be possible at a future date.

In addition the Scheme details the expense deal arrangement between the WPF and the shareholders of ReAssure on completion of the Part VII transfer. In the event that the transfer does not occur then the expense deal arrangement will no longer apply.

Possible impacts on with-profits policyholders in the event of the scheme not being implemented are as follows:

a) Expenses - No payment will be made by the WPF to the shareholders of ReAssure to contribute to the costs of the transition of the business to ReAssure and the WPF will be required to meet its own expenses in the future, rather than paying a defined charge as under the Scheme.

b) In addition, in the event of no transfer, LGAS will thereafter bear additional costs relating to the replacement transfer of the business or outsourcing and continuing to manage the financial information required as part of the RTA.

c) The clauses under the Scheme described in sections 20 to 22 (Sunset and Merger clauses) will no longer apply. It is impossible to know what impact this might have in the future as it is many years before these clauses are likely to take effect and the regulatory framework may have evolved by that time. However, under current rules, it is likely that it would become difficult to manage the WPF without incurring additional significant cost and/or taking further management actions and it is likely that this would be to the detriment of the participating policyholders.

d) Replacement Arrangements – In the event of outsourcing, the replacement Investment Management Agreement and Annuity Introducer agreement are expected to be on terms similar to the agreements as part of the Scheme and so the impact on participating business is expected to be small.

In the event of the Scheme not proceeding, the benefit expectations of policyholders may be reduced over time as the per policy level expenses involved in running the WPF will increase in the absence of any expense deal. The security of the benefits will continue to be provided by LGAS and would thus be unchanged from the current position. Communications will be in unchanged LGAS branding and format and the management of the WPF will be unchanged.

Should any of the alternatives such as an outsourcing arrangement be adopted then I would expect to comment on these at the time when the details are known.

9. COMPLIANCE WITH TECHNICAL ACTUARIAL STANDARDS

This report has been prepared in accordance with, and in my opinion complies with, the Technical Actuarial Standards (TAS) issued by the Financial Reporting Council. In particular, I believe this report complies with TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. TAS compliance of the supporting papers, reports and models are considered separately by the relevant authors and reviewers as appropriate.

APS X2, issued by the Institute and Faculty of Actuaries, requires Actuaries to consider the appropriate level of review that should be applied to their work. This report has been subject to an Independent Peer Review by a suitably qualified Actuary and is therefore believed to be compliant with APS X2.

Tricia Ross
With-Profits Actuary
26 June 2019

APPENDIX - PERSONAL INTERESTS

This section summarises my financial and personal interests in LGAS and other companies within the Legal and General Group as at 21 June 2019 (unless otherwise stated). I have no financial or personal interests in ReAssure Ltd or the Swiss Re Group.

I am an employee of Legal & General Resources Limited. I am personally affected by the transaction as an employee of the Mature Savings business.

SHARE INTERESTS

I have the following share interests in Legal & General Group Plc:

Employee Share Plan	17,806
Corporate Sponsored Nominee	83,103
Share Bonus Plan	17,574

I also hold a number of share options in Legal & General Group Plc in Save as You Earn Contracts. The options held are:

Number of Options	Option Price	Option date
1791	£2.01	1 June 2020
1595	£1.88	1 June 2021

POLICIES

I hold the following policies:

(i) A with-profits endowment policy with LGAS which matures in 2022 and has a surrender value of £27,570. This policy is in scope of the transaction.

(ii) Holdings in the Legal & General Group SIPP with Legal & General (Portfolio Management Services) Limited with a total value of £83,676 including 23,273 shares in Legal & General Group Plc.

(iii) ISA Investments with Legal & General (Unit Trust Managers) Limited with a total value of £44,400

(iv) A Worksave Pension Plan associated with Legal & General Group SIPP invested with Legal & General Investment Management with a value of £7147

PENSION

As an employee of long standing I have the following pension arrangements related to my employment:

(i) A deferred pension of £47,561 as at 5 March 2019 in the Legal & General Group UK Senior Pension Scheme

(ii) A Worksave Pension Plan invested with Legal & General Investment Management with a value of £8,135

OTHER

My spouse is employed by Legal & General Investment Management (Holdings) Limited and receives remuneration commensurate with his responsibilities. He also has a WorkSave Pension Plan with Legal & General (Portfolio Management Services) Limited relating to a previous employer.