MILLIMAN REPORT

The Part VII transfer of part of the business of Legal and General Assurance Society Limited to ReAssure Limited

The second supplementary report of the Independent Expert

July 2020

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1. The timeline to date and the purpose of this Second Supplementary Report

BACKGROUND

1.1 It is proposed to transfer a block of long-term insurance business from Legal and General Assurance Society Limited (“**LGAS**”) to ReAssure Limited (“**ReAssure**”).

1.2 The transferring business consists of the ‘Mature Savings’ block of business and smaller volumes of other long-term insurance business of LGAS and has been largely closed to new business and in run-off since 2015.

1.3 I have been appointed by ReAssure and LGAS to report, pursuant to Section 109 of the Financial Services and Markets Act 2000 (“**FSMA**”), in the capacity of the Independent Expert, on the terms of this proposed scheme (the “**Scheme**”) providing for this transfer from LGAS to ReAssure.

MY ROLE AS INDEPENDENT EXPERT

1.4 My appointment as Independent Expert was approved by the Prudential Regulation Authority (“**PRA**”) after consultation with the Financial Conduct Authority (“**FCA**”) and was confirmed in a letter dated 27 March 2018 to the Legal & General Group (the “**L&G Group**”). My terms of reference have been reviewed by the FCA and the PRA.

1.5 My role as Independent Expert is set out in Section 4 of my Main Report and this **Second Supplementary Report** has been produced for the High Court of Justice (the “**High Court**”) to assist in its deliberations in respect of the Scheme.

1.6 The Second Supplementary Report has been prepared in accordance with the approach and expectations of the PRA, as set out in “The Prudential Regulation Authority’s approach to insurance business transfers” dated April 2015 (the “**PRA Statement of Policy**”), as well as Chapter 18 of the Supervision Manual (“**SUP 18**”) contained in the FCA Handbook, and the FCA’s Final Guidance “FG18/4: The FCA’s approach to the review of Part VII insurance business transfers” dated May 2018 (the “**FCA Final Guidance**”).

1.7 I confirm that the comments and conclusions in this Second Supplementary Report apply to all policyholders of LGAS and ReAssure irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued.

THE HIGH COURT HEARINGS TO DATE AND THE EFFECTS OF THE COVID-19 PANDEMIC

1.8 I prepared a report dated 3 July 2019 (“**my Main Report**”) in which I considered the proposed Scheme for the Directions Hearing at the High Court on 11 July 2019.

1.9 I also prepared an addendum to my Main Report (the **“Addendum**”) following the news that the Initial Public Offering (“**IPO**”) of shares in ReAssure Group Plc (“**RGP**”) (ReAssure’s parent company) had been suspended.

1.10 At the time of finalisation of my Main Report, it was proposed that the transferring business would legally transfer from LGAS to ReAssure on 4 November 2019 and that the Scheme would become effective as between LGAS and ReAssure on 1 November 2019. Subsequent to the Directions Hearing the proposed **Legal Effective Date** was changed to 6 April 2020 and the **Economic Effective Date** to 1 April 2020 and the Sanction Hearing was rescheduled from 17 October 2019 to 10 March 2020.

1.11 The Sanction Hearing took place over three days (10 – 12 March 2020) and at close on 12 March 2020, Mr Justice Zacaroli, the presiding judge, did not give a judgment.

1.12 At that time, the COVID-19 pandemic was causing widespread health and economic issues and governments around the world were putting in place various measures to try to contain the spread of the virus. In particular, on

23 March 2020, the UK Prime Minister announced widespread measures restricting the movement and working patterns of all but 'essential' workers.

1.13 LGAS and ReAssure had been reviewing the impact of the COVID-19 pandemic on their ability to effect a successful migration of the transferring LGAS policyholders to ReAssure and they concluded that there was not a sufficient degree of certainty in respect of the impact on their operations to proceed with the migration at that time. I was asked for my opinion and I indicated that, in my view, the migration should be postponed.

1.14 On 24 March 2020, LGAS and ReAssure requested an adjournment of their application to sanction the proposed Scheme and on 27 March 2020, Mr Justice Zacaroli acceded to this request.

THE FUTURE SCHEDULE FOR THE PROPOSED SCHEME

1.15 The resumption of the adjourned Sanction Hearing is set for 13 August 2020 and:

- The revised Economic Effective Date for the proposed Scheme is 1 September 2020; and
- The revised Legal Effective Date for the proposed Scheme is 7 September 2020.

THE REPORTS, ADDENDA AND LETTERS PRODUCED TO DATE

1.16 In my role as Independent Expert for the Scheme, I have produced a number of reports, addenda to those reports and letters to the High Court. For completeness I list these below:

- **My Main Report** (dated 3 July 2019) for the Directions Hearing at the High Court on 11 July 2019 to assist the High Court in its deliberations on the Scheme.
- **The Addendum** (dated 12 July 2019) to my Main Report following the news that the Initial Public Offering of shares in RGP had been suspended.
- **My Supplementary Report** (dated 24 February 2020) to provide the High Court with an updated assessment of the likely effects of the Scheme ahead of the Sanction Hearing (10 March 2020).
- **The Supplementary Addendum** (dated 6 March 2020) (an addendum to my Supplementary Report) that provided an update to the High Court on the operational readiness of ReAssure, late changes to the Scheme, and updates on communications with policyholders in respect of objections and the potential effects of the COVID-19 pandemic.
- **The First Letter to the High Court** (dated 11 March 2020) in response to a request from Mr Justice Zacaroli that provided further information to the High Court with respect to the Fixed Expense Agreement (described in Section 7).
- **The Second Letter to the High Court** (dated 12 March 2020) in response to a request from Mr Justice Zacaroli that provided further information to the High Court with respect to the standards of administration and service that apply to the LGAS and ReAssure policies.
- **The Third Letter to the High Court** (dated 19 March 2020) that provided further information to the High Court with respect to a number of questions from Mr Justice Zacaroli relating to the effects of the COVID-19 pandemic on the economic environment and the operational resilience of the two firms and the potential implications on the proposed Scheme.

1.17 My Main Report, my Supplementary Report and the addenda have been made available to policyholders via the Legal & General Group website (**www.legalandgeneral.com**) and the ReAssure website (**www.reassure.co.uk**). The three letters to the High Court were made available to objectors that attended the Sanction Hearing in person and will be put on the firms' websites at the same time as this Second Supplementary Report.

THE PURPOSE OF THIS SECOND SUPPLEMENTARY REPORT

1.18 The purpose of this Second Supplementary Report is to provide an updated assessment of the likely effects of the proposed Scheme ahead of the Sanction Hearing on 13 August 2020. The date of finalisation of this report was 29 July 2020.

1.19 I shall provide a letter to the High Court dated 10 August 2020 that will provide an updated assessment of the effects on the proposed Scheme of the published solvency information as at 30 June 2020 for LGAS and ReAssure, and the state of the migration at that date.

REGULATORY AND PROFESSIONAL GUIDANCE

1.20 This Second Supplementary Report has been prepared subject to the terms of the Technical Actuarial Standards ("**TAS**") applicable to Insurance transformations ("**TAS 200: Insurance**") issued by the Financial Reporting Council.

1.21 In my opinion, my Second Supplementary Report complies with the TAS 200: Insurance and is compliant with those elements of the TAS 100: Principles for Technical Actuarial Work that are applicable to transformations. In complying with these requirements, I note that a number of the key documents listed in Appendix C have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.

1.22 In the context of the TAS, my Main Report, my Supplementary Report and this Second Supplementary Report are component reports, which together form an aggregate report.

1.23 Actuarial Profession Standard ("**APS**") X2, as issued by the Institute and Faculty of Actuaries, requires members to consider whether their work requires an independent peer review.

1.24 In my view, this Second Supplementary Report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

THE JERSEY AND GUERNSEY SCHEMES

1.25 As mentioned in my Main Report, there are proposed schemes in:

- Jersey (the "**Jersey Scheme**") for the transfer of any relevant business carried on by LGAS in or from within Jersey; and
- Guernsey (the "**Guernsey Scheme**") for the transfer of any relevant policies issued to residents of the Bailiwick of Guernsey.

1.26 I confirm that the comments and conclusions in this Second Supplementary Report apply equally to all transferring policyholders of LGAS, irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued. For the avoidance of doubt, this includes policies transferring pursuant to the Jersey Scheme and Guernsey Scheme. References to the Scheme should be taken to include the Jersey Scheme and Guernsey Scheme.

2. Executive summary

THE AREAS COVERED IN THIS SECOND SUPPLEMENTARY REPORT

2.1 The updated assessment that is the purpose of this Second Supplementary Report includes consideration of whether the conclusions reached in my Main Report and in my Supplementary Report remain valid in light of developments subsequent to the date of finalisation of my Supplementary Report (24 February 2020), and any policyholder feedback or queries in relation to the proposed Scheme.

2.2 The developments and events covered are as follows:

- **The updated financial information for LGAS and ReAssure (Sections 3, 4 and 5)**

  The conclusions in my Main Report were based on the financial information provided by ReAssure and LGAS as at 31 December 2018 and the conclusions in my Supplementary Report were based on the financial information provided by ReAssure and LGAS as at 30 June 2019.

  The financial information for LGAS and ReAssure has been updated to that as at 31 December 2019, 31 March 2020 and 30 June 2020 and I have reconsidered the conclusions in my Main Report and my Supplementary Report given this updated financial information.

  In 2020 the COVID-19 pandemic has spread across the world causing widespread health, financial and economic issues for firms and governments. I have reconsidered the effects of the proposed Scheme in light of the impacts from the COVID-19 pandemic.

  In May 2020 ReAssure made a dividend payment of £400 million (the "**ReAssure Dividend**") to ReAssure Midco Limited ("**RML**") and I have also, for the financial information at each date, considered the effect of the payment of the ReAssure Dividend on the conclusions in my Main Report and my Supplementary Report.

- **An update on the operational readiness of the firms and the migration process (Section 6)**

  In my Main Report, I highlighted that there remained some areas of material concern regarding the migration plan and that these were being monitored closely by the ReAssure Board and the LGAS Board.

  By the time of Sanction Hearing, due to the additional work carried out by LGAS and ReAssure, I was able to conclude in my Supplementary Report and Supplementary Addendum that it is unlikely that the migration will lead to a material adverse effect on policyholders going forward.

  I have reconsidered the operational readiness of both LGAS and ReAssure as at the current date in light of the COVID-19 pandemic and provided an update to my conclusions.

- **An update on the effects of the proposed Fixed Expense Agreement on the transferring LGAS policyholders (Section 7)**

  On the first day of the Sanction Hearing (10 March 2020), Mr Justice Zacaroli requested further information with respect to the basis used to form the conclusion outlined in Section 8.112 of my Main Report that the Fixed Expense Agreement would not have a material adverse effect on the reasonable benefit expectations of the with-profits policyholders who would be transferred to the LG With-Profits Fund (the "**LGWPF**").

  In my First Letter to the High Court I provided the details as to how this conclusion was formed and I revisit the validity of this conclusion.

- **An update on policyholder objections and feedback on the proposed Scheme (Section 8)**

  Following the Directions Hearing on 11 July 2019 and the subsequent initiation of the policyholder communications proposals in accordance with the directions order issued by the High Court, LGAS and ReAssure have received comments on the Scheme from policyholders and I have considered the main themes arising from this correspondence.

In my Supplementary report and my Supplementary Addendum I provided an analysis of the objections received up to 6 March 2020. I have considered the further objections and further correspondence with existing objectors that have been received since this date and provide an update to my conclusions.

- **Other considerations in respect of the proposed Scheme (Section 9)**

  There were a number of other events and issues covered in my Supplementary Report and in Section 9 of this Second Supplementary Report I provide an update on these events and issues. These include:

  - **The proposed acquisition of RGP by Phoenix**

    On 6 December 2019, Phoenix Group Holdings plc ("**Phoenix**") announced its intention to acquire RGP and this was approved by the PRA with a legal completion date of 22 July 2020. In my Supplementary Report, I reconsidered the conclusions of my Main Report in light of this proposed acquisition and I reconsider the conclusions again in light of events since the finalisation of my Supplementary Report.

  - **The acquisition of the Old Mutual Wealth Life Assurance Limited business by RGP**

    On 5 August 2019, RGP announced that it intended to acquire the heritage life and pensions division, of Old Mutual Wealth Life Assurance Limited **("OMWLA")** from Quilter Plc and the Change in Control application was approved by the PRA on 10 December 2019.

    In my Supplementary Report, I reconsidered the conclusions of my Main Report in light of this acquisition and in this Second Supplementary Report I reconsider the conclusions again in light of events since the finalisation of my Supplementary Report.

  - **The potential impact of the recent judgment in respect of the Prudential Rothesay scheme**

    In August 2019, the High Court declined to sanction an insurance business transfer scheme to move a block of in-payment annuities from The Prudential Assurance Company Limited ("**Prudential**") to Rothesay Life Plc ("**Rothesay**").

    In my Supplementary Report I provided comment on the concerns raised by the judge in the Prudential Rothesay scheme and how such concerns might relate to the proposed LGAS ReAssure Scheme. In this Second Supplementary Report, I consider whether there have been any developments since the finalisation of my Supplementary Report that would change the conclusions in that report.

2.3 This Second Supplementary Report should be read in conjunction with my Main Report and my Supplementary Report. The reliances and limitations set out in Section 1 of my Main Report apply equally to this Second Supplementary Report. Defined terms used in my Main Report have the same meaning in this Second Supplementary Report.

2.4 Given the inherent uncertainty of the outcome of future events, it is not possible to be certain of the effect of the proposed Scheme on the affected policies and, in order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. The framework in which I undertake my consideration of the proposed Scheme in this Second Supplementary Report, my Supplementary Report and my Main Report is set out in Section 4 of my Main Report.

THE CONCLUSIONS OF THIS SECOND SUPPLEMENTARY REPORT

2.5 I have considered whether anything has happened since the date of finalisation of my Main Report and Supplementary Report including the updated financial information as at 30 December 2019, 31 March 2020 and 30 June 2020 that would cause me to change the conclusions in my Main Report or my Supplementary Report.

2.6 In summary:

- **The updated financial information (Sections 3, 4 and 5).**

  Based on the financial information for LGAS and ReAssure as at 31 December 2019, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the security of the benefits of the transferring LGAS policies, the existing ReAssure policies or the non-transferring LGAS policies.

  I am satisfied that the financial information as at 31 March 2020 does not provide any reason to change the conclusions of my Main Report or my Supplementary Report.

  I am satisfied that the financial information as at 30 June 2020 does not provide any reason to change the conclusions of my Main Report or my Supplementary Report.

- **The data migration from LGAS to ReAssure (Section 6).**

  Given the conclusions I was able to reach in my Supplementary Report and the Supplementary Addendum, and the updates from both LGAS and ReAssure to date on the migration testing, readiness gate assessments and the monitoring of the operational stability of each firm in light of the COVID-19 pandemic, I can conclude that, at the date of finalisation of this Second Supplementary Report (29 July 2020) I am satisfied that it is unlikely that the migration will lead to a material adverse effect on policyholders going forward.

  I shall provide a letter dated 10 August 2020 to the High Court (which will also be published on the Legal & General Group website and the ReAssure website) that will include a further update on operational readiness at that point, including the results of the next readiness gate assessment that will be conducted on 31 July 2020.

- **The Fixed Expense Agreement (Section 7).**

  I am satisfied that the Fixed Expense Agreement would be expected to be of value to the LGWPF even in adverse conditions and that the introduction of the Fixed Expense Agreement would not have a material adverse effect on the reasonable benefit expectations of the transferring LGAS with-profits policyholders.

- **Correspondence and objections received from policyholders (Section 8).**

  I am satisfied that LGAS and ReAssure are dealing with the objections received in a reasonable way and are doing what they can to resolve these fully prior to the resumption of the adjourned Sanction Hearing.

  I am satisfied that the additional objections received and the further correspondence received relating to existing objections since the date of my Supplementary Addendum (6 March 2020) do not raise any issues that were not considered in the work leading up to the finalisation of my Main Report and my Supplementary Report and therefore I am satisfied that there are no reasons to change the conclusions in my Main Report or in my Supplementary Report.

2.7 I am satisfied that nothing has happened since the finalisation of my Main Report or my Supplementary Report to provide any reason to change the conclusions in Section 15 of my Main Report and Section 10 of my Supplementary Report that:

- I am satisfied that the implementation of the Scheme would not have a material adverse effect on:
  - The security of the benefits of the policies of LGAS or ReAssure;
  - The reasonable expectations of the policyholders of LGAS and ReAssure in respect of their benefits; or
  - The standards of administration, service, management and governance that apply to the LGAS and ReAssure policies.
- I am satisfied that the Scheme is equitable to all classes and generations of LGAS and ReAssure policyholders.

2.8 I shall provide a letter to the High Court dated 10 August 2020 that will provide analyses of the effects on my conclusions on the proposed Scheme (as set out above) of:

- The published solvency information as at 30 June 2020 for LGAS and ReAssure; and
- The state of the migration at that date.

3. The effects of the proposed Scheme based on the updated financial information for LGAS and ReAssure as at 31 December 2019

INTRODUCTION

3.1 The conclusions in my Main Report and my Supplementary Report were based on the financial information as at 31 December 2018 and 30 June 2019 respectively. Updated financial information as at 31 December 2019 is now available and has been subject to external audit (by KPMG LLP ("**KPMG**") for LGAS and PwC LLP ("**PwC**") for ReAssure) and I have considered whether this updated information would affect the conclusions in my Main Report and my Supplementary Report.

3.2 Since the finalisation of my Supplementary Report, there have been no changes to:

- The LGAS Risk Appetite Statement (the "**LGAS RA Statement**") and LGAS continues to adhere to the LGAS RA Statement.
- The risk appetite statement to which ReAssure must adhere.

  As set out in Section 2 of my Supplementary Report, following a Board decision on 3 December 2019, this was the risk appetite statement that would have applied to ReAssure if the ReAssure IPO had gone ahead.

  In a change to the nomenclature used in the Supplementary Report the risk appetite statement that currently applies to ReAssure (formerly called the ReAssure IPO RA Statement) will be called the "**ReAssure RA Statement**" in the Second Supplementary Report.

3.3 The Solvency II balance sheets as at 31 December 2019 for both LGAS and ReAssure are shown in Appendix A. The pro-forma balance sheets (assuming the Scheme had been implemented on 31 December 2019) for both LGAS and ReAssure are shown in Appendix B.

3.4 In summary, the transferring business of LGAS consists of approximately 900,000 policies and assets of approximately £30 billion (as at 31 December 2019).

THE SECURITY OF BENEFITS

Introduction

3.5 As set out in Section 8 of my Main Report, a group of policies derives its security of benefits from:

- The strength of the calculation used to set the level of assets held to cover the technical provisions and Solvency Capital Requirement ("**SCR**") of the business as required under the Solvency II regulations;
- The additional financial strength required by the firm's risk appetite statement including the strength of the governance around the risk appetite statement and the governance around any future changes to it; and
- Any additional support from outside the firm, including support from the parent and/or group.

3.6 The regulations and supervisory framework in the UK focus on the insurance company itself being able to meet its claims, liabilities and other obligations when due and therefore the security of the benefits under a group of policies arises primarily from the insurance company itself and its financial strength and ability to withstand severe and extreme events.

3.7 The availability of support from the group companies or from a parent company provides potential extra financial strength and security for the policy benefits in the event that the faith placed in the financial strength of the firm proves to be misplaced.

3.8 The regulators and enforcers of the laws and regulations have an important role to play in dictating how the rules and regulations are applied and in setting the likely sanctions for their breach.

The financial strength of LGAS and ReAssure as a proxy for the security of benefits

3.9 The SCR is the capital that a firm is required to hold under the Solvency II regime and is calculated according to the risk exposures of that firm. It is an estimate of the capital required to ensure that the firm can remain solvent in all but extreme scenarios[1] over a one-year time horizon.[2]

3.10 The solvency coverage ratio is then the amount of 'coverage' that the firm has of its SCR and is calculated as the firm's excess capital (Own Funds in the Solvency II balance sheet) divided by its SCR.

3.11 As stated above, the security of the benefits arises primarily from the financial strength of the firm itself and its ability to withstand severe and extreme events and the solvency coverage ratio is often used as a proxy for the financial strength of a firm.

3.12 In considering the likely effects of the proposed Scheme on the security of benefits under the affected policies, I have considered the financial strength of LGAS and ReAssure before and after the implementation of the Scheme. This was covered:

- In my Main Report in Sections 8, 10 and 11 based on financial information as at 31 December 2018; and
- In Section 2 of my Supplementary Report based on updated financial information as at 30 June 2019.

3.13 I reconsider this below based on financial information as at 31 December 2019.

The financial strength of LGAS and ReAssure in the future

3.14 The analysis of the relative levels of solvency coverage and excess capital in each company provides a snapshot at a point in time but I consider also the likely future effects of the implementation of the proposed Scheme. Clearly, it is not possible to know what will happen to a firm in the future as there may be any combination of events such as acquisitions, disposals, reinsurance arrangements, or new strategic initiatives and, as the rapid global spread of the COVID-19 pandemic in the first half of 2020 has shown, there can also be significant changes to the economy and/or the financial markets over a short timeframe.

3.15 Although the SCR, excess capital and solvency coverage ratio provide an objective and informative view of the financial strength of a firm they do not provide the full picture and, as set out in my Main Report and my Supplementary Report, there are other considerations that I, as Independent Expert, have taken into account in my analysis of the proposed Scheme.

3.16 I set these considerations in the remainder of this section as follows:

- **The effect of the proposed Scheme on the security of benefits given the financial information as at 31 December 2019**

  This includes analysis of:

  - The financial strength of LGAS and ReAssure before and after the implementation of the Scheme.
  - The estimated financial impact, as at 31 December 2019, of the payment of the ReAssure Dividend: a dividend payment of £400 million made in May 2020 from ReAssure to RML.

- **The firms' projections of solvency if the Scheme were to be implemented.**

  In preparation for the drafting of this Second Supplementary Report, LGAS and ReAssure have provided updated financial projections that show the solvency of LGAS and ReAssure in the future under a range of stress tests and potential adverse scenarios.

[1] Under Solvency II an extreme scenario is one with a likelihood of occurring of no more than 0.5%.

[2] Under Solvency II a full cash flow projection is undertaken and thus the expected experience over many years is taken into account in the BEL, the risk margin and the SCR.

- **The effects of the Scheme if the calculation of the SCR for ReAssure were to be carried out using the Standard Formula rather than the ReAssure Partial Internal Model (the "ReAssure PIM").**

  In the Change of Control application (subsequently approved by the PRA), it was stated that ReAssure would revert to calculating its SCR and risk margin using the EIOPA Standard Formula (as described in Section 3 and Appendix C of my Main Report).

  This would also trigger a Transitional Measure on Technical Provisions ("**TMTP**") recalculation (and application to the PRA for approval).

- **The risk appetite statements and capital management policies that would apply to the affected policies if the Scheme were to be implemented.**

  This includes consideration of the levels of capital required, the procedures required for changes to the capital management policies and risk appetite statements, and the management actions required in various scenarios.

- **The strength and quality of the governance and oversight that would apply to the affected policies if the Scheme were to be implemented.**

  This includes the review and challenge by the Risk function and the Internal Audit function and the consideration by the various Board committees. Of particular relevance for this Scheme is the oversight from the relevant with-profits committees ("**WPCs**"), the **ReAssure Fairness Committee** (in the case of ReAssure), and the relevant with-profits actuaries ("**WPAs**").

- **The level of support that would potentially be available from outside of the firm if the Scheme were to be implemented.**

  This could be from a parent and/or group company and consideration must be given to how this support could change in the future.

- **The level of external review to which the firm's financial strength would be subject.**

  This includes scrutiny by the external auditors and supervision by the regulators.

3.17 The same approach was followed in my Main Report and in my Supplementary Report.

THE SECURITY OF BENEFITS CONSIDERING THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

Introduction

3.18 Since my Supplementary Report was finalised and considering the financial information as at 31 December 2019 as set out above:

- The Solvency II regime remains in place and there have been no material changes to the Solvency II regulations.
- There has been no change to the strength of the calculation used to set the level of assets held by either company to cover the technical provisions and SCR.
- There have been no changes to:
  - o The risk appetite statements that would apply to LGAS and ReAssure if the Scheme were to be implemented; or
  - o The governance arrangements and procedures that would apply in LGAS and ReAssure if the Scheme were to be implemented.

3.19 As at 31 December 2019, both LGAS and ReAssure had solvency coverage levels comfortably above the levels required by their respective risk appetite statements.

3.20 In Section 5 of my Supplementary Report, I stated that I was satisfied that Phoenix's intention to acquire RGP would not change my overall conclusions as set out in Section 15 of my Main Report. I provide an updated assessment of the proposed acquisition of RGP by Phoenix in Section 9 of this Second Supplementary Report.

The security of benefits considering the actual position as at 31 December 2019

3.21 Based on the actual financial information (i.e. before allowance for the payment of the ReAssure Dividend) as at 31 December 2019 as set out in Appendices A and B, if the proposed Scheme had been implemented on this date:

- **The transferring LGAS business** would have been transferred from LGAS with a solvency coverage ratio of 163% to ReAssure which, after the transfer, would have had a solvency coverage ratio of 162%.

  Based on the financial information as at 30 June 2019 (set out in my Supplementary Report) the change was from 144% (LGAS) to 145% (ReAssure).

- **The existing ReAssure business** would have experienced a reduction in the solvency coverage of ReAssure from 168% to 162%.

  The decrease based on the financial information as at 30 June 2019 (set out in my Supplementary Report) was from 151% to 145%.

- **The non-transferring LGAS business** would have experienced an increase in the solvency coverage of LGAS from 163% to 164%.

  The increase based on the financial information as at 30 June 2019 (as set out in my Supplementary Report), was from 144% to 145%.

3.22 The changes in solvency coverage ratios as a result of the implementation of the Scheme based on the financial information as at 31 December 2019 are consistent with those observed in my Supplementary Report based on the financial information as at 30 June 2019. Furthermore, the pro-forma results show that, based on the updated financial information as at 31 December 2019, both LGAS and ReAssure are expected to be comfortably in excess of the requirements of the LGAS RA Statement and the ReAssure RA Statement respectively.

3.23 I am satisfied that the actual financial positions of LGAS and ReAssure as at 31 December 2019 do not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

The security of benefits considering the position as at 31 December 2019 allowing for the ReAssure Dividend

3.24 In May 2020, ReAssure paid the ReAssure Dividend of £400 million to RML. If this dividend payment had been allowed for in the financial information as at 31 December 2019 and if the Scheme had been implemented on this date:

- **The transferring LGAS business** would have been transferred from LGAS with a solvency coverage ratio of 163% to ReAssure, which after the transfer (and allowing for the ReAssure Dividend) would have had a solvency coverage ratio of 150%.
- **The existing ReAssure business** would have experienced a reduction in the solvency coverage of ReAssure from 154% to 150%.
- **The non-transferring LGAS business** would have experienced an increase in the solvency coverage of LGAS from 163% to 164% due to the implementation of the Scheme (i.e. no change due to the ReAssure Dividend).

3.25 Although this would have been a large reduction in the solvency coverage ratio for the transferring LGAS business, the solvency coverage of 150% in ReAssure after the implementation of the proposed Scheme would have remained comfortably in excess of that required by the ReAssure RA Statement.

3.26 The reduction in solvency coverage ratio experienced by the existing ReAssure policyholders is of a similar size to that based on the actual financial position at 31 December 2019 (i.e. not taking account of the ReAssure Dividend).

Conclusion on the security of benefits considering the financial information as at 31 December 2019

3.27 As stated above, I am satisfied that the actual financial positions of LGAS and ReAssure as at 31 December 2019 do not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

3.28 Although allowance for the payment of the ReAssure Dividend shows that if the Scheme had been implemented on 31 December 2019 then the transferring LGAS business would have experienced a significant decrease in the solvency coverage ratio (from 163% in LGAS to 150% in ReAssure):

- ReAssure would have remained comfortably above the level required by the ReAssure RA Statement; and
- The stress and scenario testing carried out to facilitate the Board's decision on the ReAssure Dividend showed that the ReAssure RA Statement would continue to be met even in the most adverse (credit) scenario considered.[3]

3.29 I am therefore satisfied that based on:

- The actual financial positions of LGAS and ReAssure as at 31 December 2019; and
- The financial position of ReAssure as at 31 December 2019 allowing for the payment of the ReAssure Dividend to RML,

there is no reason to change the conclusions in my Main Report and my Supplementary Report that the implementation of the proposed Scheme would not have a material adverse effect on the security of benefits for the transferring LGAS policyholders, the existing ReAssure policyholders or the non-transferring LGAS policyholders.

3.30 In Section 4 of this Second Supplementary Report I have considered estimates of the solvency positions of LGAS and ReAssure on both pre-transfer and post-transfer bases using the financial information as at 31 March 2020.

3.31 The financial information as at 31 March 2020 reflects the impact of the increased level of volatility in equity markets, credit spreads and gilt yields that occurred in the first three months of 2020.

THE FIRMS' PROJECTIONS OF SOLVENCY IF THE SCHEME WERE TO BE IMPLEMENTED.

3.32 In preparation for the drafting of this Second Supplementary Report, LGAS and ReAssure have carried out updated financial projections that show the solvency of LGAS and ReAssure under a range of stress tests and potential adverse scenarios.

3.33 The first half of 2020 has seen the COVID-19 pandemic spread throughout the world and affect global markets and economies. The effects of the COVID-19 pandemic on LGAS and ReAssure are reflected in the financial information as at 31 March 2020 (discussed in Section 4) and the financial information as at 30 June 2020 (discussed in Section 5). The possible effects of the COVID-19 pandemic on LGAS and ReAssure in the future have also been considered through various stress and scenario tests.

3.34 LGAS has provided updated sensitivities showing the impact of a range of independent single factor stress tests on its financial position as at 31 December 2019. The results of these stress tests, together with analysis of the LGAS solvency level throughout April 2020 and May 2020 has shown that LGAS is expected to remain well capitalised and comfortably meet the requirements of the LGAS RA Statement under each of the sensitivities considered as at 31 December 2019, prior to the implementation of the proposed Scheme.

3.35 For ReAssure, a number of COVID-19 credit scenarios have been considered with a severity between the Great Depression and the Financial Crisis (leaning more toward the former). The scenarios chosen were discussed with the RGP Board in June 2020 and take account of the increased levels of volatility in equity markets, credit spreads

[3] The most adverse scenario considered was a severe and prolonged decline in the economy affecting every asset in every sector, with more exposed industries affected more heavily and the rating of UK sovereign assets falling to 'A'.

and gilt yields in the first half of 2020 and I am satisfied that these scenarios are appropriate to consider the effects of the COVID-19 pandemic on the proposed Scheme. The results show that ReAssure is expected to meet the requirements of the ReAssure RA Statement over a five-year period from 31 December 2019 to 31 December 2024 under each of the scenarios considered.

3.36 Although these stress and scenario tests were carried out on the financial information as at 31 December 2019, there has been no fundamental change to the underlying risks of the two firms or to the main drivers of solvency of the two firms and there is no reason to change the conclusions drawn from these results. Furthermore, ReAssure has provided updated results for one ‘central’ (i.e. not considered optimistic or pessimistic) COVID-19 credit scenario as at 31 March 2020, as discussed in Section 4 of this report, which shows similar impacts and therefore indicates that the risk profile has not changed significantly since 31 December 2019.

3.37 I am satisfied that the projections of the future solvency of LGAS and ReAssure in the scenario where the proposed Scheme were to be implemented show that there is no reason to change the conclusions in my Main Report and my Supplementary Report.

THE EFFECTS OF THE SCHEME IF THE REASSURE RISK MARGIN AND SCR WERE TO BE CALCULATED USING THE STANDARD FORMULA

Background

3.38 On 6 December 2019, Phoenix announced its intention to acquire RGP and submitted a Change in Control application to the PRA on 30 April 2020. The PRA subsequently approved the Change in Control application with a legal completion date of 22 July 2020.

3.39 Currently, the Solvency II Pillar 1 risk margin and SCR for the business in the RNPF, with the exception of the RTA business and the OMWLA business, are calculated using the ReAssure PIM and the risk margins and SCRs for the ReAssure with-profits funds, the RTA business and the OMWLA business are calculated using the Standard Formula.

3.40 The Change in Control application stated that the ReAssure SCR calculation would, on approval of the application by the PRA, revert to the Standard Formula basis and the PRA approved this in respect of the financial information as at 30 June 2020. It is expected that, at some point in the future, Phoenix will carry out a model change process to change the Phoenix PIM so that it would include the ReAssure business.

The appropriateness of the Standard Formula

3.41 In 2019, ReAssure carried out an assessment of the appropriateness of using the Standard Formula to calculate the risk margin and SCR for the transferring LGAS business and concluded that it was appropriate. This assessment was submitted to the PRA. The appropriateness assessment has been repeated in 2020 with the same conclusion.

3.42 Further, ReAssure has carried out an assessment of the appropriateness of using the Standard Formula to calculate the risk margin and SCR for the existing ReAssure business and concluded that it would be appropriate. This assessment was submitted to the PRA as part of the Change in Control process.

3.43 I am satisfied that it would be appropriate for the ReAssure business to calculate its risk margin and SCR using the Standard Formula.

The effects of using the Standard Formula on the financial information as at 31 December 2019

3.44 If the ReAssure SCR as at 31 December 2019 had been calculated using the Standard Formula then:

- **The ReAssure SCR**

  The pre-Scheme ReAssure SCR would have been £2.8 billion if calculated using the Standard Formula and £2.9 billion if calculated using the ReAssure PIM.

If the proposed Scheme were to have been implemented on 31 December 2019 then the post-Scheme ReAssure SCR would have been £3.2 billion if calculated using the Standard Formula which is unchanged from that shown in the pro-forma financial information in Appendix B.

- **The ReAssure risk margin and TMTP**

  There would be a reduction in the ReAssure risk margin and TMTP.

  ReAssure has submitted an application to recalculate the TMTP as ReAssure will, following the approval of the Change in Control by the PRA, revert to using the Standard Formula to calculate its SCR and risk margin. The PRA subsequently confirmed that ReAssure may use the Standard Formula for the financial information as at 30 June 2020.

- **The ReAssure Own Funds**

  The ReAssure Own Funds would have been materially unchanged by the move to using the Standard Formula.

- **The ReAssure Solvency Coverage Ratio**

  The pre-Scheme solvency coverage ratio would have been 169% if calculated using the Standard Formula, and 168% if calculated using the ReAssure PIM.

  If the proposed Scheme were to have been implemented on 31 December 2019 then the post-Scheme solvency coverage ratio would have been 163% if calculated using the Standard Formula and 162% using the ReAssure PIM.

3.45 On the basis of these impacts, I am satisfied that, if the SCR were to be calculated using the Standard Formula then there would not be any reason to change the conclusions in my Main Report and my Supplementary Report.

3.46 Following the approval of the Phoenix acquisition of RGP by the PRA (through the Change in Control process) it is expected that, in the medium term, Phoenix will submit an application to the PRA for a model change to include the ReAssure business on the Phoenix PIM. For the avoidance of doubt, I have not reviewed the calibration of the Phoenix PIM nor the results of any assessment of the impact of this change but I would rely on the enforcement of the PRA's rules set out in the "Solvency Capital Requirement – Internal Models" section of the PRA Rulebook to ensure that any new PIM (or amendments to the existing PIM) would accurately reflect the risks associated with the ReAssure business.

Conclusion if the risk margin and SCR of ReAssure were to be calculated using the Standard Formula

3.47 I am satisfied that the calculation of the ReAssure risk margin SCR using the Standard Formula does not provide any reason to change the conclusions in Main Report and my Supplementary Report.

THE LGAS AND REASSURE RISK APPETITE STATEMENTS AND CAPITAL MANAGEMENT POLICIES

3.48 Since the finalisation of my Supplementary Report, there have been no changes to the risk appetite statements or capital management policies to which LGAS and ReAssure must adhere.

3.49 Both LGAS and ReAssure have remained above the requirements of the LGAS RA Statement and the ReAssure RA Statement respectively at all times during 2020 – so after reflecting all the market disruption due to the COVID-19 pandemic.

3.50 The LGAS RA Statement will be formally reviewed by the Board in September 2020. This will consider the impact of market volatility together with other factors.

3.51 The ReAssure RA Statement was reviewed with a report provided to the Board Risk Committee on 24 March 2020. The analysis took into account the changes due to COVID-19 up to early March 2020 and the result was a recommendation of no change to the existing risk appetite statement which was approved by the ReAssure Board

Risk Committee. The ReAssure RA Statement will be reviewed again in 2021 and, in light of the recent approval of the Phoenix acquisition of RGP, it is expected that the ReAssure RA Statement will, in 2021, be made consistent with the Phoenix risk appetite and capital management policy.

3.52 Both the LGAS RA Statement and the ReAssure RA Statement (and their associated capital management policies) have been derived with reference to the long term financial strength of the companies and to provide buffers to protect the company when markets move, in adverse scenarios and in volatile times. Therefore, the risk appetite statements would not be expected to change as a result of such volatility.

3.53 However both companies are keeping their risk appetite statement under review and will review in line with the timescales set out above. Both firms are also monitoring the potential impacts of market volatility via scenario analysis to inform senior management ahead of these reviews.

3.54 I am satisfied that it is reasonable for there to have been no change to the LGAS RA Statement and the ReAssure RA Statement since the finalisation of my Supplementary Report.

THE SUPPORT FROM THE PARENT AND/OR GROUP COMPANIES FOR LGAS AND REASSURE

3.55 The availability of support from group companies or from a parent company provides potential extra financial strength and security for the policies of the subsidiary in the event that the faith placed in the financial strength of the subsidiary proves to be misplaced.

The transferring LGAS policies and the existing ReAssure policies

3.56 Since the finalisation of my Main Report and of my Supplementary Report, the PRA has approved the acquisition of RGP by Phoenix through the Change in Control process with a legal completion date of 22 July 2020.

3.57 There is no change to ReAssure as the primary source of security for the benefits of the ReAssure policies which would, post Scheme, include the transferring LGAS policies, and no change to the financial strength of ReAssure. ReAssure would still be required to adhere to the ReAssure RA Statement and there exist various controls around any changes to this risk appetite statement (as set out in Section 6 of my Main Report) including the non-objection of the regulators.

3.58 Phoenix is now the sole owner of RGP, and, if required, RGP would look to Phoenix to provide parental/group support rather than Swiss Re Group and MS&AD.

3.59 I do not have access to non-public financial information regarding Phoenix as part of my work on this Scheme and, based on public information, as at 31 December 2019:

- Phoenix was well capitalised with £3.1 billion of capital in excess of its SCR and a solvency coverage ratio (on a shareholder capital basis) of 161%.
- The Phoenix solvency coverage ratio was comfortably within the stated target range of its shareholder basis Solvency II solvency ratio of 140% to 180%.
- Phoenix had an insurer financial strength rating of A+ (Positive) from Fitch Ratings. This rating is currently A+ (Stable).

3.60 Given the reputational damage that would apply to the firm and to the Board of the firm if it were not to support an insurance subsidiary in the scenario where such support were to be required, one would expect that in all but the most extreme scenarios, as the owner of RGP, Phoenix would be likely to provide support to its group subsidiaries (which would include RGP and ReAssure) if it were required. There are considerable financial resources available in Phoenix to provide such support.

3.61 I am satisfied that if the Scheme were to be implemented the change for the transferring LGAS policies to have parental support available from Phoenix would not provide any reasons to change the conclusions in my Main Report or in my Supplementary Report.

The non-transferring LGAS policies

3.62 Since the finalisation of my Main Report and my Supplementary Report there have been no material changes to:

- **The group structure of the L&G Group.**

  As set out in Section 8 of my Main Report, the L&G Group remains strong and there have been no changes to the commitment to provide support to its subsidiaries.

- **The external credit rating of the L&G Group.**

  As set out in Section 8 of my Main Report and Section 2 of my Supplementary Report, the L&G Group has credit ratings from independent external credit ratings agencies of A from Standard & Poor's and A+ from Fitch Ratings.

3.63 I am satisfied that there are no reasons to change the conclusions of my Main Report and my Supplementary Report in respect of the parental and/or group support provided to the non-transferring LGAS policies.

THE LEVEL OF EXTERNAL REVIEW TO WHICH THE AFFECTED POLICIES WOULD BE SUBJECT

3.64 LGAS and ReAssure are currently subject to regulatory supervision by the PRA and the FCA and to external audit (by KPMG and PwC respectively). Following the acquisition of RGP by Phoenix, ReAssure's external auditors will change during 2020 to those of Phoenix (Ernst & Young Global LLP).

3.65 The implementation of the proposed Scheme would not lead to a change to the external auditors (the change for ReAssure from PwC to Ernst & Young Global LLP will happen whether or not the Scheme is implemented) or the regulators and I am satisfied that there would be no material adverse effect on the level of external review applied to the transferring business.

THE POSSIBILITY OF AN LGAS DIVIDEND PAYMENT

3.66 In assessing the effects of the proposed Scheme using the financial information as at 31 December 2019 (with and without the payment of the ReAssure Dividend) it should be noted that no allowance has been made for the payment of any dividend from LGAS in respect of 2020.

3.67 The approaches of LGAS and ReAssure in respect of the timing of dividend payments are different. The ReAssure Dividend (paid in May 2020) was in respect of 2019 performance whereas LGAS paid its dividend in respect of 2019 performance in December 2019. In June 2020, LGAS declared an interim dividend in respect of 2020 performance and this is reflected in the financial information as at 30 June 2020 as covered in Section 5.

MY CONCLUSIONS BASED ON THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

3.68 Based on the financial information for LGAS and ReAssure as at 31 December 2019, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the security of the benefits of the transferring LGAS policies, the existing ReAssure policies or the non-transferring LGAS policies.

3.69 I am therefore satisfied that the updated financial information as at 31 December 2019 does not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

THE LEVEL OF REVIEW OF THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

3.70 I have not carried out an independent review of the financial information but:

- For LGAS:
  - The Solvency II balance sheet as at 31 December 2019 (shown in Appendix A) has been audited by KPMG.

  - The pro-forma post-Scheme balance sheet has been calculated by applying a number of overlays to the published Solvency II balance sheet and has been reviewed by the Head of Prudential Risk and the LGAS Chief Actuary.
  - The Standard Formula results for the transferring LGAS business that are used to produce the pro-forma post-Scheme balance sheet for ReAssure are consistent with the figures submitted to the PRA as part of as part of LGAS's annual Solvency II submission at 31 December 2019. They have been independently reviewed by the Head of Prudential Risk and the LGAS Chief Actuary.
- For ReAssure:
  - The Solvency II balance sheet as at 31 December 2019 (shown in Appendix A) has been subject to review and approval by ReAssure's Technical Approval Committee (a body responsible for the approval of external reporting including senior members from the Risk, Actuarial and Finance teams). Those areas within the scope of external audit have also been reviewed by PwC.
  - The pro-forma post-Scheme Solvency II balance sheet for ReAssure as at 31 December 2019 has been reviewed by the ReAssure Chief Actuary.
  - The pro-forma post-Scheme TMTP for ReAssure (which remains subject to PRA approval) has been recalculated:
    - For the transferring LGAS With-Profits Fund ("**LGAS WPF**") business using a proxy calculation to estimate the Solvency I Pillar 1 position and the Solvency I Pillar 2 position, as described in Section 4 of my Main Report; and
    - For the transferring business outside of the LGAS WPF, using the existing methodology for the RNPF.
- I have carried out a high level reconciliation of the pro-forma post-Scheme Solvency II balance sheets as at 31 December 2019 for LGAS and ReAssure, shown in Appendix B, with the current Solvency II balance sheets for LGAS and ReAssure shown in Appendix A.

3.71 As mentioned above, ReAssure's TMTP recalculation, to allow for the transferring business following the implementation of the Scheme, remains subject to PRA approval. However, in deriving its pro-forma balance sheet, ReAssure has assumed that this approval will be granted.

3.72 As described in Section 2 of my Supplementary Report, if the PRA were not to grant approval for ReAssure's TMTP recalculation to allow for the transferring business this would not have a material adverse impact on the pro-forma post-Scheme solvency coverage ratio. As at 31 December 2019, this would have the effect of reducing the pro-forma post-Scheme solvency coverage ratio of ReAssure by only 2%, from 162% to 160%. Therefore, I am satisfied that the assumption of TMTP approval is immaterial in the context of my conclusions regarding the security of the benefits of the affected policyholders.

3.73 Any impacts on the LGWPF resulting from the treatment of the TMTP prior to receiving PRA approval would be discussed and agreed by the ReAssure Fairness Committee with the aim of avoiding any changes to policyholder outcomes.

3.74 I am satisfied that it is appropriate to rely upon the financial information as at 31 December 2019 for the purpose of this Second Supplementary Report.

4. The effects of the proposed Scheme based on the updated financial information for LGAS and ReAssure as at 31 March 2020

INTRODUCTION

4.1 According to market rules, the financial information for LGAS and ReAssure is disclosed to the public on a half-yearly basis and the financial information as at 31 March 2020 is not published. It would not therefore be appropriate to include this financial information in this Second Supplementary Report ahead of the half-year announcement of results to the market.

4.2 LGAS and ReAssure have shared the financial information as at 31 March 2020 so that I can carry out a review as part of my role as Independent Expert and report to the High Court and to policyholders. I understand the same information has been shared with the PRA and the FCA.

THE SOLVENCY II PILLAR 1 FINANCIAL INFORMATION AS AT 31 MARCH 2020

The solvency positions of LGAS and ReAssure

4.3 The Solvency II Pillar 1 financial information as at 31 March 2020 shows:

- The unaudited (pre-Scheme) Solvency II Pillar 1 balance sheets for LGAS and ReAssure as at 31 March 2020 in a similar format to those shown in Appendix A of this Second Supplementary Report; and
- Estimated pro-forma Solvency II Pillar 1 balance sheets showing the financial positions of LGAS and ReAssure as at 31 March 2020 if the Scheme had been implemented on that date in a similar format to those shown in Appendix B of this Second Supplementary Report.

4.4 This financial information reflected the considerable volatility in equity markets, credit spreads and gilt yields of the first three months of 2020 and the position of ReAssure was adjusted to reflect the payment of the £400 million dividend from ReAssure to RML (which actually took place in in May 2020). For the avoidance of doubt, as stated in Section 3, no allowance has been made for the payment of any dividend from LGAS in 2020.

4.5 It should be noted that the LGAS and ReAssure policies were exposed to the risks from the market volatility in the first quarter of 2020 and would continue to be so exposed whether or not the proposed Scheme were to be implemented. Therefore, the market volatility is not, in and of itself, a reason to reject the proposed Scheme but I must consider whether the market volatility has changed the effect of the proposed Scheme on the LGAS or ReAssure policies.

4.6 The financial information as at 31 March 2020 shows that:

- The size of the transferring business as at 31 March 2020 has not materially changed from the position as 31 December 2019. That is, the transferring business of LGAS consisted of approximately 900,000 policies and assets of approximately £26 billion.
- Prior to the implementation of the proposed Scheme, both LGAS and ReAssure remain well capitalised and comfortably meet the requirements of their respective risk appetite statements.
- Based on the estimated pro-forma positions, if the proposed Scheme had been implemented at 31 March 2020, both LGAS and ReAssure would have experienced a similar impact on their solvency coverage ratios as shown by the financial information at 31 December 2018, 30 June 2019 and 31 December 2019.

4.7 This provides comfort that, if the Scheme were to be implemented, both LGAS and ReAssure would be well capitalised and would comfortably meet the requirements of their respective risk appetite statements and therefore that there is no reason to change the conclusions of my Main Report and my Supplementary Report.

The level of review of the Pillar 1 financial information as at 31 March 2020

4.8 I have not carried out an independent review of the Pillar 1 financial information as at 31 March 2020 that has been provided by LGAS and ReAssure but have relied on the checks and reviews carried out by the two firms as follows:

- **LGAS:**
  - The pre-Scheme Solvency II Pillar 1 balance sheet as at 31 March 2020 is consistent with the figures submitted to the PRA as part of LGAS's quarterly Solvency II submission as at 31 March 2020 and has been subject to internal review and sign-off by senior management within LGAS (including the L&G Group Chief Financial Officer and the LGAS Chief Actuary).
  - The pre-Scheme Solvency II Pillar 1 balance sheet and the pro-forma post-Scheme Solvency II balance sheet as at 31 March 2020 have been reviewed by the LGAS Prudential Risk team and the LGAS Chief Actuary.
  - The Standard Formula results for the transferring LGAS business that are used to produce the pro-forma post-Scheme balance sheet for ReAssure have:
    - For the most material risks for the LGAS WPF, been estimated by LGAS using stress test results as at 31 March 2020 and reviewed by the LGAS Chief Actuary.
    - For the remaining risks, been estimated from the LGAS Standard Formula results as at 31 December 2019 by ReAssure.
- **ReAssure:**
  - The pre-Scheme Solvency II Pillar 1 balance sheet as at 31 March 2020 is consistent with the figures submitted to the PRA as part of ReAssure's quarterly Solvency II Pillar 1 submission as at 31 March 2020 and has been subject to review and approval by ReAssure's Technical Approval Committee.
  - The pro-forma post-Scheme Solvency II Pillar 1 balance sheet as at 31 March 2020 has been reviewed by the ReAssure Chief Actuary, ReAssure's Risk Function and subject to review and approval by the ReAssure Technical Provisions Committee.

Conclusion based on the Solvency II Pillar 1 financial information

4.9 I am satisfied that the (albeit unaudited) Solvency II Pillar 1 financial information as at 31 March 2020 does not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

THE FIRMS' PROJECTIONS OF SOLVENCY IF THE SCHEME WERE TO BE IMPLEMENTED.

4.10 ReAssure provided updated COVID-19 scenario test results showing the solvency of ReAssure under a 'central' (i.e. not considered optimistic or pessimistic) credit scenario as at 31 March 2020. This central scenario, referencing the ReAssure financial position as at 31 December 2019, was presented to the ReAssure Board as part of the ReAssure Dividend proposal and assumes a two-notch sovereign downgrade. When compared to actual experience during the first six months of 2020 and following validation against sectoral analysis published by professional services firms and rating agencies, this central scenario is considered to remain appropriate.

4.11 The updated results show that the impacts of the central scenario as at 31 March 2020 are similar to those as at 31 December 2019 and therefore provide comfort that the risk profile of ReAssure has not changed significantly over the first three months of 2020. In particular, the results show that ReAssure is expected to meet the requirements of the ReAssure RA Statement over a five-year period.

4.12 I am satisfied that the updated COVID-19 scenario test results for ReAssure do not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

THE FINANCIAL STRENGTH AND MANAGEMENT OF THE LGAS WPF

Background

4.13 The LGAS WPF is currently managed with reference to both its Solvency II Pillar 1 and its Economic Capital (Solvency II Pillar 2) solvency coverage ratios for risk appetite and run-off purposes and, if the Scheme were to be implemented, this would continue to be the case for the LGWPF within ReAssure.

4.14 Currently the LGAS WPF Solvency II Pillar 1 solvency and its Solvency II Pillar 2 solvency are calculated using the LGAS Economic Capital Model. ReAssure does not have access to the LGAS Economic Capital model and so has developed its methodology by which it would calculate the Economic Capital position of the LGWPF if the Scheme were to be implemented. The basis and principles underlying this methodology are described in Section 8 of my Main Report and, in summary, ReAssure has developed its approach such that it would:

- Achieve similar Solvency II Pillar 2 results to those calculated by LGAS for the LGAS WPF so that the speed of any future estate distribution would be materially unaffected by the transfer;
- Ensure coverage of all relevant risks, including those excluded from the Standard Formula calculation;
- Ensure the overall calibration of risk stresses is broadly consistent with the LGAS Economic Capital Model.

4.15 If the Scheme were to proceed, ReAssure would carry out a more detailed analysis of the Solvency II Pillar 1 position and the Pillar 2 Economic Capital position within 12 months of the Legal Effective Date and would update the methodology where this was deemed necessary. The methodology would also be refined to take into account industry developments and any changes to the risk profile of the LGWPF. Any changes to the methodology would be escalated to the ReAssure Fairness Committee for review and subsequently to the ReAssure Board for approval.

The solvency position of the LGAS WPF under Pillar 1 and Pillar 2 as at 31 March 2020

4.16 LGAS's indicative calculations of the LGAS WPF Pillar 1 and Pillar 2 solvency positions as at 31 March 2020 show that:

- Both the Solvency II Pillar 1 and the Solvency II Pillar 2 solvency coverage ratios for the LGAS WPF reduced significantly in the first three months of 2020 reflecting the considerable market volatility that occurred (partly because of the COVID-19 pandemic).
- Despite the decrease in the Solvency II Pillar 1 and the Solvency II Pillar 2 solvency coverage ratios, the LGAS WPF remained in adherence to the requirements of its risk appetite statement,
- It is likely that, after allowing for the management actions allowed for by LGAS in its calculation (as these would be available to ReAssure), the Pillar 1 and the Pillar 2 solvency positions for the LGWPF within ReAssure would both be higher than those for the LGAS WPF within LGAS.

  This is primarily due to a number of proposed model changes and refinements that ReAssure would undertake if the Scheme were to be implemented.

4.17 The deterioration over the first quarter of 2020 in the Pillar 1 and Pillar 2 capital positions of the LGAS WPF leads to two potentially enhanced risks in the event that the proposed Scheme were to be implemented:

- There is an increased risk that management actions may be required (now and/or in the future) that could have a material adverse effect on the benefits of the transferring LGAS with-profits policies; and
- There is an increased contagion risk for existing ReAssure policies in the RNPF as capital that currently provides security for these policyholders' benefits may be needed to support the LGWPF.

4.18 I consider these in turn below.

The risks for the transferring LGAS with-profits policies

4.19 If the Scheme were to be implemented,

- **The LGWPF would be managed according to the Overriding Principle:**

  ReAssure has made a commitment that, in the normal course of events, it would manage the LGWPF in a broadly similar way to how LGAS currently manages the LGAS WPF. In particular, the LGWPF should be managed with the objective of ensuring that LGWPF assets are sufficient to meet all of the fund's current and future liabilities, together with its regulatory and other capital requirements, without the need for capital from outside of the fund – this is called the "**Overriding Principle**" of the management of the LGAS WPF.

- **The management of the LGWPF would mirror that of the LGAS WPF in LGAS:**

  Under the Scheme, the LGAS WPF would be transferred to ReAssure and become the LGWPF in ReAssure. No assets, liabilities or policies would be added or removed from the fund (with the exception of the offsetting payment and reserve in respect of the Fixed Expense Agreement which I cover in Section 7 and the compensation payment for the unit-linked box as covered in Section 9 of my Supplementary Report) and once in ReAssure the LGWPF would be managed according to a similar set of principles and practices that are set out in the new LGWPF PPFM.

  As stated in Section 8 of my Main Report, I am satisfied that the new PPFM that would apply to the LGWPF would not be materially different to the existing PPFM that applies to the LGAS WPF.

- **ReAssure would use similar management actions to those that would be used by LGAS in the absence of the Scheme:**

  The effects of those actions on the policyholders' benefits would be broadly equivalent (so that there would be no material adverse effect on those benefits as a result of the Scheme) and the ReAssure Board has agreed that management actions should be taken into account in the calculation of the Pillar 1 and Pillar 2 capital requirements (up to the level currently applied within LGAS) but would not be permitted to be applied to policy benefits without further governance (as set out in the next bullet).

  This was confirmed in a recent meeting (23 June 2020) of the ReAssure Fairness Committee and the ReAssure Board.

  Any management actions taken by ReAssure in the future would be in keeping with the new PPFM and therefore, as stated above, consistent with the current PPFM for the LGAS WPF.

- **The actual application of management actions to capital requirements or to policyholder benefits would require governance in accordance with the PPFM:**

  This consists of review by the LGWPF WPA, review by the ReAssure Fairness Committee, and approval by the ReAssure Board prior to implementation.

4.20 The proposals for the future management of the LGWPF have been through various stages of governance including:

- Review by the ReAssure Chief Actuary and the ReAssure Fairness Committee;
- Review by the LGAS WPA, the LGAS Chief Actuary and the LGAS WPC; and
- Review and approval by the LGAS Board and the ReAssure Board.

4.21 Taking all of this together, there is no reason to change the conclusions of my Main Report and my Supplementary Report and I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the future benefits of the transferring LGAS WPF policies.

The contagion risk for the existing ReAssure policyholders

4.22 If the Scheme were to be implemented, the existing ReAssure policyholders would be exposed to the risk that the LGWPF may require capital support at some point in the future thereby reducing the potential capital available to provide support to the existing ReAssure policies. This contagion risk was covered in my Section 11 of my Main Report, and this has increased in the first three months of 2020 as the estimated Pillar 1 and Pillar 2 solvency coverage ratios for the LGWPF have reduced.

4.23 However, if ReAssure were to allow for the management actions for which LGAS allows in its calculation as at 31 March 2020 (as these would be available to ReAssure), then the estimated Pillar 1 and Pillar 2 solvency coverage ratios for the LGWPF within ReAssure would likely be higher than those for the LGAS WPF within LGAS. This is primarily due to a number of proposed model changes and refinements that ReAssure would undertake if the Scheme were to be implemented.

4.24 Under the ReAssure RA Statement, ReAssure would need to provide support to the LGWPF only if it breached the limits set out in the ReAssure RA Statement. These limits are defined in terms of solvency under the Solvency II Pillar 1 regime and, as stated above, based on the financial information as at 31 March 2020, ReAssure is comfortably above the requirements of its risk appetite statement.

4.25 I am satisfied that owing to the expected strength of the LGWPF in ReAssure, the ‘Overriding Principle’ set out above and the availability of management actions to protect the solvency position of the LGWPF, any contagion risk for the existing ReAssure policyholders would not lead to a material adverse effect on policyholders.

Conclusion on the financial strength of the LGAS WPF

4.26 I am satisfied that the (albeit unaudited) Solvency II Pillar 1 and Pillar 2 financial information for the LGAS WPF as at 31 March 2020 does not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

5. The effects of the proposed Scheme based on the updated financial information for LGAS and ReAssure as at 30 June 2020

INTRODUCTION

5.1 At the date of finalisation of this Second Supplementary Report, the financial information as at 30 June 2020 remained subject to internal scrutiny by the relevant Boards and committees and therefore it was not appropriate for this financial information to be published in this Second Supplementary Report.

5.2 However, LGAS and ReAssure have shared the estimated financial information as at 30 June 2020 so that I can carry out a review as part of my role as Independent Expert and report to the High Court. I understand the same information has been shared with the PRA and the FCA.

THE ESTIMATED SOLVENCY II PILLAR 1 FINANCIAL INFORMATION AS AT 30 JUNE 2020

The solvency positions of LGAS and ReAssure

5.3 I have been provided with the estimated (pre-Scheme) Solvency II Pillar 1 financial information for LGAS and ReAssure as at 30 June 2020.

5.4 Estimated pro-forma Solvency II Pillar 1 financial information assuming the Scheme had been implemented as at 30 June 2020 have not been provided.

5.5 This estimated financial information reflected the continued volatility in equity markets, credit spreads and gilt yields during the first half of 2020 and the position of LGAS reflected the payment of a £276 million interim dividend, which was declared in June 2020.

5.6 As I stated in Section 4 of this report where I considered the solvency positions of LGAS and ReAssure based on the financial information as at 31 March 2020, it should be noted that the LGAS and ReAssure policies were exposed to the risks from the market volatility in the first half of 2020 and would continue to be so exposed whether or not the proposed Scheme were to be implemented. Therefore, the market volatility is not, in and of itself, a reason to reject the proposed Scheme but I must consider whether the market volatility has changed the effect of the proposed Scheme on the LGAS or ReAssure policies.

5.7 The estimated financial information as at 30 June 2020 shows that:

- Prior to the implementation of the proposed Scheme, both LGAS and ReAssure remain well capitalised and comfortably meet the requirements of their respective risk appetite statements.
- For ReAssure, this is the case regardless of whether the calculation of the SCR for ReAssure is carried out using the Standard Formula or the ReAssure PIM, and regardless of whether the TMTP is recalculated as at 30 June 2020.
- The estimated solvency position of the LGAS WPF has improved since the position as at 31 March 2020.

5.8 Furthermore, I have received confirmation from LGAS and ReAssure that there is nothing in the results nor any reason for them to believe that, based on the financial information as at 30 June 2020, both LGAS and ReAssure would not, if the Scheme were to be implemented on that date, remain well capitalised and in adherence with the requirements of their respective risk appetite statements.

The level of review of the Pillar 1 financial information as at 30 June 2020

5.9 I have not carried out an independent review of the estimated Pillar 1 financial information as at 30 June 2020 that has been provided by LGAS and ReAssure. This financial information has not been audited but I have relied on the checks, reviews and approaches of the two firms as follows:

- **LGAS:**
  - The estimated pre-Scheme Solvency II Pillar 1 financial information as at 30 June 2020 has been subject to internal checking and review by senior management, including the LGAS Chief Actuary, the L&G Group Actuary and the L&G Group CFO.
  - The results assume a re-calculation of the TMTP in accordance with the TMTP methodology approved by the PRA in March 2020.
- **ReAssure:**
  - The estimated pre-Scheme Solvency II Pillar 1 financial information as at 30 June 2020 has been produced using approximate methods by the ReAssure reporting team and has been subject to review by the ReAssure Technical Provisions Committee.
  - The results assume PRA approval is received to recalculate the TMTP at 30 June 2020 on a Standard Formula basis, including agreement by the PRA that the Solvency I Pillar 2 position used in that recalculation will no longer include the Defined Benefit pension scheme.

Conclusion based on the Solvency II Pillar 1 financial information as at 30 June 2020

5.10 I am satisfied that the estimated Solvency II Pillar 1 financial information as at 30 June 2020 does not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

THE SOLVENCY II FINANCIAL INFORMATION FOR THE LGAS WPF AS AT 30 JUNE 2020

5.11 LGAS has shared an indicative calculation of the LGAS WPF Solvency II Pillar 1 and Pillar 2 solvency positions as at 30 June 2020 and the results of the calculation show that the solvency coverage ratio for the LGAS WPF improved in the second quarter of 2020 on both a Pillar 1 and a Pillar 2 basis.

5.12 The LGAS WPF Solvency II results as at 30 June 2020 have been produced using approximate methods and have been reviewed internally by first line LGAS teams. There has been no second line review of these estimates.

5.13 I am satisfied that the estimated Solvency II financial information for the LGAS WPF as at 30 June 2020 does not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

6. The operational readiness of the firms and the migration process

INTRODUCTION

6.1 In Section 8 of my Main Report, I described the plan that had been put in place to support the migration of the policy data from LGAS to ReAssure and, more widely, to ensure that both firms were operationally ready for the transfer and that customer outcomes would be protected if the transfer were to proceed. The plan covered four key areas:

- Programme structure and tracking;
- Readiness gate assessments;
- Monitoring ongoing stability; and
- Contingency options.

6.2 The proposed transfer will not proceed unless it has been sanctioned by the High Court and it is the responsibility of the LGAs Board and the ReAssure Board to make the decision to seek such a sanction (in the form of an Order) from the High Court to implement the Scheme.

6.3 The LGAS and ReAssure Boards would not seek an Order from the High Court unless they were satisfied, from review of the plan and progress against the plan, that the implementation of the Scheme would not have a material adverse effect on policyholders.

THE CONCLUSIONS IN MY MAIN REPORT, SUPPLEMENTARY REPORT AND SUPPLEMENTARY ADDENDUM

My Main Report

6.4 As set out in my conclusions in Section 15 of my Main Report, at the date of my Main Report there were some areas of material concern regarding the progress of the migration towards a successful conclusion that were being monitored closely by the LGAS Board and the ReAssure Board. These areas of concern required mitigating actions to be taken to reduce the risk of an unsuccessful migration.

My Supplementary Report

6.5 In Section 4 of my Supplementary Report I set out the actions that were taken prior to the Sanction Hearing (10 March 2020) in order to mitigate the risks from the issues on the implementation of the Scheme identified in my Main Report:

- Regular updates were provided to me from the LGAS and ReAssure teams tasked with preparing for, and carrying out, the migration;
- The ReAssure CRO provided a number of detailed risk reports on the status of the migration project which facilitated closer monitoring of the progress of the project by the regulators, the Boards of LGAS and ReAssure, and me; and
- ReAssure commissioned an independent review by an expert (KPMG) in the field of systems and data migrations to report on whether the migration would be likely to lead to material detriment to the transferring LGAS policyholders, and, separately, the existing ReAssure policyholders.

6.6 The date of finalisation of my Supplementary Report was 24 February 2020 and at that time there was further work on the migration to be completed ahead of the then proposed Legal Effective Date of 6 April 2020. I concluded in my Supplementary Report that it was unlikely that the migration would lead to a material adverse effect on policyholders going forward.

My Supplementary Addendum

6.7 The Supplementary Addendum (dated 6 March 2020), amongst other things, provided an update to the High Court on the operational readiness of ReAssure and concluded that the additional information provided to me did not provide any reason to change the conclusions in my Supplementary Report. My assessment included consideration of the information that was known to me with respect to COVID-19 as at 6 March 2020.

THE IMPACT OF THE COVID-19 PANDEMIC ON OPERATIONAL READINESS AND THE MIGRATION

6.8 As set out in Section 1 of this Second Supplementary Report, after the Sanction Hearing (and following the UK Prime Minister's announcement on 23 March 2020), LGAS and ReAssure concluded that there was not a sufficient degree of certainty to proceed with the migration at that time and they subsequently requested an adjournment of their application to sanction the proposed Scheme. This adjournment application was approved by Mr Justice Zacaroli on 27 March 2020.

6.9 The migration is scheduled to be carried out between 29 August 2020 and 7 September 2020.

ACTIVITIES UNDERTAKEN SINCE THE ADJOURNMENT WITH RESPECT TO OPERATIONAL READINESS

6.10 Since the adjournment of the Sanction Hearing, LGAS and ReAssure have been assessing the impact of the COVID-19 pandemic on their business operations. In respect of the transfer, LGAS and ReAssure have the aim of ensuring that neither the migration process nor the concluded migration would have a material adverse effect on any group of LGAS or ReAssure policyholders which aligns with my aims in respect of the migration and includes ensuring that:

- The migration process is sufficiently robust to be carried out in the current business environment.

  This included, on 24 May 2020, a full end to end migration test that tested the ability for the migration to the performed by staff working remotely.

- Business operations are sufficiently stable to proceed with the migration where these cover:
  - The service levels of LGAS while it continues to administer the LGAS transferring business prior to the migration; and
  - The service levels of ReAssure in the lead up to and following the migration of the transferring LGAS business to its systems.

6.11 All of these areas have been considered in a revised plan covering the same four areas as highlighted above:

- **Programme structure and tracking.** The plans have been updated for the new project timelines.
- **Readiness gate assessments.** These have been updated in light of the COVID-19 pandemic and the change in migration date.
- **Monitoring ongoing stability.** Current and projected metrics have been estimated relating to resource requirements and resource availability in light of the COVID-19 pandemic.
- **Contingency options.** Workstream plans are in place for an alternative migration date at the end of September 2020.

6.12 I provide more detail of the information that has been provided to me by LGAS and ReAssure to support the readiness gate assessments and monitoring of operational stability below.

THE LATEST READINESS GATE ASSESSMENT

6.13 LGAS and ReAssure have carried out a review of the existing governance processes that were in place for the migration. As part of this review, the number of "readiness criteria" has increased from 127 to 146 (in part to reflect the impact of the COVID-19 pandemic) and these changes have been approved as part of the joint governance process.

6.14 As before, the readiness criteria are supported by a set of defined evidence (e.g. completion reports, specific sign-offs, signed contracts) and used to make formal ‘Go / No go’ decisions at three key points or ‘readiness gates’:

- 7 July 2020 (approximately a month before the Sanction Hearing);
- 31 July 2020 (approximately a week before the Sanction Hearing); and
- 21 August 2020 (the final readiness gate ahead of the migration date).

6.15 The 146 readiness criteria are assessed using the following statuses:

- **Blue** - Criterion has been met successfully, no further activities / actions required;
- **Green** - Criterion is on track and progressing in line with expected progress. Criterion will be achieved by the target date;
- **Amber** - Criterion is behind plan and may not achieve target due to open risks and / or issues. Mitigating actions in place; and
- **Red** - Criterion is off track with open risks and / or issues. Mitigating actions have not yet been identified or result in high residual likelihood that the target will be missed.

6.16 As at the time of writing this Second Supplementary Report, I have received the following reports:

- Two “LGAS Risk Reports”, dated 3 June 2020 and 7 July 2020, respectively, from the LGAS CRO for the Mature Savings Business; and
- Two “ReAssure Risk Reports”, dated 3 June 2020 and 6 July 2020, respectively, from the ReAssure CRO.

6.17 These reports provide details of the reviews that each CRO has undertaken on the assessment of the readiness criteria and include reviews of the commentaries and evidence supporting each assessment and interviews with key personnel. The earlier reports include an assessment of the dress rehearsal of the migration process carried out on 24 May 2020.

6.18 The latest LGAS Risk Report and ReAssure Risk Report provide the following summary of the statuses of the readiness criteria:

- 57 criteria are Blue;
- 86 criteria are Green;
- 3 criteria are Amber; and
- 0 criteria are Red.

6.19 The three criteria that currently have an amber status are deemed “essential” but not “critical”. The review of these criteria by the LGAS CRO has not highlighted any areas of material concern that would jeopardise the transfer and ReAssure state that all of these criteria are being managed and that there are credible paths to green status ahead of the migration. For specific detail on each of the criteria with an amber status is provided below:

- **The testing of the bonus setting model functionality.**

  Model output testing is underway, but the need for additional development of the model has been identified. Resources from other programmes have been brought in to support this development and it is expected that this criteria will move to a green status ahead of the next readiness gate assessment.

- **The retention of knowledgeable and experienced resources.**

  This remains a risk due to the loss of actuarial role holders in the Transfer of Undertakings (Protection of Employment) ("**TUPE**") population and the potential impact on the day 1 management of the LGWPF. As a contingency option, ReAssure are carrying out discussions with external consultancies regarding the possibility of bringing temporary resources into ReAssure.

- **The recruitment of student / technician resources and vacancies in the TUPE population is on target.**

  This is linked to the previous metric and relates specifically to recruitment of replacement actuarial resources. Activity is underway at ReAssure to bring in additional resource to mitigate.

6.20 The LGAS Risk Reports:

- Conclude that the review has not highlighted any material concerns and that the LGAS CRO for the Mature Savings Business is supportive of proceeding to the adjourned Sanction Hearing.
- Note that there remain some key areas of delivery outstanding, but that these are on track for completion within the agreed timescales.
- Provide details of the remote testing that was conducted as part of the remote dress rehearsal carried out on 24 May 2020, along with separate remote testing for components not included in that rehearsal.

  The LGAS CRO considers the test to have been a success. Any migration processes that did not form part of this remote test have either been tested previously or separate assurance has been sought to confirm that there are no material concerns. Some key person dependencies have been highlighted and will be considered again as part of the next review on 31 July 2020.

6.21 The ReAssure Risk Reports:

- Conclude that the ReAssure CRO supports the position that an end of August migration should continue to be targeted, and that the programme should proceed with the Sanction Hearing.

  This conclusion was based on the assumption that the one essential amber readiness criterion was on track for completion by the next readiness gate on 31 July 2020 and this has subsequently been moved to the status of green.

THE MONITORING OF ONGOING STABILITY IN LIGHT OF THE COVID-19 PANDEMIC

6.22 I have also been provided with regular updates on the operational stability of both LGAS and ReAssure as each firm responds to the challenges and restrictions that have arisen as a result of the COVID-19 pandemic.

6.23 Both firms have taken actions to adapt to the restrictions that were imposed by the UK government with a significant proportion of the staff in both firms now able to carry out their roles remotely (approximately 85% for LGAS and 90% for ReAssure). As a result of this, operations for both firms are now in line with the Service Level Agreements that were in place before the COVID-19 pandemic.

6.24 If the proposed Scheme were to be sanctioned then it would be the responsibility of ReAssure to administer the LGAS transferring business after the Effective Date. As such, additional focus has been placed on the estimated resource requirements and resource availability of ReAssure around the time the migration will be performed and beyond.

6.25 The ReAssure risk team (with support from KPMG) reviewed the effects of the COVID-19 pandemic on its customer servicing capabilities in respect of the servicing of the LGAS transferring business if the Scheme were to be implemented and concluded that sufficient resources would be available to meet demand.

6.26 I have been provided with regular estimates of these metrics by ReAssure and the most recent estimate was received on 29 June 2020. This information shows that at the end of August, ReAssure expects to have sufficient resources (both based in the UK and offshore) to meet the anticipated resource demands.

6.27 The delay to the migration date has enabled further enhancements to be made to the administration functionality including improved automation. Furthermore, the estimated surplus in resources has improved as actions have been taken to adapt to the restrictions put in place as a result of the COVID-19 pandemic.

MY CONCLUSIONS BASED ON THE UPDATED INFORMATION RELATING TO OPERATIONAL READINESS

6.28 The date of finalisation of this Second Supplementary Report was 29 July 2020 and at that time there was further work on the migration to be completed ahead of the Legal Effective Date of 7 September 2020. In particular, both the LGAS Risk Report and the ReAssure Risk Report make note of some other areas that will need to be rectified by the next readiness gate on 31 July 2020.

6.29 That said I note that:

- LGAS and ReAssure have put in place a number of governance safeguards that require both firms to review the migration before any final decision can be made to progress with the migration and the subsequent implementation of the Scheme. Furthermore, these safeguards have been reviewed and updated, where necessary, in light of the COVID-19 pandemic.
- I have discussed the migration with the Senior Management Function holders for ReAssure's and LGAS's respective second and third line teams and they have confirmed that:
    - The information transfer is complete, accurate and mapped across systems;
    - ReAssure will be capable of continuing policyholder service within the predetermined impact tolerance levels after the transfer date; and
    - The risk of data theft is being managed.
- I have discussed the migration with the ReAssure CEO and he has confirmed that ReAssure is operationally ready to take over the L&G Mature Savings Business and that he expects no adverse impact on customers post-migration and that ReAssure is able to do so in the current remote working environment.
- The Scheme itself contains provisions to defer the Legal Effective Date (and as a result the Economic Effective Date) if, after the Sanction Hearing, there are indications that more time is needed to successfully complete the migration.
- In the extreme event that the implementation of the Scheme were to be delayed by more than three months, LGAS and ReAssure would need to seek a further order from the High Court to implement the Scheme or the Scheme would lapse without becoming effective.

6.30 Considering these points together with:

- The conclusions I was able to reach in my Supplementary Report and the Supplementary Addendum; and
- The updates from both LGAS and ReAssure to date on the migration testing, readiness gate assessments and the monitoring of the operational stability of each firm in light of the COVID-19 pandemic,

I am satisfied that, at the date of finalisation of this Second Supplementary Report (29 July 2020), it is unlikely that the migration process will lead to a material adverse effect on policyholders going forward, and that the successfully completed migration would not have a material adverse effect on policyholders.

6.31 I shall provide a letter dated 10 August 2020 to the High Court (which will be also published on the LGAS and ReAssure websites) that will include a further update on operational readiness at that point, including the results of the next readiness gate assessment that will be conducted on 31 July 2020.

7. The effects of the proposed Fixed Expense Agreement on the transferring LGAS policyholders

INTRODUCTION

7.1 On the first day of the Sanction Hearing (10 March 2020), Mr Justice Zacaroli requested further information with respect to the basis used to form the conclusion outlined in paragraph 8.112 of my Main Report that the Fixed Expense Agreement would not have a material adverse effect on the reasonable benefit expectations of the with profits policyholders who would be transferred to the LGWPF.

7.2 In order to meet this request I wrote the First Letter to the High Court which was provided to Mr Justice Zacaroli on 11 March 2020.

A DESCRIPTION OF THE FIXED EXPENSE AGREEMENT

7.3 As set out in Section 5 of my Main Report and Section 7 of my Supplementary Report, there is currently in place an expense agreement between the LGAS WPF and LGAS and, if the proposed Scheme were to be implemented, a new fixed expense agreement (the "**Fixed Expense Agreement**") would be set up for the LGWPF within ReAssure and under the Fixed Expense Agreement:

- The fixed per-policy expense schedule for in-force business was set such that the total charges for 2018 were £32.4 million; and
- The per-policy charges applied to each product group in 2020 and subsequent years would initially be equal to the per-policy charges for 2018, and, thereafter, would be increased in line with RPI + 0.5% p.a.

7.4 The Fixed Expense Agreement would be 'evergreen' (it would remain in-force until the last policy in the LGWPF were to run-off) and would have a number of advantages for policyholders in the LGWPF including:

A. An immediate reduction to per policy expenses:

Under the Fixed Expense Agreement, the per-policy expenses for the transferring LGAS with-profits policyholders would be lower than if the Scheme were not implemented and the policies were to remain in the LGAS WPF.

B. A reduced exposure to expense diseconomies of scale:

Without an expense deal, as the with-profits fund policies run-off, the overheads associated with the ongoing maintenance of the fund would be spread over a decreasing population of policyholders and therefore the per-policy costs would be expected to increase (in excess of expense inflation) over time.

C. Increased certainty in respect of future unit costs:

The Fixed Expense Agreement would lead to increased certainty regarding the future unit costs that would apply to the with-profit policies. This would reduce the capital requirements of the with-profit fund thus allowing the earlier distribution of funds to the LGWPF policyholders and increasing the fairness between different generations of policyholders.

D. Coverage of one-off additional expenses for new business:

The Fixed Expense Agreement would cover one-off expenses for any new business written in the LGWPF (i.e. increments would be accepted on pension business and new members for certain workplace schemes).

7.5 Although the Fixed Expense Agreement is evergreen, the Scheme contains provisions to allow its alteration in the event of the future actions in respect of the LGWPF (such as the merging of the fund or the activation of the sunset clause).

7.6 Alongside the usual governance requirements in respect of the ReAssure Fairness Committee and the LGWPF With-Profits Actuary, these future actions would require a certificate to be obtained from an Independent Actuary who would consider the effect of the Fixed Expense Agreement on the policyholders of the LGWPF.

THE ESTIMATED VALUE OF THE FIXED EXPENSE AGREEMENT

7.7 In order to estimate the value of the Fixed Expense Agreement to the LGWPF one should try to value the advantages of the Fixed Expense Agreement as set out above in paragraph 7.4.

7.8 The expenses for the LGWPF in ReAssure have been projected into the future under two scenarios:

I. **Assuming the Scheme were not to be implemented:**

In this scenario the Fixed Expense Agreement would not be in place and the LGAS WPF would remain in LGAS. The value would therefore be based on the LGAS expense assumptions.

II. **Assuming the Scheme were to be implemented:**

In this scenario the LGAS WPF policies would be transferred to the LGWPF in ReAssure and the Fixed Expense Agreement would be in place for the LGWPF in ReAssure.

7.9 These projections were carried out using the most recently available best estimate projected expense assumptions at the time of the analysis (the first half of 2020) and persistency assumptions that are consistent with the Solvency II balance sheet as at 31 December 2019.

7.10 The present value of the difference between I and II, discounted using a constant rate of 1%, provides an estimate of the value to the LGWPF of the immediate reduction to expenses and the longer term reduced exposure to future diseconomies of scale.

7.11 These are advantages A and B as set out in paragraph 7.4 and the value was approximately £80 million.

7.12 Advantage C in paragraph 7.4. above is the advantage that the Fixed Expense Agreement would provide ‘certainty’ in the expenses – this is difficult to estimate this accurately but one might put a (prudent) value on this of around 3%-5% of the value of the expenses under the Fixed Expense Agreement (approximately £246 million) so approximately £10 million.

7.13 Advantage D in paragraph 7.4 above is the advantage from the Fixed Expense Agreement would reduce the exposure to ‘one-off additional per-policy expenses’. This is likely to be small and so has not been valued (in effect given zero value) in this calculation.

7.14 An estimate of the total value of the Fixed Expense Agreement to the LGWPF is therefore £90 million.

THE CHARGE FOR THE FIXED EXPENSE AGREEMENT

7.15 The Fixed Expense Agreement would be provided by the ReAssure shareholder to the LGWPF and, as stated above, the ReAssure shareholder has decided to charge £50 million for this agreement.

7.16 It should be noted that this £50 million would be paid from the estate of the LGWPF and therefore no policy asset shares would be reduced as a result of this payment. There is currently a provision of £50 million in the LGAS WPF in respect of the expected payment for the Fixed Expense Agreement and so its payment would trigger the release of this provision thus ensuring that there would be no adverse impact on the size of the estate available for distribution to LGWPF policies over time.

CONCLUSION

7.17 In the calculations estimating the value of the Fixed Expense Agreement, the expense assumptions were the most recently available best estimate assumptions at the time of the analysis (the first half of 2020), and the persistency assumptions were those used for the Solvency II balance sheet as at 31 December 2019.

7.18 The other assumptions were those used for the 2018 Solvency II balance sheet and are what management considered a reasonable set of assumptions with respect to future experience. Although the calculation was not redone on the full set of 2019 Solvency II year-end assumptions, the sensitivities provided indicated that if the calculation were to be redone on the 2019 year-end assumptions there would be no material difference to the conclusion. As they were used for year-end Solvency II balance sheets, the assumptions used were subject to audit by the external auditors of LGAS (KPMG) and I am satisfied that these are reasonable assumptions to use.

7.19 The Fixed Expense Agreement and the assumptions used to demonstrate its effectiveness have been subject to the following governance:

- The LGAS With Profit Committee has approved the methodology;
- The LGAS Board has approved the Fixed Expense Agreement; and
- The LGAS WPA and LGAS CA have concluded that the Fixed Expense Agreement provides a benefit to with profit policyholders.

7.20 Further, the full calculation detail (as described in paragraphs 7.8 to 7.13 above) has been shared with the PRA and the FCA.

7.21 As the LGWPF would be paying £50 million to secure the Fixed Expense Agreement that is expected to yield a benefit of approximately £90 million, the Fixed Expense Agreement would be expected to be of value to the LGWPF even in adverse conditions and I am satisfied that the introduction of the Fixed Expense Agreement would not have a material adverse effect on the reasonable benefit expectations of the transferring LGAS with-profits policyholders.

7.22 Furthermore, in addition to the financial value of the Fixed Expense Arrangement, as noted in my Main Report, it is my view that the transferring LGAS policyholders would benefit from moving to a company that is strategically focused on closed-book business and in particular is committed to future investment and development of this proposition. In particular, ReAssure will be focussed on the improvement of the systems functionality and the development of resources to manage its closed-book business over time whereas, in contrast, a company for whom this is not a strategic focus would be less likely to make significant future investment.

8. Correspondence and objections received from policyholders

INTRODUCTION

8.1 In my Supplementary Report, I outlined my conclusions in respect of objections received from policyholders of both LGAS and ReAssure in relation to the proposed Scheme up to the 16 February 2020.

8.2 I provided further analysis in the Supplementary Addendum in respect of objections received up to 6 March 2020 and confirmed that the conclusions outlined in my Supplementary Report remained unchanged.

8.3 Following the adjournment of the Sanction Hearing on 27 March 2020, LGAS and ReAssure have continued to operate their respective objections handling processes and have continued to provide me with monthly objection reports as well as regular oral updates. LGAS and ReAssure have continued to receive a small number of comments on the Scheme from both policyholders that had already filed an objection as well as new objecting policyholders via email, letter and through their respective call centres. I have been provided with copies of the correspondence with policyholders up to 19 July 2020.

THE POLICYHOLDERS WHO ATTENDED THE SANCTION HEARING AT THE HIGH COURT

8.4 At the Sanction Hearing at the High Court on 10 – 12 March 2020, seven policyholders, six with LGAS policies and one with a ReAssure policy, attended and made themselves known to the firms. Six of those policyholders, five with LGAS policies and one with a ReAssure policy, spoke at the Sanction Hearing.

8.5 Following the decision (27 March 2020) by Mr Justice Zacaroli to adjourn the Sanction Hearing, these policyholders have been provided with:

- Relevant information regarding the Adjournment;
- Copies of the High Court bundle (transcripts of the Sanction Hearing were provided on request);
- A written response to the points raised in the High Court; and
- Information regarding the time and place of the next part of the Sanction Hearing (13 August 2020).

THE POLICYHOLDERS WHO INDICATED THEY WOULD ATTEND THE SANCTION HEARING BUT DID NOT

8.6 The 32 policyholders who indicated that they would attend the Sanction Hearing but did not (24 LGAS policyholders and 8 ReAssure policyholders) were provided with (unless they requested not to be contacted):

- Relevant information regarding the Adjournment (with the website updated in March); and
- Information regarding the time and place of the next part of the Sanction Hearing (13 August 2020).

FURTHER OBJECTIONS

8.7 Between 6 March 2020 and 19 July 2020 there have been 18 further objections to the Scheme from LGAS policyholders and no further objections to the Scheme from ReAssure policyholders.

8.8 This means that there is now a total of 1,155 objections from LGAS transferring policyholders and a total of 53 objections from ReAssure policyholders.

8.9 The 18 objections received from transferring LGAS policyholders can be split into the following categories:

- Customer loyalty to LGAS (seven instances) and concerns with respect to ReAssure as a provider of life insurance and pensions (six instances);
- The Part VII transfer process (one instance);

- Policy specific queries (two instances); and
- Non-specific concerns relating to the transfer (six instances).

8.10 Four policyholders covered two themes in a single formal objection and therefore the number of instances above totals more than the number of formal objections raised.

8.11 In addition to the above, since the date of my Supplementary Report, 17 objections were withdrawn by LGAS policyholders and one objection was withdrawn by ReAssure policyholders.

8.12 I have reviewed the new objections and I am satisfied that these have been addressed in Section 8 of my Supplementary Report.

FURTHER CORRESPONDENCE ON EXISTING OBJECTIONS

8.13 As well as new objections, since the date of my supplementary addendum, LGAS and ReAssure have had correspondence with 59 transferring policyholders of LGAS and three policyholders of ReAssure that had already raised objections.

8.14 The one new query theme (that was not previously covered in the Supplementary Report) was in respect of concerns relating to the transfer of policies during the COVID-19 pandemic (one instance).

8.15 I am satisfied that the other correspondence since the finalisation of my Supplementary Report is covered in Section 8 of my Supplementary Report.

8.16 In relation to the concerns regarding the COVID-19 pandemic, I covered the effects of the pandemic to date on the timing and operational aspects of the Scheme in Section 6 of this Second Supplementary Report and I have analysed its potential financial impacts on the Scheme in Sections 3, 4 and 5 of this Second Supplementary Report. The (as they were at the time) potential effects were also discussed in the Supplementary Addendum.

CONCLUSION ON FURTHER CORRESPONDENCE WITH POLICYHOLDERS

8.17 I am satisfied that the additional objections received and the further correspondence received relating to existing objections since the date of my Supplementary Addendum (6 March 2020) does not provide any reason to change the conclusions in my Main Report or in my Supplementary Report.

9. Other considerations in respect of the proposed Scheme

THE DEPARTURE OF THE UK FROM THE EUROPEAN UNION – "BREXIT"

9.1 The UK formally left the European Union on 31 January 2020 and is now in a transition period with the European Union until 31 December 2020.

9.2 There remains uncertainty as to what form that exit might ultimately take following the transition period and in particular, although it is likely, it is not certain that Solvency II will remain the governing insurance regulatory regime after the UK's exit from the EU.

9.3 In my analysis in this Second Supplementary Report, I have assumed that the current Solvency II regime will remain in place after the UK's exit from the EU as this is in my view the most likely outcome and is consistent with policy statements made by HM Treasury and the PRA.

9.4 Even if changes to the regime are made over time, as both LGAS and ReAssure are established in the UK, they would continue to be regulated subject to the same rules as determined by UK legislation and the UK regulators.

THE PROPOSED ACQUISITION OF RGP BY PHOENIX

Background

9.5 On 6 December 2019, Phoenix announced its intention to acquire RGP from the Swiss Re Group and MS&AD for £3.25 billion paid via a mixture of cash and shares in Phoenix.

9.6 On 13 February 2020, the Phoenix Group shareholders approved the proposed acquisition of RGP.

9.7 On 20 May 2020, the Competition and Markets Authority approved the acquisition.

9.8 The PRA approved Phoenix's Change in Control application with a legal completion date of 22 July 2020.

My considerations with respect to the proposed acquisition of RGP by Phoenix

9.9 Under FSMA the acquisition of RGP by Phoenix is subject to a Change in Control process overseen by the PRA and there is no role in the Change in Control process for an independent expert. My role as Independent Expert (also set out in FSMA) for the LGAS ReAssure Scheme is limited to an assessment of the effects of the Scheme on the relevant policyholders and to reporting on this to the High Court.

9.10 I have therefore taken care to ensure that in discharging my role as Independent Expert for the proposed Scheme I do not interfere with results of the Change in Control process by commenting on the merits or otherwise of the acquisition of RGP by Phoenix.

9.11 Since the finalisation of my Supplementary Report, the PRA has approved the acquisition of RGP by Phoenix. This was anticipated in Section 5 of my Supplementary Report and my conclusions are unchanged from the conclusions set out in Section 5 of my Supplementary Report that I have considered the impact of the acquisition of RGP by Phoenix on my conclusions on the effects of the proposed Scheme on the various groups of policies and I am satisfied that the acquisition of RGP by Phoenix would not provide any reason to change my overall conclusions as set out in Section 15 of my Main Report and Section 10 of my Supplementary Report.

THE ACQUISITION OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED BY REASSURE

9.12 On the 5 August 2019, RGP (see Section 6 of my Main Report for a full company structure) announced that it intended to acquire the heritage life and pensions division, **OMWLA**, from Quilter Plc for £425 million.

9.13 The transaction was subject to regulatory approval and the Change in Control application was approved by the PRA on 10 December 2019. The transaction effective date was 31 December 2019 (the "**OMWLA Completion Date**").

9.14 As at 30 June 2019, OMWLA managed £12.3 billion of assets in respect of pensions, investments, savings and protection products.

9.15 OMWLA has become a sister company of ReAssure within RGP and therefore the acquisition of OMWLA will not have a direct impact on the security of the benefits of the ReAssure policyholders or of the transferring LGAS policyholders.

9.16 An intra-group reinsurance treaty became effective on the OMWLA Completion Date and transferred the economic interest in, and associated risks of, OMWLA from RGP to ReAssure (to the RNPF). This is reflected in the financial information shown in Sections 3, 4 and 5 and Appendices A and B of this Second Supplementary Report.

9.17 There has been no change to this since my Supplementary Report and so there is no reason to change the conclusions in this Second Supplementary Report.

THE RECENT JUDGMENT ON THE PRUDENTIAL ROTHESAY SCHEME

9.18 On 16 August 2019, the High Court declined to sanction the transfer of a £12 billion portfolio of annuities from Prudential to Rothesay. Prudential and Rothesay had sought to effect the transfer of the portfolio pursuant to Part VII of FSMA. Prudential and Rothesay are appealing the decision.

9.19 It is at the discretion of the High Court as to whether or not to sanction a scheme that is put before it but, in my experience it is unusual for a Part VII transfer between life insurers to be declined by the High Court, and so, in my Supplementary Report, I considered the LGAS ReAssure Scheme in the context of the High Court's decision on the Prudential Rothesay transfer.

9.20 In Section 7 of my Supplementary Report, I considered the key features that Mr Justice Snowden identified as weighing against the sanctioning of the Prudential Rothesay scheme and I concluded that the conclusions of my Main Report were unaffected by the judgment in the Prudential Rothesay scheme.

9.21 Since the adjournment of the Sanction Hearing of the LGAS ReAssure Scheme, there have been no material developments in the Prudential Rothesay Scheme. The hearing for the appeal was on 18 June 2020 and that the substantive hearing for the appeal is scheduled for later in 2020 and will be after the Sanction Hearing for the LGAS ReAssure Scheme.

9.22 There is no reason to change the conclusions of my Supplementary Report in respect of the Prudential Rothesay Scheme.

CHANGES TO THE SCHEME

9.23 Since the finalisation of my Supplementary Report there have been a small number of minor changes to the proposed Scheme:

- The Economic Effective Date has been changed to 1 September 2020.
- The Legal Effective Date has been changed to 7 September 2020.

  The latest Legal Effective Date for the implementation of the proposed Scheme (subject to the agreement of LGAS and ReAssure) has been changed to 7 December 2020.

  If the Legal Effective Date of 7 September 2020 were not to be possible then contingency arrangements exist to implement the Scheme with a Legal Effective Date of 5 October 2020.
- That the amount of £50 million would be paid from the LGWPF to the RNPF on the Legal Effective Date is in respect of the Fixed Expense Agreement as set out in Section 7 of this Second Supplementary Report.
- Some changes to the schedule of properties, the schedule of derivatives and the schedule of contracts to be transferred reflecting business as usual developments in the time since the first part of the Sanction Hearing.

9.24 These changes to the proposed Scheme are minor in nature and do not provide any reason to change the conclusions in my Main Report and my Supplementary Report.

CHANGES TO THE REASSURE REINSURANCE ARRANGEMENTS

9.25 As noted in Section 9 of my Supplementary Report, ReAssure decided to recapture a number of reinsurance treaties relating to the transferring LGAS business, including two reinsurance treaties between LGAS and the Swiss Re Group relating to the business in the LGAS WPF, immediately following the implementation of the Scheme.

9.26 During the first half of 2020 agreement to recapture all such reinsurance arrangements has been achieved and the recaptures will be executed on the Legal Effective Date of the Scheme.

9.27 These recaptures do not provide any reason to change the conclusions in my Main Report or my Supplementary Report.

9.28 In addition, since the finalisation of my Supplementary Report one of the longevity swaps in the RNPF (reinsured with Swiss Re Group) has been terminated in return for an appropriate settlement amount. This was concluded prior to the end of May 2020 and there was no material impact on the ReAssure Solvency II financial position.

9.29 I am satisfied that there is no reason to change the conclusions in my Main Report or my Supplementary Report.

TAX CLEARANCES

9.30 ReAssure originally submitted an application to the HMRC on 3 September 2019 for clearance under section 132 of the Finance Act 2012 with regard to the proposed Scheme and superseded this with a revised clearance application on 12 November 2019. The clearance regarding the revised application was received in June 2020.

9.31 The specific tax clearances have an effect on shareholders and do not have any impact on policyholders so there is no reason to change the conclusions of my Main Report and my Supplementary Report.

NON-TRANSFERABLE ASSETS

9.32 For a subset of the transferring assets, the complexity of certain markets means that it is not possible to transfer certain assets directly from the LGAS custodian to the ReAssure custodian and as a result, if the transfer were to proceed, there would be some transaction costs (and currency risk) incurred.

9.33 A portion of these assets relate to the transferring unit-linked funds and the remainder relate to the LGWPF and any costs so incurred would be borne by the respective Shareholders (certain costs are covered by the Business Transfer Agreement) and not the transferring LGAS policyholders.

9.34 I am satisfied that this provides no reason to change the conclusions of my Main Report and my Supplementary Report.

LGAS POLICYHOLDERS IN REMEDIATION

9.35 All of the transferring LGAS policies that currently require remediation or redress have documented handover plans that have been reviewed and accepted by the customer service teams of ReAssure.

9.36 Any transferring LGAS policies where risk events occur in the remaining period up and until the Legal Effective Date of the Scheme that require remediation or redress will be recorded and the handover approach will be agreed with ReAssure.

9.37 I am satisfied that there will be no material adverse effect for such LGAS policyholders currently, or who will be prior to the Legal Effective Date, in remediation or redress and therefore there is no reason to change the conclusions of my Main Report and my Supplementary Report.

THE ANNUITY INTRODUCER AGREEMENT

9.38 As set out in Section 7 of my Main Report, if the Scheme were to be implemented the Annuity Introducer Agreement (the “AIA”) would be in force between LGAS and ReAssure. Under the AIA ReAssure would refer eligible policyholders from the transferring business to LGAS to provide a quotation for certain guaranteed income retirement products including lifetime annuities (both enhanced and standard), fixed term retirement plans and cash-out retirement plans.

9.39 On 4 March 2020, an amendment to the AIA was signed. The main purpose of the amendment was to alter the definition of Excluded Policies and I am satisfied that the amended AIA does not provide any reason to change the conclusions of my Main Report and my Supplementary Report.

10. My conclusions

10.1 I prepared my Main Report dated 3 July 2019 in which I considered the proposed Scheme based on information available at that time and I prepared my Supplementary Report dated 24 February 2020 in which I revisited the conclusions of my Main Report based on the information available at that time.

10.2 The purpose of this Second Supplementary Report is to provide an updated assessment of the likely effects of the proposed Scheme ahead of the Sanction Hearing on 13 August 2020.

10.3 I have considered whether anything has happened since the date of finalisation of my Main Report and of my Supplementary Report that would cause me to change the conclusions in my Main Report and in my Supplementary Report. This has included consideration of the updated financial information as at 31 December 2019, 31 March 2020 and 30 June 2020.

10.4 In summary:

- **The updated financial information (Section 3, Section 4 and Section 5)**

  Based on the financial information for LGAS and ReAssure as at 31 December 2019, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the security of the benefits of the transferring LGAS policies, the existing ReAssure policies or the non-transferring LGAS policies.

  I am satisfied that the financial information as at 31 March 2020 does not provide any reason to change the conclusions of my Main Report and of my Supplementary Report.

  I am satisfied that the financial information as at 30 June 2020 does not provide any reason to change the conclusions of my Main Report and of my Supplementary Report.

- **The data migration from LGAS to ReAssure (Section 6)**

  Given the conclusions I was able to reach in my Supplementary Report and the Supplementary Addendum; and the updates from both LGAS and ReAssure to date on the migration testing, readiness gate assessments and the monitoring of the operational stability of each firm in light of the COVID-19 Pandemic, I can conclude that, at the date of finalisation of this Second Supplementary Report (29 July 2020) I am satisfied that it is unlikely that the migration will lead to a material adverse effect on policyholders going forward.

  I shall provide a letter dated 10 August 2020 to the High Court (which will be also published on the Legal and General Group website and the ReAssure website) that will include a further update on operational readiness at that point, including the results of the next readiness gate assessment that will be conducted on 31 July 2020.

- **The Fixed Expense Agreement (Section 7)**

  I am satisfied that the Fixed Expense Agreement would be expected to be of value to the LGWPF even in adverse conditions and that the introduction of the Fixed Expense Agreement would not have a material adverse effect on the reasonable benefit expectations of the transferring LGAS with-profits policyholders.

- **Correspondence and objections received from policyholders (Section 8)**

  I am satisfied that LGAS and ReAssure are dealing with the objections received in a reasonable way and are doing what they can to resolve these fully prior to the Sanction Hearing.

  I am satisfied that the additional objections received and the further correspondence received relating to existing objections since the date of my Supplementary Addendum (6 March 2020) do not raise any issues that were not considered in the work leading up to the finalisation of my Main Report and my Supplementary Report and therefore I am satisfied that there are no reasons to change the conclusions in my Main Report or in my Supplementary Report.

10.5 I am satisfied that nothing has happened since the finalisation of my Main Report or my Supplementary Report to provide any reason to change the conclusions in Section 15 of my Main Report and Section 10 of my Supplementary Report that:

- I am satisfied that the implementation of the Scheme would not have a material adverse effect on:
  - The security of the benefits of the policies of LGAS or ReAssure;
  - The reasonable expectations of the policyholders of LGAS and ReAssure in respect of their benefits; or
  - The standards of administration, service, management and governance that apply to the LGAS and ReAssure policies.
- I am satisfied that the Scheme is equitable to all classes and generations of LGAS and ReAssure policyholders.

10.6 I shall provide a letter to the High Court dated 10 August 2020 that will provide analyses of the effects on my conclusions on the proposed Scheme (as set out above) of:

- The published solvency information as at 30 June 2020 for LGAS and ReAssure; and
- The state of the migration at that date.

Oliver Gillespie

29 July 2020

Partner of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix A – Solvency II financial information as at 31 December 2019 prior to the implementation of the Scheme

LGAS SOLVENCY II FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

£ million	Non-Transferring	Transferring Non-Profit	Transferring Unit-Linked	LGAS WPF	RTA	Total
Assets[1]	**119,749**	**30**	**10,448**	**18,564**	**21**	**148,813**
BEL[2]	**109,501**	**29**	**10,016**	**17,855**	**685**	**138,086**
Risk margin	**3,556**	**0**	**4**	**64**	**0**	**3,624**
TMTP[3]	**(3,515)**	**0**	**(16)**	**(64)**	**0**	**(3,595)**
Technical provisions[4]	**109,542**	**29**	**10,004**	**17,855**	**685**	**138,115**
Own Funds	**10,207**	**1**	**444**	**709**	**(664)**	**10,698**
SCR				**498**		**6,567**
Excess Assets				**211**		**4,130**
Solvency coverage ratio				**142%**		**163%**

Notes:

1. Assets are shown net of current liabilities and deferred tax.
2. The LGAS WPF BEL includes a reserve of £50 million in respect of the payment for the Fixed Expense Agreement (see Section 7).
3. The technical provisions reflect a formal recalculation of the regulatory TMTP.
4. The technical provisions for the LGAS WPF are calculated based on the fixed expenses that will apply within ReAssure following the implementation of the Scheme.

REASSURE SOLVENCY II FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

£ million	WLWPF	NMWPF	GAWPF	RNPF	Total
Assets[1]	**509**	**1,473**	**1,955**	**36,929**	**40,866**
BEL	**435**	**1,301**	**1,517**	**31,814**	**35,066**
Risk margin	**7**	**13**	**16**	**1,337**	**1,374**
TMTP	**0**	**0**	**(26)**	**(819)**	**(844)**
Technical provisions	**442**	**1,314**	**1,508**	**32,332**	**35,596**
Unrestricted Own Funds	**67**	**160**	**447**	**4,597**	**5,270**
Restriction to Own Funds					**400**
Restricted Own Funds					**4,870**
SCR	**10**	**29**	**135**	**2,732**	**2,906**
Excess Assets[2]	**56**	**131**	**312**	**1,865**	**1,964**
Solvency coverage ratio	**650%**	**557%**	**331%**	**168%**	**168%**

Notes:

1. Assets are shown net of current liabilities and deferred tax.

2. Under the RTA, the present value of shareholder transfers are treated as an asset of the RNPF with an associated SCR and capital management buffer.

Appendix B – Solvency II financial information as at 31 December 2019 after the implementation of the Scheme

LGAS POST-SCHEME BALANCE SHEET AS AT 31 DECEMBER 2019

£ million	Total
Assets[1]	**119,670**
BEL	**109,539**
Risk margin	**3,560**
TMTP[2]	**(3,515)**
Technical provisions	**109,584**
Own Funds	**10,086**
SCR	**6,165**
Excess Assets[3]	**3,921**
Solvency coverage ratio	**164%**

Notes:

1. Assets are shown net of current liabilities and deferred tax.

2. The technical provisions reflect a formal recalculation of the regulatory TMTP.

3. The reduction in excess assets relative to the pre-Scheme position reflects the loss of tax synergies between the transferring business and the remaining LGAS business, and LGAS's share of the costs of the transfer.

REASSURE POST-SCHEME BALANCE SHEET AS AT 31 DECEMBER 2019

£ million	WLWPF	NMWPF	GAWPF	LGWPF	RNPF	Total
Assets[1]	**509**	**1,473**	**1,955**	**18,491**	**47,418**	**69,846**
BEL[2]	**435**	**1,301**	**1,517**	**17,805**	**42,607**	**63,665**
Risk margin	**7**	**13**	**16**	**92**	**1,339**	**1,468**
TMTP[3]	**0**	**0**	**(26)**	**(92)**	**(814)**	**(932)**
Technical provisions	**442**	**1,314**	**1,508**	**17,805**	**43,133**	**64,202**
Unrestricted Own Funds	**67**	**160**	**447**	**686**	**4,285**	**5,645**
Restriction to Own Funds						**400**
Restricted Own Funds						**5,245**
SCR	**10**	**29**	**135**	**478**	**2,578**	**3,229**
Excess Assets	**56**	**131**	**312**	**209**	**1,707**	**2,015**
Solvency coverage ratio	**650%**	**557%**	**331%**	**144%**	**166%**	**162%**

Notes:

1. Assets are shown net of current liabilities and deferred tax.

   The post-scheme balance sheet allows for the transfer of £50 million from the LGWPF to the RNPF as set out in the Scheme in relation to the Fixed Expense Agreement described in Section 7.

2. The reserve of £50 million in respect of the payment for the Fixed Expense Agreement (see Section 7) is released from the LGWPF.

   Additional reserves of £63 million are held in the RNPF for the VAT on the investment management fees payable to LGIM. The lapse basis for unit-linked pension business is also updated to reflect the ReAssure age-related structure, resulting in a small increase in the BEL of £14 million.

3. ReAssure has submitted an application to recalculate the TMTP to reflect the transferring business, which is subject to PRA approval. Based on the proposed methodology:

   - The TMTP for the LGWPF has been recalculated using a proxy calculation to estimate the Solvency I Pillar 1 and Pillar 2 position. This involves using the Economic Capital model developed by ReAssure for the LGWPF rather than relying on figures provided by LGAS and including the WPICC in the determination of the Solvency I Pillar 1 capital requirement.

- The TMTP for the RNPF has been recalculated using the existing methodology for the RNPF.

4. The risk margin and SCR for the transferring LGAS business have been calculated using the Standard Formula for the purposes of deriving the pro-forma post-Scheme balance sheet for ReAssure. The risk margin and SCR for the existing business in the RNPF has been calculated using the ReAssure PIM, with no allowance for diversification between the existing RNPF business and the transferring LGAS business.

5. The LGWPF restriction to Own Funds is set such that the present value of shareholder transfers contributes to the excess assets with an associated SCR in the LGWPF.

Appendix C – Data relied upon

In addition to discussions (both orally and electronically) with LGAS and ReAssure staff, I have relied upon the information shown in the table below in formulating my conclusions:

The second supplementary reports of the Chief Actuaries and With-Profit Actuaries of both LGAS and ReAssure on the proposed transfer
LGAS and ReAssure financial information as at 31 December 2019, 31 March 2020 and 30 June 2020
ReAssure estimated financial information as at 30 April 2020 and 31 May 2020
LGAS estimated financial information as at 30 April 2020 and 31 May 2020
ReAssure ORSA stress and scenario testing results
Updated estimates of the LGAS WPF and post-Scheme LGWPF Economic Capital calculations as at 31 March 2020
Updated estimates of the LGAS WPF and post-Scheme LGWPF Economic Capital calculations as at 30 June 2020
ReAssure Fairness Committee and Board meeting paper and minutes documenting the planned approach to management of the LGWPF within ReAssure
LGAS and ReAssure witness statements for the adjourned Sanction Hearing
Updated LGAS analysis of the economic benefit of the Fixed Expense Agreement for the LGWPF
Regular business readiness assessment updates from the LGAS and ReAssure migration teams
Regular resource demand and supply information for ReAssure
Risk reports from the ReAssure CRO and the LGAS CRO on the status of the migration project
Monthly reports on further communications with policyholders since the time of the Sanction Hearing

Appendix D – Glossary of terms

A glossary of abbreviations used throughout the report is given below

A

AIA	Annuity Introducer Agreement
APS	Actuarial Profession Standards
Asset Share	A measure of the value of a policy based on actual investment returns and expenses incurred by the fund

B

BEL	Best Estimate Liabilities
Brexit	The departure of the United Kingdom from the European Union
BTA	Business Transfer Agreement

C

CRO	Chief Risk Officer

D

Directions Hearing	An initial Court hearing at which the companies' plans for notifying policyholders are considered

E

Economic Effective Date	The date the Scheme becomes effective as between LGAS and ReAssure, being the first day of the calendar month in which the Legal Effective Date occurs, expected to be 1 September 2020
Economic Transfer Date	1 January 2018 - the date on which most of the economic interest and associated risks of the transferring business was transferred from LGAS to ReAssure
EEA	The European Economic Area
EIOPA	The European Insurance and Occupational Pensions Authority
EU	The European Union
Excess Assets	Assets in a fund in excess of the amounts required to meet expected liabilities and any regulatory capital requirements for that fund

F

FCA	Financial Conduct Authority
Final Hearing	Also known as a ‘Sanction Hearing’, this is a subsequent Court hearing that takes place once the notification requirements (decided in the Directions

	Hearing) have been met, at which the High Court is asked to approve the Part VII transfer
Fixed Expense Agreement	If the proposed Scheme were to be implemented a new fixed expense agreement (the "Fixed Expense Agreement") would be set up for the LGWPF within ReAssure whereby the per-policy charges would be fixed until the last policy runs-off increasing by RPI inflation plus 0.5% annually
FSCS	Financial Services Compensation Scheme. A scheme which provides compensation to holders of long-term insurance policies in the event of the insolvency of a UK or an EEA or other overseas insurer in respect of its UK customers
FSMA	Financial Services and Markets Act 2000

G

Guernsey Scheme	The Guernsey court-approved scheme process that, together with the Scheme, will effect the transfer of certain policies of LGAS issued to residents of the Bailiwick of Guernsey to ReAssure

H

Herbert Smith Freehills	Herbert Smith Freehills LLP
High Court	The High Court of Justice of England and Wales

I

IGC	The Independent Governance Committee, an independent LGAS committee which provides oversight of the LGAS workplace pension products
IMA	The Investment Management Agreement
In-payment annuities	An annuity which is currently being paid to the policyholder
Interim Period	The period between the Economic Transfer Date and the Economic Effective Date
IPO	Initial Public Offering

J

Jersey Scheme	The Jersey court-approved scheme that, together with the Scheme, will effect the transfer of any business carried on by LGAS in or from within Jersey to ReAssure

K

KPMG	KPMG LLP

L

L&G Group	Legal and General Group

Legal Effective Date	The date the Scheme becomes operative (as specified in a transfer certificate signed by LGAS and ReAssure), expected to be 7 September 2020
LGAS	Legal and General Assurance Society Limited
LGAS RA Statement	A quantitative risk appetite statement established by the Board of LGAS for its solvency coverage ratio on a Solvency II basis
LGAS WPF	The transferring with-profits fund within LGAS before the implementation of the Scheme
LGAS WPF Business	All of the business within the LGAS WPF
LGIM	Legal & General Investment Management
LGR	Legal & General Retirement
LGWPF	The newly created with-profits fund within ReAssure after the implementation of the Scheme, the LG With-Profits Fund

M

Milliman	Milliman LLP
MS&AD	MS&AD Insurance Group

N

NMWPF	National Mutual With-Profits Fund
Non-Transferring LGAS Policies	The policies of LGAS which are not transferring as a result of the Scheme

O

OMWLA	Old Mutual Wealth Life Assurance Limited
Own Funds	The excess of assets over liabilities under Solvency II

P

Partial Internal Model	A model which is used to calculate some components of the SCR that is bespoke to an individual company
Phoenix	Phoenix Group Holdings plc
Phoenix Internal Model	The internal model used by Phoenix for the calculation of its SCR
PPFM	Principles and Practices of Financial Management. A public document outlining how a with-profits fund is managed
PRA	Prudential Regulation Authority
PRA Statement of Policy	"The Prudential Regulation Authority's approach to insurance business transfers", dated April 2015
Prudential	Prudential Assurance Company Limited
PwC	PricewaterhouseCoopers LLP

R

ReAssure	ReAssure Limited
ReAssure Dividend	A dividend payment of £400 million made in May 2020 from ReAssure to ReAssure Midco Limited ("**RML**").
ReAssure FC	The ReAssure Fairness Committee. A committee which oversees the fair treatment of ReAssure policyholders, and oversees and challenges the management of ReAssure's with-profits funds
ReAssure IPO RA Statement	A risk appetite statement agreed by the ReAssure Board that would have applied if the ReAssure IPO had proceeded However, although the ReAssure IPO did not proceed, at a Board meeting on 3 December 2019, ReAssure adopted the ReAssure IPO RA Statement
ReAssure PIM	ReAssure's Partial Internal Model
ReAssure RA Statement	ReAssure's risk appetite statement. This is what in previous reports was referred to as the ReAssure IPO RA Statement as defined above.
RGP	ReAssure Group Plc
Risk Margin	An adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction
RML	ReAssure Midco Limited
RNPF	ReAssure Non-Profit Fund
Rothesay	Rothesay Life Plc
RTA	Risk Transfer Agreement
RUKSL	ReAssure UK Services Limited

S

Sanction Hearing	A hearing of the High Court to approve the terms of the Scheme prior to the effective date of the Scheme
Scheme	The proposed Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation
Scheme Report	A report on the terms of the Scheme by an Independent Expert
SCR	Solvency Capital Requirement
Solvency coverage ratio	Own Funds divided by SCR
Solvency II	Regulatory solvency framework for the European Economic Area insurance and reinsurance industry
Split Effective Date Agreement	An agreement between LGAS and ReAssure regarding the splitting of the Scheme effective date between the Economic Effective Date and the Legal Effective Date.
Standard Formula	EIOPA prescribed method of calculating SCR
SUP 18	Chapter 18 of the Supervision Manual contained in the FCA Handbook

Supplementary Report	A further report produced prior to the Final Hearing to provide an update for the High Court on the Independent Expert's conclusions in the light of any significant events subsequent to the date of the finalisation of this Second Supplementary Report

T

TAS	Technical Actuarial Standards
TAS 200: Insurance	The Technical Actuarial Standards applicable to Insurance transformations (such as the Scheme), issued by the Financial Reporting Council
Technical Provisions	Pillar 1 liabilities under Solvency II consisting of BEL and Risk Margin
TMTP	Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016
Transferring Non-Profit Business	The Transferring Non-Profit Policies, together with the associated assets and liabilities which will be included in the proposed transfer to ReAssure
TUPE	Transfer of Undertakings (Protection of Employment).

W

Waiver	Permission to be exempt from the regulatory requirements to notify certain groups of policyholders
With-Profits Actuary function	A function with responsibility for advising the firm's management on the discretion to be exercised in respect of the with-profits business of the firm
WPA	With-Profits Actuary. The person or person fulfilling the With-Profits Actuary function
WPC	With-Profits Committee. A committee which provides oversight of the management of a with-profits fund
WPICC	With-Profits Insurance Capital Requirement
WLWPF	Windsor Life With-Profits Fund

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