



SCOTTISH WIDOWS LIMITED

Report of the

With-Profits Actuary

on the proposed transfer of the European
International Life Insurance Business of
Scottish Widows Ltd to Scottish Widows
Europe S.A.

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With-Profits Actuary (SWL)

4 March 2019

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SUPPLEMENTARY REPORT OF THE WITH-PROFITS ACTUARY

1 PURPOSE

- 1.1 In my capacity as With-Profits Actuary (“WPA”), I prepared a report dated 16 November 2018 (the “Previous WPA’s Report”) in which I reviewed the impact on policyholders in Scottish Widows Ltd (“SWL”) (the “Transferor”) of the proposed transfer (the “Transfer”) of
- Long-term insurance business originally written primarily in Germany, Italy and Austria via International Life Division Europe (“ILDE”) branches;
 - Long-term insurance business originally written via CMI Insurance (Luxembourg) S.A. (“CMIL”);
- collectively the “Transferring Policies” to Scottish Widows Europe SA (“SWE”)(the “Transferee”).
- 1.2 The Transfer is to take effect by means of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (“FSMA”), (“the Scheme”). The Scheme Effective Date is expected to be 29 March 2019 (at 10:59pm).
- 1.3 In my Previous WPA’s Report I considered the potential impact of the proposed Transfer on the security, benefit expectations and servicing of policyholders invested, directly or through reinsurance arrangements, and whether transferring or not transferring, in the Clerical Medical With-Profits Fund (“CM WPF”) or the Scottish Widows With-Profits Fund (“SW WPF”) (collectively referred to as the “policyholders with benefits paid from the WPFs” in this report).
- 1.4 Following the Directions Hearing held on 26 November 2018, subsequent correspondence with policyholders and further discussions with regulatory authorities, it is intended that the High Court will be asked to approve the proposed Transfer at a hearing on 14 March 2019.
- 1.5 Within this context, the purpose of this “Supplementary Report” is to consider:
- Any material changes that have been made to the Scheme or other material developments that have taken place in the period since my last report;
 - Updated discussion of the solvency position of the Transferor and Transferee after the Transfer;
 - Objections and comments on the proposal that have been received as a result of communications with policyholders and other stakeholders;
 - Whether the conclusions presented in my Previous WPA’s Report remain valid.
- 1.6 This Supplementary Report has been written for the Board of SWL in my capacity as WPA and should be read in conjunction with my Previous WPA’s Report, the Scheme, SWL’s Chief Actuary’s Report dated 19 November 2018, SWL’s Chief Actuary’s Supplementary report, the Independent Expert’s (“IE”) Report dated 19 November 2018 and the Supplementary report of the IE.

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- 1.7 I note that a copy of this Supplementary Report, the Chief Actuary's Supplementary Report and the Independent Expert's Supplementary Report will be provided to SWL's Board. The reports will also be shared with the SWE Board.
- 1.8 Similar to my Previous WPA's Report, this report does not consider the impact of the Transfer on the transferring or non-transferring policyholders who have no benefits linked to with-profits investments in the SW WPF or CM WPF; the impact on those policyholders was considered in the SWL Chief Actuary's Report dated 19 November 2018 and in SWL's Chief Actuary's Supplementary Report. This report does not consider any alternative schemes.

2 BACKGROUND

- 2.1 At the point that the United Kingdom (“UK”) leaves the European Union (“EU”) and European Economic Area (“EEA”), UK insurance companies will no longer be authorised to carry out new business sales in Europe. Furthermore, the European Insurance and Occupational Pensions Authority (“EIOPA”) indicated that the outcome of the negotiations may also result in the loss of servicing rights for existing inforce business written by UK insurance companies in any of the other twenty seven EU countries (referred to as “EU27”). However, the EIOPA announcement in 19 February 2019 suggests that competent authorities should apply a legal framework or mechanism to ensure an orderly run off of existing business but no legal mechanism has been put in place.
- 2.2 As a result, SWL has chosen to set up a new Luxembourg Insurance company, SWE, into which existing European policies (i.e. where the policies were sold through ILDE or CMIIL) can be transferred in order to continue to legally service those policies after the UK has left the EU.
- 2.3 SWL is a life insurance subsidiary of Scottish Widows Group Ltd (“SWG”) which is itself a subsidiary of Lloyds Banking Group plc (“LBG”), the ultimate parent company. SWL was renamed SWL (previously called Clerical Medical Investment Group Limited (“CMIG”)) when all of the UK life insurance business of the insurance subsidiaries of SWG was transferred into it on 31 December 2015. This was accomplished by way of the LBG Insurance 2015 Scheme (“LBGI 2015 Scheme”).
- 2.4 The ILDE policies were originally written through the European branch structures of CMIG. CMIG was the receiving entity under the LBGI 2015 Scheme and was renamed SWL at the time of the transfer.
- 2.5 The CMIIL policies were originally written by a Luxembourg subsidiary of the LBG Insurance Group and were transferred, by Ministerial Decree, to SWL at 31 December 2015.
- 2.6 SWE is a company domiciled in Luxembourg. It is a wholly-owned subsidiary of SWL, and was formed for the express purpose of receiving and servicing the Transferring Policies.
- 2.7 Since my Previous WPA’s Report SWL has had further discussions with the Commissariat aux Assurances (“CAA”), and obtained authorisation for SWE to undertake insurance business with the licence having been granted from 1 February 2019.
- 2.8 SWL will transfer the Transferring Polices via the Scheme into the new insurance company SWE in Luxembourg on the Scheme Effective Date.
- 2.9 Please refer to Sections 3 and 4 of my Previous WPA’s Report for a more detailed summary of the Scheme and Transferring Policies.

Status and Disclosure

- 2.10 I am a Fellow of the Institute & Faculty of Actuaries, having qualified in 1990 and hold a WPA practising certificate issued by the Institute & Faculty of Actuaries. I joined LBG in 2000. Between 1985 and 2000, I worked for Scottish Amicable Life Assurance Society (and subsequently Prudential following its acquisition in 1997).
- 2.11 I am an employee of Scottish Widows Services Limited which is a wholly owned subsidiary of LBG.
- 2.12 I currently act in the Approved Role (under the Solvency II regime, see Section 3 of the SWL Chief Actuary's Report dated 19 November 2018 for a summary of the Solvency II regime) of WPA for SWL (the parent of SWE).
- 2.13 I have a direct interest in shares of LBG (including share options) and am a member of the Scottish Widows defined benefit pension scheme.
- 2.14 Notwithstanding my holdings described in 2.13, I consider myself to be free from conflict that would prevent me from assessing the impact of the Scheme on policyholder benefits, the security of those benefits and the servicing of those benefits.

Other Advice and Opinions

- 2.15 In finalising my report, I have reviewed a draft of Mr James Hillman's SWL's Chief Actuary's Supplementary Report on the Scheme. A copy of this Supplementary Report has also been provided to Mr Hillman.
- 2.16 Mr Tim Roff of Grant Thornton UK LLP has continued to act in the capacity of IE. In finalising my report, I have read a draft of his Supplementary Report on the terms of the Scheme and considered his conclusions. A copy of my Supplementary Report has also been provided to Mr Roff.
- 2.17 In producing my Previous WPA's Report, I placed reliance on several assurances that I expected to be supplied by SWE's Board once they are in situ. Due to the recruitment process, and successful candidates' notice periods the SWE Board will not be in situ until the middle of March, after this report has been presented to the Court. Below I summarise the assurances and why I am confident that these assurances will be made by the SWE Board once it is in place. These are:
- 2.18 SWE Board intends to comply with the LBG Capital Policy (covers the amount of capital an insurance subsidiary of LBG has to hold);

SWE as a subsidiary of SWL is an insurance company within the LBG. LBG expects SWL to comply with the LBG Capital Policy and in doing so SWL will have to include SWE within its demonstration of meeting the LBG Capital Policy. This means that SWL, as the only shareholder, will expect SWE to comply with LBG Capital Policy to support SWL's compliance.

- 2.19 After the Transfer the SWE Board will comply with the assurances provided in the Scheme and will follow the decisions made by SWL with regard to bonus declarations, market value adjustments and similar matters (e.g. estate distribution, smoothing etc.) for the Transferring Policies;

The Scheme requires the SWE Board to follow the decisions made by SWL with regard to bonus declarations, etc. for the Transferring Policies providing doing so is appropriate for the policyholders of those policies ("Transferring Policyholders"). The SWE Board is due to approve the Scheme at their March Board Meeting which is before the Scheme Effective Date.

- 2.20 Assurances to be provided by the SWE Board when it is in place with regards to the future administration of the Transferring Policies (in particular relating to the servicing levels to be provided to policies and the approach to be taken to reviewable policy charges);

There are legal agreements that, after the Transfer, will be in place between SWE and the administration providers that mean the administration will be carried out by the same companies, teams and people as currently. This means that it is expected (in fact there is no reason that service levels will not be maintained) that service levels of policies will continue at the current level.

James Hillman discussed the options that will be available to the SWE Board with regard to reviewable policy charges in paragraphs 8.5 to 8.11 of his Chief Actuary's Report dated 19 November 2018 and concluded that the discretion on the unit-linked Transferring Policies is limited and, given the terms and conditions only allow reductions to the charges, the exercising of discretion can only improve the Transferring Policyholders benefits. This means that there is no reasonable reason for the SWE Board not to provide this assurance.

Definitions and Abbreviations

- 2.21 A list of the defined terms and abbreviations in this report is included in Annex A.

Compliance with Technical Actuarial Standards

- 2.22 This report has been prepared in accordance with, and complies with, the Technical Actuarial Standards 100 and 200.
- 2.23 In producing this report I complied with the Actuarial Profession Standard ("APS") X1: Applying Standards to Actuarial Work and APS X2: Review of actuarial work.

3 BREXIT DEVELOPMENTS

- 3.1 Since my Previous WPA's Report the UK Parliament has rejected the proposed agreement with the other members of the European Union ("EU27").
- 3.2 As a result there remains uncertainty as to the terms and timescales in which the UK may withdraw from the EU.
- 3.3 In paragraph 1.10 of my Previous WPA's Report I noted that SWE was being formed for the express purpose of receiving the Transferring Policies in order that they can continue to be serviced legally.
- 3.4 Given the uncertainty referred to in paragraph 3.2, it is possible that the proposed Scheme could now be implemented before the UK withdraws from the EU (i.e. the point that SWE is required in order to continue to service the Transferring Policies legally) but there is currently no clarity on the position.
- 3.5 In paragraph 5.61 of my Previous WPA's Report, I noted that being able to service Transferring Policies is a much more crucial consideration for Transferring Policies than the loss of the FSCS protection.
- 3.6 I am satisfied that paragraphs 5.57 to 5.60 of my Previous WPA's Report provide adequate support for the conclusion that Transferring Policies will not be materially adversely affected by the Transfer as a result of any changes in eligibility for compensation schemes, and that the conclusion was not reliant on paragraph 5.61.
- 3.7 More generally I am satisfied that the conclusion that the proposed Scheme does not have a materially adverse impact on Transferring Policies is not reliant on the Scheme being an absolute requirement to be able to continue servicing those policies legally.

4 KEY DEVELOPMENTS SINCE MY PREVIOUS WPA'S REPORT

- 4.1 I have considered the various developments since my Previous WPA's Report and the impacts these have on the Transferring Policies and the Non-Transferring Policies and in my view, the key developments to note are:

Loss of Financial Services Compensation Scheme ("FSCS")

- 4.2 Since my Previous WPA's Report there have been a couple of developments with regards to the Loss of the FSCS.
- 4.3 Firstly, on further investigation it has become clear that not all of the policyholders would qualify for FSCS cover. Policies sold through CMIL (63 policies) and those policies sold to people who lived outside of the EU and EEA area at time of purchase (up to 165 policies) do not qualify for FSCS cover. This means that the Transfer has no impact on the eligibility of these policies to FSCS cover.
- 4.4 Secondly, the Bank of England and the PRA produced a Consultation Paper CP26/18 (dated October 2018) that discusses the potential of allowing FSCS protection being maintained for Transferring Policyholders.
- 4.5 In this the PRA proposes to continue to provide FSCS protection for policyholders that have existing insurance policies at exit date, provided the insurer continues to be a relevant person under Part XV of FSMA after the exit date. This includes discussion of how companies can apply for a temporary permissions regime which provides a company with rights so that the EU27 insurer can continue to sell policies, or service policies, in the UK during any initial transition period post Brexit.
- 4.6 We have considered whether SWE could be a relevant person in the UK post Transfer but:
- SWE does not require such rights in order to carry out its day to day operations as the Transferring Policies will not be serviced in the UK;
 - SWE will not establish a UK branch post Transfer as it is not required for SWE to carry out its day to day business.
- 4.7 In addition paragraph 2.6 of Supervisory Statement 2/18 (dated March 2018) issued by the PRA expects third country branches to have under £500m of insurance liabilities covered and given that the value of the Best Estimate Liabilities of the Transferring Policies (£1,942m as shown in Table 1 under paragraph 4.16 of the Chief Actuary's Supplementary Report) is significantly larger than this then it is not clear that even if SWE did have a branch or passporting rights that the Transferring Policies would qualify for FSCS.
- 4.8 As a result, SWE will not be applying for a UK branch or passporting rights for the UK which means SWE will not be a relevant person under Part XV of FSMA and, after the Transfer, the Transferring Policies will lose any ongoing FSCS protection they have prior to the Transfer (although if their claim results from an event which occurs prior to the transfer it will continue to be covered by the FSCS).

- 4.9 As discussed in my Previous WPA's Report and in Section 5 of this report, SWE will hold significant capital over its regulatory requirement ("Regulatory Capital Requirement") as it targets holding a capital buffer sufficient to cover a 1 in 10 year adverse stress event. As a result of holding this buffer in addition to its Regulatory Capital Requirements, SWE would have to suffer a significant loss of capital before becoming technically insolvent, i.e. unable to cover its Technical Provisions.
- 4.10 In addition, SWE will have the Tied Assets held in a separate tripartite custodian agreement overseen by the CAA and these assets will be available to meet its policyholders' claims. These assets will be the greater of the technical provisions on a Solvency II and Luxembourg GAAP bases, and so are expected to meet policyholders' liabilities.
- 4.11 The risk of insolvency at SWE should be reduced further by regular regulatory oversight through which it would be expected that the CAA would be made aware by SWE, through regular management information, of any deterioration in solvency at an early stage and if necessary would take action to protect policyholders.
- 4.12 These arguments above are true for life insurance and pension products, including those pension products that have converted to annuities.
- 4.13 As a result, I remain satisfied that the Transferring Policyholders invested in with-profits will not be materially adversely affected by the Transfer as a result of any changes in eligibility for the FSCS.

CM WPF Updates

PPFM

- 4.14 As a result of the Scheme and Reinsurance Agreement that are being put in place the following updates will be made to the CM WPF's PPFM:
- Reference that the Scheme has been implemented;
 - Explain that the relevant Transferring Policies are now reinsured in to the CM WPF rather than directly invested in it.
- 4.15 In theory the second of these points above could be a significant change for the Transferring Policies invested in with-profits if these policies were being treated as having left the CM WPF and reinvested in it.
- 4.16 However, as I stated in my Previous WPA's Report the Transferring Policies invested in with-profits will be treated as if they had never left. This is included within the Reinsurance Agreement.
- 4.17 The changes to the PPFM are updates to ensure that the PPFM accurately covers what is happening.
- 4.18 The changes being reflected in the CM WPF's PPFM have no materially adverse impact on the Transferring or Non-Transferring Policies that invest in with-profits.

Funds Withheld

4.19 In relation to the implementation of the funds withheld arrangements, the investment mandates that will be required are being finalised with the investment managers. I understand, however, that the arrangements will be in place before the Effective Date and that they will replicate the existing mandates in all material aspects. I therefore remain satisfied that there will be no materially adverse impact on the investment returns for with-profits policyholders.

Revocation Rights

4.20 The Transferring Policyholders domiciled in Austria and Italy have under their countries' laws additional Revocation Rights as a result of the Transfer.

4.21 For the Transferring Policies in Austria these additional rights are that they can choose to surrender their policies although any exit charges apply. The Austrian Transferring Policies already have these rights under their standard contract terms and so there is no change for these policies.

4.22 For the Transferring Policyholders domiciled in Italy these additional rights allow the policyholders to surrender their policies with no exit charges applying. This is an enhancement to surrender terms compared to the current contract terms. The policyholders have 60 days to take up the surrender option from the date which the Italian insurance regulator, Istituto per la Vigilanza sulle Assicurazioni known as IVASS, publishes notice of the Transfer in its official journal.

4.23 Assets to cover the expected cost for the enhanced surrenders, c£20m if a 100% take up, have been included in the amount transferred to SWE. This means that SWE will be able to pay these enhanced surrender values without breaching the LBG Capital Policy (as discussed in Section 6 of SWL's Chief Actuary's Report dated 19 November 2019).

4.24 This additional cost for the enhanced surrender values is not a material amount in regards to SWL and does not materially adversely affect SWL's solvency and its ability to meet the LBG Capital Policy.

4.25 Based on the above, I am satisfied that paying any enhanced surrender values won't have a materially adverse impact for policyholders with benefits paid from WPFs.

4.26 Other developments since my Previous WPA's Report that I have considered include:

- The expected Scheme Effective Date has moved from the 28 March 2019 to 29 March 2019 (at 10:59pm). This is for practical reasons only and has no impact on the operation of the Scheme other than changing the start date.
- SWE has obtained authorisation to undertake insurance business with the licence being granted from 1 February 2019.

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- SWE applied on 1 February 2019 to the CAA to set up a regulatory branch in Italy and Germany. These branches are expected to be in place by the Scheme Effective Date.
- SWL has paid €6m into SWE as share capital and is due to pay an additional €75m in by the time of the Transfer.
- There has been progress in the recruitment process for the management team of SWE. SWE has identified the senior staff they intend to recruit and are in the final stages of securing their services. Due to notice periods the SWE Chief Actuary is now not expected to be in place at the Scheme Effective Date. However, an appropriate individual, whom the CAA has indicated is acceptable and who is already in place with SWE, has been identified to fill this role on an interim basis until the long-term candidate is available to commence their employment.
- The SWE Board is expected to be fully in place and operational by the Scheme Effective Date.
- There have been no material changes to the design of the Scheme, Reinsurance Agreement and Indemnity Agreement. These are due to be signed on 5 March 2019 and will be effective from the Scheme Effective Date.
- There has been a slight amendment to the Deed of Charge so that the charge relating to the Indemnity Agreement doesn't apply to the CM WPF. The charge applying to the Indemnity Agreement applies only to SWL's Combined Fund; the assets covered by the Deed of Charge are still significantly larger (by several magnitudes) than the amount SWE has "at risk" under the Indemnity Agreement. This is also due to be signed on 5 March 2019 and will be effective from the Scheme Effective Date.
- The terms and conditions of policies, whether Transferring or Non-Transferring, do not change as a result of the Scheme and for the reasons discussed in Section 6 of my Previous WPA's Report there are no materially adverse changes to benefit expectations.
- The Servicing Agreement between SWE and Lloyds Bank plc has been drafted and is expected to be signed by the Scheme Effective Date. The terms of that Service Agreement do not require SWE to set up a branch in the UK.
- The Administration Agreements with the three outsourcers (as discussed in Section 7 of my Previous WPA's Report) will be transferred from SWL to SWE at the Scheme Effective Date.
- HMRC provided Part VII corporation tax pre-clearance for this Scheme on 20 November 2018.
- A review is being carried out of this Scheme by Ernst & Young with the initial view suggesting that Transfer Pricing will apply. This suggests that the Transfer will result in a small tax liability for SWL. This tax liability is not expected to be material for SWL and will not have a materially adverse impact on the solvency position of SWL. The work to finalise the position with regard to Transfer Pricing is due to be completed by mid-March.

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- All developments required to allow SWE to operate the Transferring Policies in an appropriate manner have been completed or are due to be completed in an appropriate timescale.
- The LBGI 2015 Scheme is being updated in line with legal advice to allow a payment under a Part VII Transfer as an allowable payment from the CM WPF and this change is expected to be approved at the Court at the same time as the Scheme is approved.

5 SOLVENCY POSITION OF THE COMPANIES AND SECURITY OF BENEFITS

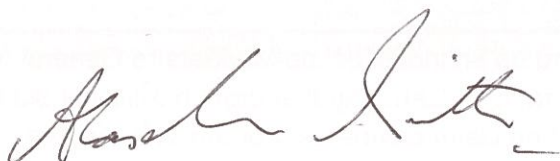
- 5.1 While the 30 June 2018 results produced by SWL and expected position of SWE if the Transfer had taken place on 30 June 2018 have not been formally audited and therefore are not appropriate to share publically I have reviewed these results and they have been shared with the IE.
- 5.2 These results have allowed for changes in the policies, asset values, economic environment etc. between 31 December 2017 and 30 June 2018. In addition, the results also allow for the Italian revocation costs discussed in section 4 above.
- 5.3 Under these updated results SWL is still expected to experience a reduction in its solvency position but will continue to exceed its Regulatory Requirements under the Solvency II rules by a significant margin.
- 5.4 In particular, there is again no change in the financial position of the WPFs, other than due to the reduced support available from SWL's Combined Fund due to the reduced Working Capital of SWL as a result of the Transfer. As SWL continues to exceed its Regulatory Requirements under Solvency II rules by a significant margin this has no materially adverse impact on the operation of the WPFs.
- 5.5 The 30 June 2018 results for SWE show a similar picture to the position shown in paragraph 5.18 of my Previous WPA's Report. That is, after allowing for the capital add-on for overseas litigation risk, which is not strictly required under the Standard Formula, SWE will meet its requirements under the LBG Capital Policy.
- 5.6 I have reviewed a draft of the 31 December 2018 results which are not finalised but there is nothing to indicate there will be a materially different outcome and these demonstrate a similar position to the previous results.
- 5.7 Based on the discussions above and discussions in Section 5 of my Previous WPA's Report:
- I remain satisfied that the Transfer does not have a materially adverse impact on the financial position of SWL and as such does not have a materially adverse impact on the security of the non-transferring policyholders with benefits paid from the with-profits funds.
 - I remain satisfied that, taking into account the capital policy of SWE, SWE will be capitalised to a level where the Transfer will not lead to a materially adverse impact on the security of the Transferring Policies with benefits paid from the with-profits fund.
 - I remain satisfied that SWE will have access to appropriate management actions in place to facilitate recovery of its solvency position after significantly (1 in 20 year) adverse events.

6 OBJECTIONS RECEIVED

- 6.1 As discussed in my Previous WPA's Report SWL has written out to the Transferring Policyholders, in line with the Directions Order from the Directions Hearing on 26 November 2018, telling them about the Scheme. This resulted in SWL writing out to 85,235 policyholders (or assignees) and 1,926 brokers. There has been 964 of these returned unopened at 1 March 2019. Mailings have been reissued to 527 of these unopened returns.
- 6.2 As a result there has been 5 verbal objections and 128 written objections received (as at 1 March 2019) from policyholders or brokers who object to the Transfer going ahead. The main reasons for these objections can be summarised as follows:
- Loss of the FSCS Cover (3 verbal objections and 81 written objections);
In these the objections are to the loss of the protection of the FSCS when there is no direct comparison in Luxembourg.
 - Tax impacts (46 written objections);
These objections don't want the tax status of their policies to change resulting in additional tax payments.
- 6.3 With regards to the objections as a result of the FSCS Cover I considered this in my Previous WPA's Report and have revisited this in paragraphs 4.2 to 4.13 above. I remain satisfied that the loss of FSCS cover does not have a materially adverse impact on the Transferring Policyholders with benefits paid from the WPFs.
- 6.4 As I discussed in my Previous WPA's Report in paragraphs 7.2 to 7.7 there is no change in the level of tax the Transferring Policyholders will have to pay, or to the tax status of the Transferring Policies as a result of the Transfer.
- 6.5 However, as a result of SWE setting up an individual as Mandataire General, who is then recognised as a regulatory branch, in Germany that branch will withhold the tax due to the German government on claim payments. For the Transferring Policyholders that are domiciled in Germany this creates a timing difference in when tax payments are made but not to the amount of tax actually paid or the qualifying status of their policies. As a result I have concluded there is no materially adverse impact on the policyholders.
- 6.6 I have reviewed the context of the other objections received and remain comfortable that there is no materially adverse impact to the policyholders.
- 6.7 Overall, these objections are not anything that reflect a materially adverse impact on the Transferring Policies with benefits paid from the WPFs. As a result I do not believe that any of the objections have raised a concern that should stop the Transfer going ahead.

7 CONCLUSION

- 7.1 I have produced this Supplementary Report in my role as WPA for SWL, to consider whether any developments since my Previous WPA's Report have changed the conclusions I reached in that report.
- 7.2 In assessing the potential impacts of this Scheme, I have given due consideration to the effects of the planned Transfer on the security, administration and benefit expectations of the policyholders with benefits paid from the WPFs.
- 7.3 Based on the considerations summarised in this report and taking into account the key features of the Transfer it continues to be my view that:
- Taking into account the assets and liabilities being transferred to the Transferee, the reinsurance agreement, withheld funds, indemnity and the Capital Policies of SWL and SWE, the security of the policyholders with benefits paid from the WPFs will not be materially adversely impacted as a result of the Scheme;
 - The Scheme will not result in materially adverse changes to the benefit expectations of any policyholders with benefits paid from the WPFs.
- 7.4 I therefore continue to be of the conclusion that the Scheme will not result in a materially adverse impact on the security of policyholders or their benefit expectations compared to the status quo.
- 7.5 I remain satisfied that there will be no significant impact on the servicing that policyholders will receive as a result of the Scheme and that the communications plan paid due regard to the interests of policyholders and the need to treat them fairly.



Alasdair Smith FFA

With-Profits Actuary for SWL

4 March 2019

8 ANNEX A – DEFINED TERMS AND ABBREVIATIONS USED WITHIN THIS REPORT

2015 Law	The Law of 7 December 2015 on the insurance sector
APS	Actuarial Professional Standards
Best Estimate Liabilities	The best estimate value of liabilities as defined under Solvency II regulations
CAA	Commissariat aux Assurances(translation: Insurance Commissioner) - The Luxembourg regulator for SWE
CM WPF	SWL's Clerical Medical With-Profits Fund
CMIG	Clerical Medical Investment Group Ltd
CMIIL	CMI Insurance (Luxembourg) S.A.
Combined Fund	Under Solvency II this is all the assets of a company excluding any ring-fenced with-profits funds
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
EU27	European Union excluding the UK
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
IE	Independent Expert
ILDE	International Life Division Europe
LBG	Lloyds Banking Group plc
LBG Capital Policy	This is the internal approach to capital management followed by SWE or SWL
LBGI 2015 Scheme	Legal scheme implemented on 31 December 2015 under which several of the subsidiaries of Scottish Widows Group Limited were transferred to SWL
Non-Transferring Policies	SWL policies which are out of scope of the Scheme
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
Previous WPA's Report	Alasdair Smith's WPA Report on the Transfer between SWL and SWE dated 16 November 2018
Regulatory Capital Requirements	The capital to be held over and above the Solvency II Best Estimate Liabilities and Risk Margin that an insurer is required to hold under Solvency II regulations
Risk Margin	This is the additional capital that insurers have to hold under Solvency II regulations, based on the value of the projection of the non-hedgeable risks of the Regulatory Capital Requirement
Scheme	An insurance business transfer scheme under Part VII of the

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	FSMA
Scheme Effective Date	The date that the Scheme will come into existence, expected to be 10:59pm on 29 March 2019
SWE	Scottish Widows Europe, the Transferee
SWG	Scottish Widows Group Limited
SWL	Scottish Widows Limited
SW WPF	Scottish Widows With Profit Fund
Transfer	Proposed transfer of the Transferring Policies from SWL to SWE
Transferee	Entity receiving business (SWE under the Scheme)
Transferor	Entity transferring business (SWL under the Scheme)
Transferring Policies	Inforce business originally sold by either ILDE or CMIIL. These are the policies which will be transferred from SWL to SWE under this Scheme
Transferring Policyholders	The policyholders of the Transferring Policies
UK	United Kingdom
Working Capital	The excess of the Available Capital over Regulatory Capital Requirement
WPA	With-Profits Actuary
WPC	With-Profits Committee
WPF	With-Profits Fund