

**Report of the Chief Actuary of Rothesay Life Plc on
the Proposed Insurance Business Transfer Scheme
Relating to the Transfer of Certain Annuity
Business from Rothesay Life Plc to Monument Life
Insurance DAC**

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Simon Johnson FIA

Chief Actuary, Rothesay Life Plc

Rothesay Life is an insurance company established in the UK and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

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Section 1 Introduction

Background

1.1. The purpose of this report is to:

- describe my understanding of the proposed insurance business transfer scheme (the “**Scheme**”) as defined in section 105 of Part VII of The Financial Services And Markets Act 2000 (“**FSMA**”) relating to the transfer of the in-scope long-term insurance business of Rothesay Life Plc (“**Rothesay**”) to Monument Life Insurance DAC (“**Monument Life**”); and
- consider the implications of the proposed Scheme on the security and benefit expectations of transferring and remaining Rothesay policyholders and other beneficiaries of insurance and reinsurance policies issued by Rothesay, including the principles to treat customers fairly and to manage conflicts of interest fairly.

1.2. This report has been prepared for the Board of Directors of Rothesay in my capacity as the Chief Actuary of Rothesay.

1.3. References to Monument Life should be taken as referring to Monument Life Insurance DAC, an insurer domiciled in Ireland. Monument Re Limited (“**Monument Re**”) is Monument Life’s ultimate parent and is a reinsurance entity domiciled in Bermuda. References to the Monument Group includes Monument Re and all of its subsidiaries, including Monument Life.

1.4. Note that Monument Life Insurance DAC is currently named Laguna Life DAC, but is expected to be renamed Monument Life Insurance DAC on 30 March 2020, therefore I have used the name Monument Life in order to be consistent with policyholder communications.

1.5. In this report I address the effects of the Scheme on the security and benefit expectations of both the transferring and remaining Rothesay policyholders. For the purposes of this report I have interpreted ‘policyholders’ to include not only the individual policyholders (for instance, those arising from pension scheme buy-out arrangements) but also the trustee policyholders (for instance, those arising from pension scheme buy-in arrangements) and the individual pension scheme members in respect of whom the relevant buy-in liabilities relate. I have also considered The Prudential Assurance Company Limited, as holder of a reinsurance contract issued by Rothesay, as well as the individual members covered by that contract. I have also interpreted ‘policyholders’ to include the contingent dependants of such other policyholders.

1.6. I have considered whether there are any more granular divisions required, and in particular I have considered the potential effect of the Scheme on those transferring members who have benefits which are not yet in payment. However for the purposes of this report my conclusions are presented based upon the two larger classes of existing Rothesay policyholders (i.e. transferring policyholders and remaining policyholders).

1.7. I have considered only those effects which I believe are material. In this context I have taken into account both the possible impact and the likelihood of it occurring. Material means that there is either a realistic possibility of an effect

materialising, or that the effect, while unlikely to occur, would be large. Where the effect is highly unlikely to occur or would have negligible impact upon the security and benefit expectations of policyholders, I consider it to be immaterial. However it is not possible to be certain about the future and therefore it is not possible to be certain about the effects of the Scheme for all policyholders.

1.8. In preparing this report, I have been in regular contact with the Independent Expert, John Hoskin FIA, of Barnett Waddingham LLP, to consider all aspects of the proposed Scheme in detail, with a view to him providing an independent report (the “**Scheme Report**”) on the likely effect of the Scheme on the policyholders of both Rothesay and Monument Life. The Prudential Regulation Authority (the “**PRA**”) has approved Mr Hoskin as the Independent Expert following consultation with the Financial Conduct Authority (the “**FCA**”). The Scheme Report is required by section 109 of FSMA as part of the procedure for gaining approval of the Scheme by the High Court of Justice of England and Wales (the “**Court**”) which will be at a hearing (the “**Sanction Hearing**”) currently planned for 22nd July 2020.

1.9. While this report is addressed to the Board of Directors of Rothesay, it will also be provided to the Court, the Independent Expert, the PRA and the FCA in order to assist them with their considerations in relation to the proposed Scheme.

1.10. The contents of this report should be considered together with the material information contained in the Independent Expert’s report. The Independent Expert will provide a summary of his report for policyholders.

1.11. This report has been prepared for only those users listed in 1.9 above. As such this report assumes familiarity with the insurance industry in the UK, including the regulatory and legal framework under which insurance companies operate. Any other readers of this report may wish to consult relevant publicly available information relating to Rothesay, including the most recent Annual Report and Accounts and Solvency and Financial Condition Report, which can be found on the Rothesay website (RothesayLife.com). Further information in respect of Monument Life is available at www.monumentregroup.com).

1.12. I note that the Actuarial Director and proposed Head of Actuarial Function of Monument Life has produced a report which considers the impact of the Scheme on the transferring policyholders of Rothesay and on the existing policyholders of Monument Life. I have been in regular contact with the actuarial team at Monument Life and we have exchanged draft reports.

1.13. I intend to issue a Supplementary Report closer to the date of the Sanction Hearing, providing an update on the issues concerned.

Disclosures and reliances

1.14. I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 2004, and hold a certificate issued by the Institute and Faculty of Actuaries to act as Chief Actuary (Life). I joined Rothesay as Chief Actuary in April 2018, having previously been the Chief Actuary for Zurich Assurance Ltd, and I have 20 years of experience working in the UK life assurance industry.

1.15. I was not part of the team which identified and selected Monument Re / Monument Life as the preferred counterparties for this transaction, but in my role as Chief Actuary I did participate in the process by which the final terms were agreed and

ultimately recommended the transaction for approval by management and the Board of Rothesay. I do not believe that this creates any conflict of interest.

1.16. I do not hold any insurance policies issued by Rothesay, or the Monument Group, and have no direct financial interest in these companies other than as an employee and minority shareholder of the Rothesay Group. There are no other potential conflicts of interest.

1.17. In preparing this report I have had access to all relevant financial information in relation to Rothesay, Monument Life and Monument Re. In forming my conclusions, I have relied upon work carried out by other Rothesay employees, which has been subject to suitable peer review where appropriate, and which I have challenged or investigated personally where material.

1.18. I have also relied upon the information provided to me by Monument Life and the Monument Group. I have not independently reviewed the accuracy of this information, other than a high-level review of its reasonableness.

1.19. In a number of places my analysis reflects current expectations regarding both the timing and process for the UK completing the process of leaving the EU and the resulting impact upon cross-border financial services, having taken suitable advice. However this remains subject to the finalisation of a number of ongoing legal and political processes and there is residual uncertainty over the exact outcomes.

1.20. The opinions and conclusions set out in this report are my own. This report and the work underlying it have been subject to peer review by Andrew Stoker FIA and this report reflects the feedback received.

Compliance with Technical Actuarial Standards

1.21. The Financial Reporting Council (the “**FRC**”) sets technical standards for the members of the UK actuarial profession. This report is subject to and complies with these standards.

1.22. A full description of compliance with relevant actuarial standards is given in Section 10.

Section 2 Executive summary

The key points of the proposed Scheme are as follows:

Reinsurance arrangements

2.1. Rothesay has reinsured a portfolio of approximately 400 in-payment and deferred annuities to Monument Re Limited (“**Monument Re**”), the parent company of Monument Life. These policies will be referred to as the “**transferring policies**” in this report. It is intended that the Part VII transfer considered in this report will include all of these policies.

2.2. The transferring policies originated from the bulk annuity buy-outs of five separate Irish pension schemes by Rothesay Assurance Limited, formerly MetLife Assurance Limited (“**MAL**”) over a period from 2010 to 2013. The original policies were written under freedom of services rights (often known as passporting). Following Rothesay’s acquisition of MAL in 2014, all of the assets and liabilities of MAL, including these transferring policies, were transferred to Rothesay in 2015 via a scheme similar to the one contemplated here.

2.3. The reinsurance between Rothesay and Monument Re was effected via a contract (the “**Reinsurance Agreement**”) signed on 26 March 2019 and subsequently amended on 20 August 2019. It is structured as funded reinsurance where assets were passed from Rothesay to Monument Re, and Monument Re is liable to reimburse Rothesay for the payments due under the policies. The transaction is structured with an associated security arrangement such that the reinsurance is fully collateralised. The collateral assets are held in a security arrangement for the benefit of Rothesay.

2.4. On the effective date of the Scheme, the Reinsurance Agreement together with the associated security documents will be transferred from Rothesay to Monument Life. I understand that some changes are anticipated to this reinsurance and the associated security documents after the Scheme takes effect; for more details on this see paragraph 8.11. No other reinsurance will form part of the transfer of business.

Background to the Scheme

2.5. Following the UK’s decision to leave the EU, it became clear that under all likely future states, the relationship between the UK and EU would be such that UK insurance companies would no longer be able to ‘passport’ into EU member states using their UK licenses and permissions, whether immediately or following some short transition period. Under those circumstances carrying out any insurance activity, including servicing any existing business written using those freedoms, would require explicit authorisation and the establishment of a branch or legal entity within the EU to which any existing business would need to be transferred.

2.6. The business rationale for the Scheme is to transfer the policies which were written under passporting to an insurance company with the necessary licences and permissions within the EU, such that the policyholders can have increased certainty that their payments will continue to be able to be made lawfully.

2.7. Under the Scheme, Rothesay will transfer all insurance liabilities associated with the transferring policies to Monument Life, with the exception of the excluded liabilities described in paragraphs 2.11, 5.13 and 5.14.

2.8. On the effective date of the Scheme:

- the Reinsurance Agreement with Monument Re will also transfer to Monument Life and become a reinsurance agreement between Monument Life and Monument Re; and
- any collateralisation and security features for the benefit of Rothesay relating to the transferring liabilities will also be transferred to Monument Life under the Scheme.

It is expected that, immediately following the implementation of the Scheme, the Reinsurance Agreement will be amended to reflect (amongst other things) that it becomes an internal reinsurance contract between Monument Life and Monument Re (its parent company). There will also be some changes to the security arrangement. In assessing the likely impact on policyholders I have considered the effect of these changes. See paragraph 8.11 for further detail.

2.9. Once the proposed Scheme takes effect, which is anticipated to be 00:01 BST on 7 September 2020, any policyholders or claimants in respect of the transferring policies will be policyholders or claimants respectively of Monument Life.

2.10. The UK has now left the EU, although subject to a transition period (sometimes referred to as the implementation period) which is expected to last until 31 December 2020. This means that the UK is no longer a member of the EU but continues to be subject to EU rules and remains a member of the single market and customs union until the transition period expires. The Scheme is expected to take effect before the expiry of this transition period. In the event that Scheme does not take place before the expiry of the transition period, and there are no other arrangements agreed, the Republic of Ireland has prepared a temporary authorisation regime which if implemented would allow Rothesay to continue to service the transferring policies for a period of up to three years while it completes the transfer. If this is both required and implemented Rothesay intends to apply for such temporary permission under Irish law in order to continue to lawfully service the transferring policies until the effective date of the Scheme.

2.11. Once the Scheme takes effect, potential liabilities in respect of any mis-selling, historic breach or historic underpayment risk will be retained by Rothesay. These retained risks are expected to be immaterial.

Impact of the Scheme on transferring policyholders

2.12. The contractual benefits of the transferring policyholders (in other words the amounts due to be paid to the policyholders under the transferring policies) are unchanged by the transfer.

2.13. In a very small number of cases, there is some discretion in relation to the benefits offered, in particular for the 19 deferred members they have an option to surrender some of their pension into cash at the point where the pension comes into payment (known as a 'commutation') or to transfer the whole pension to another provider. The terms of such commutation and the value of any transfer are not guaranteed, as they rely on a firm's assessment of the value of the pension being given up, which will take into account factors including how long they expect policyholders to live on average. Immediately following the Scheme, Monument Life will apply their basis, and they will exercise their discretion to update that basis in a similar way and taking into account the same factors as Rothesay would have. Based on analysis carried out so far, as well as

Monument Life's description of the process that they will follow, I am comfortable that for both commutations and transfers the factors Monument Life would have applied will be fair and not materially different from the factors which Rothesay would use, and based upon historic market conditions there would have been a benefit for those policyholders. Monument Life have also committed to compare Rothesay factors with their own and use the most generous for a period of 6 months after the transfer. Therefore, I do not believe there is likely to be any material detriment to policyholders.

2.14. Monument Life and Monument Re are both well capitalised entities. Monument Life operates under Solvency II, the same regime as Rothesay, and Monument Re is bound by the Bermudan Solvency regime which has been assessed by the European Commission as being an "equivalent" regime, meaning (amongst other things) it provides a similar level of customer protection. They both have smaller balance sheets than Rothesay (but with a business strategy for rapid growth) and a more diverse risk profile. Monument Life and Rothesay have similar capital management policies, which set out how much surplus capital they aim to hold. Overall, in my opinion the transfer is not likely to adversely impact the security of transferring policyholder' benefits and I set out in Section 8 why this is the case.

2.15. Once the Scheme takes effect the transferring policies will be administered by Monument Life using a third party administrator. I have considered the relative standards of both Monument Life's provider and Rothesay's and have concluded that there is unlikely to be any material impact upon policyholders. However, I will consider this matter further as part of my Supplementary Report when I will also be in a position to comment fully upon the plans for transferring policyholder records to the new provider.

2.16. The purpose of the Scheme is to avoid the risk to policyholders that there could be an interruption to their benefits as a result of the UK leaving the EU, by transferring them to an insurance company domiciled in the EU. This will be a material benefit for the transferring policyholders if the Scheme goes ahead as proposed.

Impact of the Scheme on Rothesay

2.17. The transferring policies make up a very small proportion of Rothesay's overall liabilities (less than 1% as at 30 June 2019). From Rothesay's perspective, the reinsurance transaction entered into by Rothesay and Monument Re was set up to replicate the economics of transferring the policies from Rothesay to Monument Life, pending implementation of the Scheme. As a result, there is a negligible net financial impact for Rothesay from transferring the in-scope Rothesay policies to Monument Life and simultaneously transferring the reinsurance contract between Monument Re and Rothesay to Monument Life; in fact there is a small benefit from removing the counterparty risk in respect of Monument Re.

2.18. As a result of the UK's exit from the EU it is expected that Rothesay would no longer be legally able to service the Irish policies indefinitely. After completion of the Scheme, the risk of illegally servicing these policies, or being prevented from servicing the contracts, will be removed. A secondary benefit is that the Scheme simplifies Rothesay's business profile, by removing the only true overseas business that it has, consistent with its business strategy to operate as a UK-based insurer.

2.19. I am not aware of any expected or potential adverse impacts on Rothesay or Rothesay's non-transferring policyholders which would result from the transfer. In particular, for all non-transferring policyholders there is no impact on their benefits as the

terms of their policies are not changing, on the security of benefits as the financial impact on Rothesay is small and positive, and the administration of their benefits will not change either.

Opinion of the Chief Actuary

2.20. In light of the considerations set out in this report, I have concluded that:

- the purpose of the Scheme is to remove the risk that the benefits due to the transferring policyholders may be interrupted as a result of the UK leaving the EU and in my opinion the Scheme achieves that aim;
- the security of the transferring policyholders is not likely to be adversely affected as a result of the proposed transfer;
- the reasonable benefit expectations of the transferring policyholders are not likely to be adversely affected as a result of the proposed transfer;
- the administrative arrangements applicable to the transferring policyholders are not likely to be adversely affected as a result of the proposed transfer;
- the security of the remaining policyholders of Rothesay is not likely to be adversely affected as a result of the proposed transfer;
- the reasonable benefit expectations of the remaining policyholders of Rothesay are not likely to be adversely affected as a result of the proposed transfer;
- the administrative arrangements applicable to the remaining policyholders of Rothesay are not likely to be adversely affected as a result of the proposed transfer;
- there are no features of the proposed Scheme that appear to me to breach either of the principles to treat customers fairly or to manage conflicts of interest fairly; and
- there are no features of the proposed Scheme that appear to me likely to prejudice Court approval of the Scheme.

Section 3 Description of Rothesay Life Plc

History of Rothesay

3.1. Rothesay was established on 26 February 2007 (initially under the name Hackremco (no. 2460) Limited until 14 March 2007, then under the name First Premium Company Limited until 14 May 2007) as a wholly-owned subsidiary of Rothesay Life (Cayman) Limited, which itself was a wholly-owned (indirect) subsidiary of its ultimate parent company, The Goldman Sachs Group LP. Rothesay was established to provide solutions in the UK defined benefit pension risk transfer market.

3.2. Rothesay was authorised by the FSA as a regulated insurance company (licensed to write long-term classes I, III, IV and VII) on 12 July 2007.

3.3. Rothesay completed its first transaction in February 2008 and has since grown to become the largest specialist provider of annuities in the UK market.

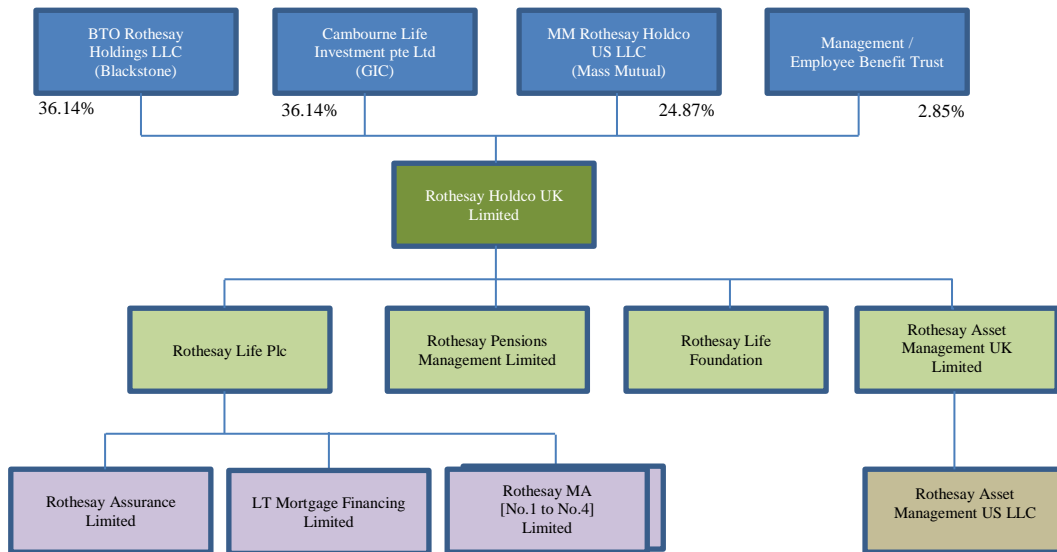
Rothesay Group structure and history

3.4. As noted above, Rothesay was established in 2007 as part of the Goldman Sachs Group. Rothesay was deconsolidated from Goldman Sachs in December 2013, and Rothesay HoldCo UK Limited ("**Rothesay HoldCo**" or "**RHUK**") was introduced as a holding company between Rothesay Life (Cayman) Limited and Rothesay Life Limited. Three additional shareholders (in addition to Goldman Sachs) invested in Rothesay HoldCo, which is the sole parent of Rothesay. Rothesay Life Limited became Rothesay Life Plc in March 2016.

3.5. During 2016, Rothesay HoldCo established an Employee Benefit Trust, Elian Employee Benefit Trustee Limited ("**The Trust**"). The Trust has been established to purchase and hold shares of Rothesay HoldCo for delivery to employees under employee share schemes.

3.6. In December 2017 Goldmans Sachs sold their remaining stake to the other three shareholders, namely The Blackstone Group L.P., GIC Private Limited, and MassMutual Financial Group.

3.7. The current ownership structure of RHUK and its subsidiaries (together the “Rothesay Group”) is set out below:



Percentages reflect shared ownership and show economic interest; all other ownership is at 100%

3.8. RHUK is the ultimate holding company with 11 wholly owned subsidiaries.

3.9. Rothesay is the Rothesay Group’s regulated insurance entity.

3.10. Rothesay Asset Management US LLC is a company established to assist in sourcing financial assets from the USA. Rothesay Asset Management UK Limited is an intermediate holding company.

3.11. Rothesay Pensions Management Limited provides services to the other companies in the Rothesay Group.

3.12. Rothesay Assurance Limited (formerly MetLife Assurance Limited) (“RAL”) no longer writes business and is in the process of being wound up. RAL was acquired by the Rothesay Group in 2014 and the assets and liabilities previously held within RAL were transferred to Rothesay pursuant to a Part VII transfer in 2015.

3.13. Rothesay Life Foundation has been set up to support Rothesay’s charitable objectives.

3.14. LT Mortgage Financing Limited was incorporated in 2015 and began trading in 2018, as a vehicle for some of Rothesay’s assets to be internally restructured for Matching Adjustment purposes. Rothesay MA No.1 Limited, Rothesay MA No.2 Limited, Rothesay MA No.3 Limited and Rothesay MA No.4 Limited were incorporated for the same purpose.

Business and Strategy

3.15. Rothesay is a wholesale annuity provider, sourcing business through three different channels:

- bulk annuity business from pension schemes;
- acquisition of annuity portfolios (typically via reinsurance followed by Part VII transfer of the portfolios); and
- acquisition of other annuity providers.

3.16. Rothesay has previously completed transfers of annuity portfolios from Zurich Assurance Ltd and Scottish Equitable plc. Those transactions were in a form substantially similar to that envisaged under this Scheme, albeit in those cases Rothesay was the receiving company rather than the transferor. A further such scheme, proposing to transfer annuities to Rothesay from The Prudential Assurance Company Limited (“**PAC**”), was not sanctioned by the Court on 16 August 2019, although Rothesay and PAC have appealed the decision. Rothesay remains economically exposed to those policies which would have transferred as it acts as a reinsurer to PAC.

3.17. The Rothesay Group aims to protect regulatory surplus, minimise balance sheet volatility and achieve attractive risk-adjusted returns through de-risking the business by hedging longevity risk and adopting a cautious approach to investment.

Asset Strategy

3.18. Rothesay pursues an investment strategy that minimises risk in a number of ways:

- investment in low credit-risk asset classes such as government-guaranteed bonds;
- investment in asset classes which contain significant structural mitigants to provide protection in the event of a counterparty defaulting;
- prudent selection and monitoring of assets such as corporate bonds which create counterparty credit exposures; and
- limiting outright credit risk, including using credit derivatives to reduce credit risk.

3.19. Rothesay then further reduces its market risks through interest rate and inflation swaps contracts, to match closely with the timing and type of the insurance liabilities.

Reinsurance

3.20. Rothesay pursues a strategy that reduces its key demographic risks by hedging the majority of its longevity and related risks through collateralised longevity swap contracts. Rothesay makes extensive use of this market with approximately 70% of its longevity risk being transferred to the third-party reinsurance market.

Liabilities

3.21. Currently the majority of Rothesay's existing insurance liabilities result from taking over risks associated with pension schemes, effected via longevity risk transfer, buy-in or buy-out (or equivalent mechanism, including directly acquiring blocks of business from other companies who have written these types of contracts). The remainder arise from accepting the liability for annuities written by insurance companies, namely Scottish Equitable plc, Zurich Assurance Ltd and PAC. The risks associated with the liabilities do not materially differ depending on the original source (i.e. pension scheme or insurance company), and Rothesay is experienced in accepting and managing both types.

3.22. Generally, the liabilities to policyholders are for the payment of promised annuity amounts, where amounts may be pre-determined (i.e. level or increasing at a fixed rate) or linked wholly or partially to published indices such as the Retail Prices Index; are payable on either an immediate or a deferred basis; and are payable either during the lifetime of the original pension scheme member/insurance company policyholder, or in some cases also to his or her dependant(s) on a contingent basis.

Non-standard existing Rothesay Schemes / Contracts Features

3.23. In certain circumstances, certain trustee policyholders and reinsurance cedants may have the ability to surrender the entire bulk annuity policy for a surrender payment that would be made on a profit-neutral basis to Rothesay, unless this occurs due to a "default" by Rothesay (where "default" is defined by each relevant policy and would typically arise if the solvency cover falls below a trigger level). These trigger levels would not be breached as a result of the proposed Scheme.

3.24. In addition, under certain circumstances, some trustees may be able to surrender following a Part VII transfer of their policy to another company without explicit trustee consent. As the proposed Scheme is a transfer of some individual member annuity policies rather than trustee policies, this has no impact in this case.

3.25. I have considered the non-standard scheme/contract features and do not believe that there are any features that could have a detrimental impact on either the transferring or remaining Rothesay policies.

Impact of MAL scheme

3.26. As discussed earlier, the transferring policies were originally written by MAL, and transferred to Rothesay by a scheme similar to the one under consideration, following the purchase in 2014 by Rothesay of the entire share capital of MAL.

3.27. I have therefore considered the consequences of that scheme, and having taken appropriate legal advice I am satisfied that there are no clauses or conditions which would have the effect of in any way limiting the operation of this scheme or imposing any additional requirements upon Rothesay. As with all of the ex-MAL policies, the transferring policies are treated in the same way as the rest of Rothesay's business.

Regulatory solvency

3.28. The Solvency II regime came into force on 1 January 2016 and it applies in the UK and across the EU. Amongst other things this sets out rules, principles and guidance for how an insurer should value its assets and liabilities. The excess of a firm's assets over its liabilities is known as its Own Funds.

3.29. A firm is required to hold sufficient capital such that the likelihood of having positive Own Funds (i.e. to have more assets than liabilities) in one year's time is 99.5%. The firm calculates this amount by considering all of the risks it has and what possible adverse outcomes may be, to come up with an overall assessment of the risk at this level of confidence; this is known as the Solvency Capital Requirement (SCR). A firm may do this by applying a standard set of stresses designed to be appropriate for the majority of firms (known as the Standard Formula), or – subject to regulatory permission – it can replace some or all of those stresses with internal models that it can demonstrate are more appropriate given the firm's risk profile.

3.30. The following table summarises the key financial metrics of Rothesay since the inception of Solvency II. Shown below is a simplified presentation which for example nets out derivatives as part of the net asset line and nets out reinsurance as part of the net technical provisions, rather than showing the asset and liabilities components separately, as this gives a clearer indication of the changes between reporting periods. Further information can be found in the latest Solvency and Financial Condition Report for Rothesay which is available at www.rothesaylife.com/about-rothesay-life/financials.

Table 3.1: Solvency II Pillar 1 financial position at previous annual reporting dates

| Rothesay Life Plc £m | 1 January 2016 | 31 December 2016 | 31 December 2017 | 31 December 2018 |
|------------------------------|----------------|------------------|------------------|------------------|
| Net Assets | 15,208 | 23,575 | 23,979 | 36,090 |
| Technical Provisions | 13,304 | 20,688 | 21,135 | 32,195 |
| Own Funds | 1,904 | 2,887 | 2,844 | 3,895 |
| Solvency Capital Requirement | 1,203 | 1,603 | 1,743 | 2,163 |
| Surplus | 701 | 1,284 | 1,101 | 1,732 |
| SCR coverage | 158% | 180% | 163% | 180% |

3.31. The SCR coverage is the ratio of Own Funds held at that date to the SCR.

3.32. Rothesay's balance sheet grew significantly over 2018, predominantly driven by the reinsurance of approximately £12bn of the PAC annuity portfolio. As noted in 6.18 it also wrote material amounts of new business in 2019.

3.33. On 3 December 2018, Rothesay was granted permission to use a partial internal model ("**PIM**" or "**Partial Internal Model**"), replacing the credit spread and counterparty risk calculations of the Standard Formula, with the remaining risks using the Standard Formula approach. Therefore, the 31 December 2018 values (and any

subsequent values shown elsewhere in this report) make use of that Partial Internal Model.

3.34. Rothesay has also been granted regulatory permission to use the Matching Adjustment, which applies an addition to the valuation discount rate, for the majority of its liabilities.

3.35. It has also been granted permission to apply the Transitional Measure on Technical Provisions, which smooths in the differences in how liabilities are calculated compared to the previous regulatory capital regime.

3.36. The Solvency II regime has been adopted into UK law. As the UK has now left the EU, once the transition period has expired a number of minor technical changes will be necessary to ensure the regime continues to apply, and it will then be possible for the UK to make changes to the regime. The EU will continue to have powers to make changes to its regime. It is not possible to state if any material changes will be made or what impact they may have, although most market commentators believe that material changes to the solvency regime applicable to insurers in the UK are unlikely and that the UK regime and the EU regime will continue to provide equivalent levels of policyholder protection regardless of how they may evolve. Therefore I have not considered the implications for any potential differences between the UK regime which will apply to Rothesay in the future and the EU regime which will continue to apply to Monument Life.

Financial Strength Ratings

3.37. Rothesay has been reviewed by two recognised credit ratings agencies and given the following ratings:

- Moody's: Insurance Financial Strength rating of A3 "*upper-medium grade and subject to low credit risk*"
- Fitch: Insurer Financial Strength rating of A+ "*strong*"

Both ratings have a stable outlook.

Section 4 Description of Monument Life Insurance DAC

History of Monument Life Insurance DAC

4.1. As noted earlier Monument Life is currently named Laguna Life DAC but is expected to be formally renamed Monument Life Insurance DAC with effect from 30 March 2020.

4.2. Monument Life is a designated activity company incorporated in the Republic of Ireland in 2000 as a private limited company. Monument Life sold non-linked term assurance policies in Spain and the UK until it closed to new business in 2009 and went into run-off. In 2017, it was sold by Laguna Life Holdings Limited, a subsidiary of Enstar Group Limited, to Monument Re through its subsidiary Monument Life Assurance DAC (“**MADAC**”), a company domiciled in the Republic of Ireland. MADAC is a wholly-owned subsidiary of Monument Life Insurance DAC (“**MIDAC**”), which in turn is a wholly-owned subsidiary of Monument Re.

4.3. Monument Life is authorised by the Central Bank of Ireland (CBI) as a regulated insurance company, holding the following licenses:

- Class I: to underwrite life assurance and contracts to pay annuities on human life (but excluding contracts written in Classes II and III).
- Class III: to underwrite contracts linked to investment funds.
- Class IV: to underwrite permanent health insurance contracts.

4.4. These licenses allow Monument Life to accept the transferring policies. In addition Monument Life has recently gained approval to extend its license to include non-life Classes 1, 2 and 16, in relation to a proposal to amalgamate some of the Monument Group’s business in Ireland into Monument Life.

4.5. The business strategy is focused on running off the existing closed book of policies and ensuring that high quality customer service remains a priority while seeking opportunities to grow through acquisition of books of business in line with the Monument Group strategy.

Monument Group Structure and Strategy

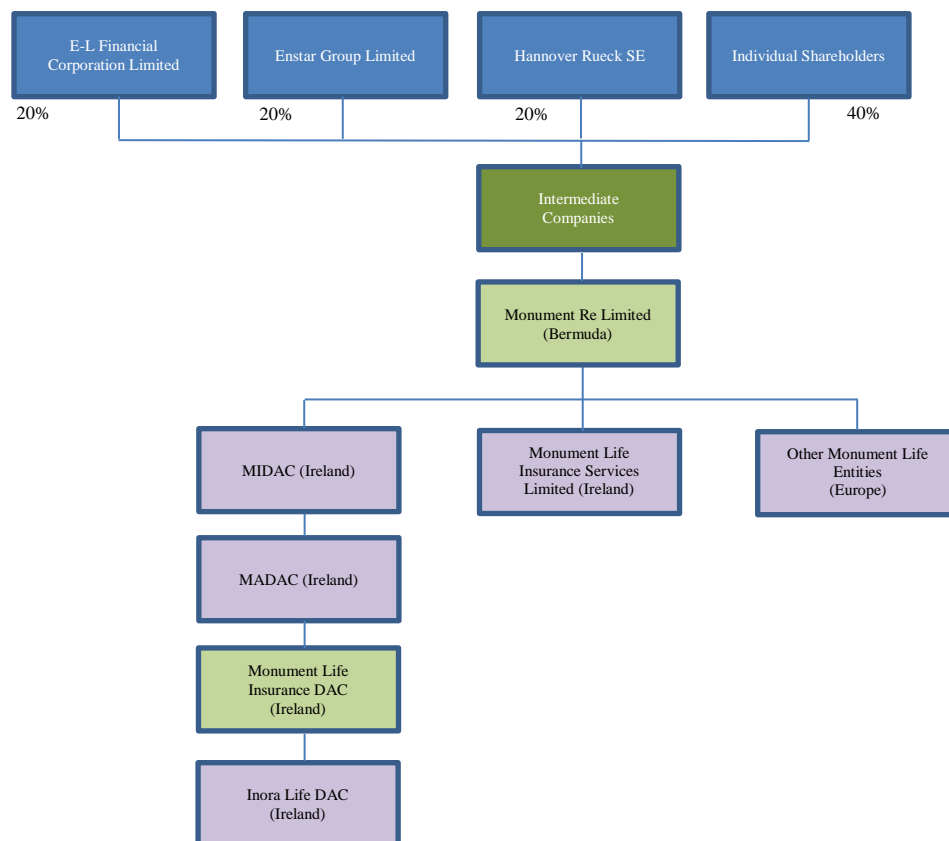
4.6. Monument Re was established in 2016. It is a Bermudan reinsurer and ultimate parent of the other companies in the Monument Group. Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset based risks within their risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- acquiring direct insurers, primarily those managing run-off portfolios of unit-linked savings or protection business, to drive risk diversification and create capital synergies; and
- reinsuring long-dated guaranteed liabilities such as annuity business.

4.7. The Monument Group has completed a number of transactions over 2018 and 2019, some of which were written by Monument Life. These consisted of a variety of different product types sourced from a number of different EU countries. The transferring policies from Rothesay would represent the second block of annuity business acquired by Monument Life, following a reinsurance transaction from MetLife Europe in June 2018 (subsequent to which, the reinsured policies were transferred to Monument Life in April 2019 via a “Section 13” transfer, which is the Irish law equivalent of a Part VII transfer).

4.8. Monument Re is regulated by the Bermuda Monetary Authority, with Solvency II Equivalence attained from the European Commission. There is a strategy and history of material reinsurance of risks from Monument Life to Monument Re, such that Monument Life can benefit from lower capital requirements and the group can aggregate and diversify risks at the holding company level.

4.9. The ownership of Monument Re is shared between a small number of shareholders, including Hannover Re, Enstar Group and E-L Financial. The simplified ownership structure of Monument Re and its subsidiaries is set out below as at 24 September 2019:



Percentages reflect shared ownership and show economic interest; all other ownership is at 100%

Monument Life Insurance Services Limited (Ireland) is the service company which provides services, including staff, to companies including Monument Life.

MIDAC and MADAC are closed companies which hold a variety of life and non-life insurance liabilities. Inora Life is a closed company which was acquired in September 2019 as a wholly owned subsidiary of Monument Life, and it holds unit-linked life liabilities. There is a proposal to transfer the liabilities of all three of those companies to Monument Life in order to simplify the Irish operations, with the transfer of the liabilities of MIDAC/MADAC expected to complete before the Scheme being considered here, and the transfer of Inora expected to be after.

More information about the Monument Group can be found at www.monumentregroup.com.

Liabilities

4.10. The liabilities of Monument Life (including Inora) cover a wide range of product types, including term assurances, savings products and annuities (including variable annuities and fixed term annuities). They relate to policies predominantly originated in Belgium, Spain and the UK. However, much of the business has been reinsured to Monument Re such that the net of reinsurance Technical Provisions held in Monument Life are only a small proportion of the gross ones.

4.11. Monument Re pools much of the risk of Monument Life and its other subsidiaries. Market risk (mainly interest rate and currency risk) and insurance risk make up the bulk of Monument Re's capital requirements, with smaller amounts relating to credit risk and operational risk.

Asset Strategy

4.12. Monument Life's asset strategy is designed to have assets which closely match its liabilities. This includes investments in government bonds, corporate bonds, and Dutch residential mortgages. Derivatives are used to help manage the asset risks.

4.13. Monument Life's unit linked liabilities are closely matched by the assets in the unit linked funds.

4.14. The same asset strategy applies at Monument Re.

Reinsurance

4.15. Monument Life makes use of both internal and external reinsurance.

4.16. Internal reinsurance is in place to transfer the majority of risks from Monument Life to Monument Re as part of the group strategy to pool and diversify risk and increase capital efficiency.

4.17. External reinsurance arrangements are in place with SCOR and Swiss Re to remove a material proportion of Monument Life's remaining mortality and morbidity risk.

4.18. The Monument Group also makes use of external reinsurance in respect of some of its other entities. Such reinsurance arrangements are common and allow the Monument Group to benefit from transfer of risk and lower capital requirements as well as reinsurer expertise.

Financial History

4.19. The following tables summarise the key financial metrics of Monument Life and Monument Re over recent years. Shown below is a simplified presentation which for example nets out derivatives as part of the net asset line and nets out reinsurance as part of the net technical provisions, rather than showing the asset and liabilities components separately, as this gives a clearer indication of the changes between reporting periods. Further information can be found in the latest Solvency and Financial Condition Report for Monument Life and Monument Re.

Table 4.1: Monument Life Solvency II Pillar 1 financial position at prior annual reporting dates

| €m | 31 December 2016 | 31 December 2017 | 31 December 2018 |
|------------------------------|------------------|------------------|------------------|
| Net Assets | | 23.6 | 144.4 |
| Technical Provisions | | 1.6 | 113.6 |
| Own Funds | 29.3 | 6.3 | 30.8 |
| Solvency Capital Requirement | 5.1 | 1.4 | 3.5 |
| Minimum Capital Requirement | 3.7 | 3.7 | 3.7 |
| Surplus over SCR | 24.1 | 4.9 | 27.2 |
| SCR cover (%) | 568% | 456% | 871% |
| MCR cover (%) | 791% | 171% | 832% |

Table 4.2: Monument Re Solvency II Pillar 1 financial position at prior annual reporting dates

| Monument Re Limited €m | 31 December 2017 | 31 December 2018 |
|------------------------------|------------------|------------------|
| Net Assets | 76.9 | 1,039.3 |
| Technical Provisions | 11.5 | 821.4 |
| Available Capital | 65.4 | 217.9 |
| Enhanced Capital Requirement | 18.7 | 29.0 |
| Free Surplus | 46.8 | 188.9 |
| Capital cover (%) | 350% | 751% |

4.20. Monument Life paid a dividend of €32m to its parent in 2017; this is the main reason for the significant change in the balance sheet figures between the end of 2016 and end of 2017.

4.21. A capital contribution of €89.5 from the shareholders to Monument Re, the completion of four transactions, and a €20m capital contribution from Monument Re to Monument Life are reasons for the significant movements between the end of 2017 and the end of 2018.

4.22. It should be noted that both Monument Re and Monument Life have undergone material changes over this period (and since) and therefore care should be taken before drawing any firm conclusions from the evolution of their capital figures alone.

Future changes

4.23. As noted above the strategy for both the Monument Group and Monument Life is to acquire new blocks of insurance business. This means that the risk profile of Monument Life is expected to change as new liabilities are accepted. This has the potential to expose Monument Life's policyholders, including the transferring policyholders, to a wider range of risks. However, it will also increase the size and scale of Monument Life, and diversify the risks to which they are exposed.

4.24. As set out in Table 4.1 Monument Life is relatively well capitalised compared to its SCR. There is no guarantee that Monument Life would remain at such a level. Indeed I would expect Monument Life's coverage ratio to drop materially over time, in line with its strategy as new business is acquired and the excess capital it currently has is used to support this new business. I would however expect Monument Life to be able to manage its solvency such that it stays within its stated target range. See Section 7 and Table 7.1 for a pro-forma position as at Q2 2019 and Section 8 Table 8.2 for a projection of Monument Life's financial position in future years.

4.25. In particular, I am aware of a number of acquisitions that they intend to make in the foreseeable future, as well as a project to amalgamate the liabilities of some of the other Irish Monument Group entities into Monument Life. These are discussed in more detail in the report of the Actuarial Director and proposed Head of Actuarial Function of Monument Life and in the Scheme report by the Independent Expert.

4.26. I will comment further on these acquisitions and structural changes within my Supplementary Report.

Section 5 Outline of the proposed transfer

Business transfer agreement

5.1. On 26 March 2019, Rothesay reinsured a portfolio of annuities to Monument Re, the parent company of Monument Life. These are the transferring policies. Rothesay policies that are not transferring to Monument Life are referred to as the “**remaining policies**”. On the same date, Rothesay, Monument Life and Monument Re also entered into a business transfer agreement (the “**Business Transfer Agreement**”) pursuant to which the parties agreed that the rights and obligations arising from the transferring policies as well as associated records would transfer to Monument Life pursuant to the Scheme.

5.2. The reinsurance was structured as funded reinsurance where assets were passed from Rothesay to Monument Re. The transaction was structured with security such that the reinsurance is fully collateralised. The collateral assets are held in a security arrangement for the benefit of Rothesay.

5.3. Further to the reinsurance of the transferring policies by Monument Re, the Boards of both Rothesay and Monument Life agreed to begin the process of a legal transfer of the policies to Monument Life under Part VII of FSMA. The purpose of the proposed Scheme is to transfer all of these policies from Rothesay to Monument Life. The transferring policies are all individual annuities held by former members of five Irish pension schemes, together with the original bulk annuity policies.

5.4. The policies were originally written by RAL under the EU’s freedom of services provisions. As set out earlier, Rothesay subsequently acquired the MetLife annuity portfolio containing these policies. Following the UK’s decision to withdraw from the EU, it was anticipated that Rothesay would no longer be legally able to service the transferring policies indefinitely. The rationale for the Scheme is therefore to remove the risk of Rothesay being required to illegally service these policies, to ensure that the policyholders will continue to receive the benefits that they are due, and to simplify Rothesay’s operations by removing its only portfolio of annuities which did not originate in the UK. As part of Rothesay’s preparation for the UK’s exit from the EU, an Irish regulated insurer was selected as the transferee for the transferring policies, taking into account a number of factors including that most of the transferring policies are governed by Irish law, that most of the transferring policyholders are resident in Ireland, and that a common language and familiarity with the Irish legal and regulatory regime would be beneficial.

5.5. The intended effective date of the transfer is 7 September 2020, or such other date as may be agreed by Rothesay and Monument Life and approved by the Court.

5.6. No policies of Rothesay not already included under the Reinsurance Agreement are in scope of the Scheme.

Summary of the transferring business

5.7. The portfolio of policies to be transferred is defined under the Scheme. The transferring policyholders are all previously members of one of the following pension schemes, or are a dependant of a previous member who is now deceased. The transferring policies were issued by MAL in connection with the bulk annuity buy-outs of the following pension schemes:

- The Clondalkin Group Executive Pension Scheme
- The Fujitsu Services (Ireland) Pension Plan
- The Scottish Legal Life Pension Scheme - ROI section
- Element Six Contributory Pension Plan
- The Georgia Pacific Ireland Retirement Benefits Scheme

5.8. A summary of the transferring business is set out below (as at 30 June 2019) together with a summary of the remaining policies to provide context:

Table 5.1 Key statistics relating to the transferring policies with a comparison to the remaining policies of Rothesay (30 June 2019)

| | Number of in-force policies | Liability value |
|---|-----------------------------|-----------------|
| Transferring policies (in payment) | 387 | £117m |
| Transferring policies (in deferment) | 19 | £4m |
| Total | 406 | £121m |
| Remaining Rothesay business | 780,000* | £32,500m |
| Transferring business as a proportion of Rothesay | 0.1% | 0.4% |

** Note that this reflects the number of individuals where Rothesay has accepted the risks of paying their annuities, regardless of whether this is direct, via a buy-in contract or inwards reinsurance.*

All of the transferring annuities are paid in Euro. Two of the transferring policyholders currently live in the UK and one currently lives in Australia, two are untraced, and the remainder live in the Republic of Ireland.

The Scheme will also result in the transfer of any potential residual liabilities for members under annuity policies (issued in connection with the bulk annuity buy-outs of the pension schemes detailed in paragraph 5.7 above) which are now no longer in-force (for example, deceased members). The purpose of this is to ensure that, in the unlikely event

that any further payments are due under those policies, they can be lawfully paid by an EU-domiciled insurer.

5.9. On the effective date of the Scheme, the Reinsurance Agreement will also be transferred from Rothesay to Monument Life such that Monument Life becomes the cedant under that arrangement, and 100% of the transferred liabilities will continue to be reinsured to Monument Re. Rothesay would no longer be a party to the Reinsurance Agreement. No other reinsurance contracts cover any liabilities in respect of the transferring policies and therefore no other reinsurance contracts will form part of the transfer of business. Note that I am aware of some planned changes to the Reinsurance Agreement which are expected to be made by Monument Life and Monument Re after the Scheme takes effect; this is discussed further in paragraph 8.11 but any changes will be agreed between Monument Life and Monument Re and are not part of the Scheme.

Other aspects of the Scheme

5.10. It is anticipated that the administration of the transferring policies will be performed by Monument Life using a third-party administrator of its choice, namely Equiniti, from the effective date of the Scheme. Rothesay and Monument Life have agreed to jointly manage this transfer process to ensure that there are no adverse impacts on policyholders.

5.11. The proposed Scheme will not make or result in any changes to the remaining Rothesay policy contracts.

5.12. For Rothesay's remaining policyholders all existing customer administration arrangements will remain in place and there will be no impact from the proposed transfer.

5.13. Under the terms of the Scheme, certain liabilities relating to the transferring policies such as potential liabilities in respect of any mis-selling or historic breach are excluded from transferring and will be retained by Rothesay. Any losses due to historic underpayments are subject to an indemnity from Rothesay. These retained risks are expected to be immaterial, and are potential liabilities that Rothesay currently has, hence there is no impact due to the Scheme.

5.14. Other Excluded Liabilities defined by the Scheme are those related to the transferring policies but which do not directly concern the payment of policyholder benefits, for example in relation to the tax affairs of Rothesay. These will remain the responsibility of Rothesay.

5.15. If the transfer does not happen as expected, then Rothesay (subject to certain conditions) would be entitled to terminate the Reinsurance Agreement (having terminated the Business Transfer Agreement), with the termination amount determined using an agreed approach. Such termination amount is supported by the collateral assets. Given the small proportion of liabilities that the transferring portfolio represents, this would have a negligible impact on Rothesay's solvency position.

Approach to communications

5.16. The requirements to communicate with policyholders are set out in FSMA, and require that all affected policyholders are sent a written notice, as well as wider communication of the scheme.

5.17. Rothesay and Monument Life have agreed a detailed joint communications plan which sets out how they will communicate with the policyholders. This has been shared with the Independent Expert, the PRA, the FCA and the CBI, with any feedback reflected in the final proposal.

5.18. In summary it is proposed that:

- All transferring policyholders are written to directly with a pack setting out the key information relating to the transfer
- No non-transferring policyholders are written to
- No existing Monument Life policyholders are written to
- Both Rothesay and Monument Life will provide information relating to the transfer on their respective websites
- There will be advertisements in a representative set of newspapers and gazettes in both the Republic of Ireland and the UK

5.19. The proposed communication plan requires Rothesay and Monument Life to seek the agreement of the Court to waive the obligation to communicate with all policyholders. The main categories of these exceptions are set out below together with the rationale for their exclusion:

- **Non-transferring policyholders** will not be written to on the grounds that the Scheme has no material impact on these policyholders, and any communication about the Scheme has the potential to be confusing or cause unnecessary concern. The costs of such a mailing would also be disproportionate, and a material increase in the volume of customer responses caused by such a mailing could lead to reduced levels of service.
- **“Gone-aways”** are policyholders where, despite repeated efforts, no current address is held. Any gone-aways which are part of the transferring policyholder population but where no current contact details are held will not be sent a pack. As at the time of writing there are only two known gone-aways, comprising less than 1% of the transferring population, although it is possible that more are revealed as the mailing progresses.
- Rothesay has also set out an approach to communicating with members where the policy has been assigned or where a power of attorney has been recorded in relation to a policy, although these are not currently relevant for any of the in-scope population, along with other customary dispensations.
- Finally, where the policyholder is recorded as deceased with no further benefits remaining no communications will be issued as the policy has effectively ended and such a mailing could cause distress to family members.

5.20. I note that Monument Life’s existing policyholders will also not be written to on the grounds that the impact of the Scheme on them is expected to be immaterial (see Section 7) and I agree with this approach.

5.21. To reflect the fact that not all policyholders are proposed to be mailed, Rothesay will publicise the Scheme by advertising in a number of representative national newspapers in both the Republic of Ireland and the UK, and well as the London, Edinburgh, Belfast and Irish State Gazettes.

5.22. There will also be detailed information available on both the Rothesay and Monument Life websites, and they will include links to each other. This will include copies of the Independent Expert's report as well as a summary of his findings.

5.23. I have also reviewed the draft communications themselves, the plans for handling policyholder responses and the overall timeline for the mailings.

5.24. Ultimately the approach to policyholder communications is a matter for the Court to decide, and this is also an area where the FCA are expected to provide an opinion. The approach that has been proposed is in line with previous similar schemes, and takes into account the FCA's Final Guidance "*FG 18/4: The FCA's approach to the review of Part VII insurance business transfers*" dated May 2018, and in my opinion appears to be a proportionate approach ensuring that the communications are targeted at the right people. I am supportive of the proposed communications plan.

5.25. Importantly, I believe the communications plan ensures that the policyholders who are most directly impacted, namely the transferring policyholders, are provided with sufficient information and enough time to ask any questions, and will be able to raise concerns or objections.

Section 6 Financial position of Rothesay Life Plc post transfer

Capital policy for Rothesay Life Plc

6.1. On 1 January 2016 the new solvency requirements prescribed under the Solvency II regime came into effect. Since this date, and continuously thereafter, Rothesay held surplus assets in excess of its regulatory capital requirement (the SCR). A summary of Rothesay's annual Solvency II balance sheets since the start of the regime are shown in Section 3.

6.2. Solvency II is a strong capital regime designed to provide a high level of policyholder security. Solvency II is a risk-based regime which means that insurers are required to hold capital commensurate with the level of risk that they operate with. Companies are expected to hold sufficient excess capital such that they can withstand adverse scenarios measured at the 99.5% confidence level over one year.

6.3. Rothesay's parent, RHUK, is also managed on a Solvency II basis. The Group (as described in Section 3) is a simple one, with Rothesay being the only material active risk-carrying entity, and therefore there are no material residual risks outside of Rothesay which may affect the security of Rothesay's policyholders. For the remainder of this section I will therefore consider only Rothesay on a standalone basis, although given the simple structure of RHUK the conclusions reached are likely to hold for RHUK also.

6.4. Rothesay's capital management policy aims to maintain a solvency ratio of not less than 130% on a Solvency II Pillar 1 basis, that is, to have surplus assets to cover at least 130% of the SCR, with an upper target level set at 150%.

6.5. Rothesay currently calculates its SCR using a Partial Internal Model. Rothesay's Partial Internal Model covers two major risk categories, credit spread risk and counterparty default risk, with other risks being assessed using the Standard Formula.

6.6. Under Solvency II a firm is also obliged to consider the capital it believes that it needs in order to meet its own targets, a process known as the Own Risk and Solvency Assessment ("ORSA"). Rothesay's capital policy in relation to the ORSA is to hold sufficient excess capital such that Rothesay can withstand adverse scenarios measured at the 99.8% confidence level over one year, where the required capital is measured using Rothesay's own view of the risks it has rather than using the Standard Formula or the PIM. Rothesay would therefore seek to hold, as a minimum, the greater of the capital calculated under the ORSA or 130% of the regulatory SCR, both of which give a high level of protection against adverse experience. In practice it is the Solvency II Pillar 1 basis which is the more onerous, and this is expected to continue to be the case for the foreseeable future.

6.7. The proposed transfer of the transferring policies to Monument Re will have no direct impact on the capital management policy. The capital policy will remain under regular review by the Board to ensure that it remains appropriate.

Solvency II capital position

6.8. The Solvency II position of Rothesay before and after the proposed transfer (as if it had been effective on 30 June 2019) is set out in table 6.1, which is consistent with the presentation of prior positions shown in Table 3.1. As the policies in question are reinsured to Monument Re and the transaction was fully funded at the point of sale, with assets transferred to Monument Re, there is only a very minor change in the solvency position of Rothesay due to the Scheme.

Table 6.1: Solvency II Pillar 1 financial position at 30 June 2019 before and after the proposed transfer (£m)

| Rothesay Life Plc (£m) | Actual pre transfer | Pro-forma post transfer | Impact |
|------------------------------|---------------------|-------------------------|--------|
| Net Assets | 37,584 | 37,583 | (1) |
| Technical Provisions | 33,519 | 33,514 | 5 |
| Own Funds | 4,066 | 4,070 | 4 |
| Solvency Capital Requirement | 2,310 | 2,304 | (6) |
| Surplus | 1,756 | 1,766 | 10 |
| SCR cover (%) | 176.0% | 176.7% | 0.6% |

Note that consistent with Table 3.1 the technical provisions are shown net of reinsurance. The Scheme would reduce gross BEL by £121m and also remove a reinsurance asset of £121m.

6.9. The main reasons for the slight improvement in the solvency level are:

- the release of £6m of reinsurance counterparty SCR and £5m of associated Risk Margin held in respect of Rothesay's exposure to Monument Re prior to the transfer;
- slightly offset by a £1m decrease in assets relating to the tax payable on the release of Risk Margin.

6.10. The values of Technical Provisions shown above include the use of a matching adjustment in the valuation of the best estimate liability as approved by the PRA in November 2015. This involves the application of a spread to risk-free discount rates reflecting the liabilities being long-term and illiquid. The Scheme will not affect the ability of Rothesay to apply the matching adjustment.

6.11. In common with many other firms in the UK, Rothesay has been given approval by its prudential regulator the PRA to use a transitional adjustment to technical provisions. This reduces the technical provisions required in order to smooth the impact of moving to Solvency II. The transferring business is eligible for such treatment as it was written before the start of the Solvency II regime. The Scheme will not affect the ability of Rothesay to apply this adjustment to technical provisions for the rest of its business after

the transfer. A recalculation of the adjustment is not required as a result of the Scheme, but the impact of any recalculation purely as a result of the Scheme would be small.

6.12. Prior to the transfer, administration of the policies is the responsibility of Rothesay, and under the Reinsurance Agreement the cost of this administration is reimbursed from Monument Re to Rothesay. After the transfer the administration will be the responsibility of Monument Life. This agreement has been reflected in the post-transfer balance sheet above.

6.13. The comparative figures for RHUK as at 30 June 2019 are 176.7% SCR cover pre-transfer and 177.3% SCR cover post-transfer. These are slightly different due to small amounts of assets and liabilities held at the RHUK level. There are no impacts of the Scheme to consider at the RHUK level beyond those considered at the Rothesay level.

6.14. In summary, the proposed transfer will have no material impact on the Solvency II capital position of Rothesay.

Impact should the Scheme not go ahead

6.15. If the Scheme does not proceed to completion as anticipated, then the Reinsurance Agreement and associated security documents would remain in place between Rothesay and Monument Re, and there would be no financial impact on Rothesay. Rothesay will consider what other options are available to ensure that it can continue to lawfully pay benefits to transferring policyholders. It is acknowledged that if the Scheme does not complete, there are risks to Rothesay (of illegally continuing to service these policies or breaching its contractual liabilities to policyholders by not making payments) and to the transferring policyholders (of possible disruption to payments). If as a result of the Scheme not completing the Reinsurance Agreement was also terminated (following the termination of the Business Transfer Agreement), then Rothesay would again be exposed to the economic risks of those policies, resulting in a small increase in its capital requirements. The impact would be less than 1% movement in Rothesay's SCR coverage ratio, hence it is considered immaterial.

Solvency II ORSA

6.16. In addition to the results shown above, I have also considered the ORSA position of the business before and after the proposed transfer, as if the transfer had become effective on 30 June 2019. As the transferring policies are reinsured to Monument Re and the transaction was fully funded at the point of sale, with assets transferred to Monument Re, there is no significant change in the ORSA position of Rothesay due to the Scheme. I am therefore comfortable that there should be no material reduction in the security of Rothesay's remaining policyholders as a result of the Scheme.

Subsequent events

6.17. Since the analysis above was produced, no events have happened which would materially change my conclusion.

6.18. I do however note that since 30 June 2019, the date of the financial position of Rothesay as recorded above, Rothesay has written a material amount of new business and has raised capital totalling £1,400m to support this. The impact of this is to increase the overall size of Rothesay's assets and liabilities, but the SCR coverage ratio remains similar to that set out above. I will be in a position to reflect these activities fully in my

Supplementary Report, but as at the time of writing I do not expect this to change my conclusions.

6.19. While I do not expect the Scheme by itself to have a significant impact on the financial position of Rothesay, there are a number of other potential management actions that could have an impact on Rothesay's financial position. These include:

- further new business may be written by Rothesay;
- Rothesay may invest in new assets;
- a dividend payment may be made either from Rothesay to RHUK, or RHUK to shareholders; and
- further capital may be raised at either RHUK or Rothesay level.

In addition, market conditions have the potential to change between now and the effective date of the Scheme.

As discussed earlier, Rothesay makes use of the transitional adjustment to technical provisions, and this was recalculated as at 31 December 2019 as required by the Solvency II regulations. This effect of this recalculation does not alter my conclusions.

I will comment fully on any such events and their impact within my Supplementary Report. However, given the small proportion of business that is in scope of the Scheme, and that the Scheme generates a small improvement in Rothesay's solvency position, I do not expect any such events are likely to alter my conclusions in relation to the impact of the Scheme upon Rothesay's financial position and therefore the non-transferring policyholders.

Section 7 Financial position of Monument Life Insurance DAC post transfer

Capital policy for Monument Life Insurance DAC and Monument Re

7.1. Similar to Rothesay, Monument Life also manages its balance sheet under the Solvency II regime. Monument Life uses the Standard Formula to calculate its SCR, calibrated to withstand adverse scenarios at the 99.5% confidence level over one year. Monument Life's capital management policy and associated risk appetite statement set out that Monument Life aims to maintain a target solvency level of 140-150% of the SCR. In addition, Monument Life management target a capital level such that if the reinsurance with Monument Re were to fall away it would be capable of still meeting 100% of the SCR (after putting replacement risk mitigating cover in place). When solvency is above the upper target level of 150%, consideration is given to the appropriateness of paying a dividend, taking into account other factors such as projected levels of future solvency allowing for known activity. Any dividend should leave the solvency coverage at or above the 150% target level.

7.2. Monument Re and the Monument Group (of which Monument Life is a subsidiary) are subject to the Economic Balance Sheet ("EBS") regulatory framework and are regulated by the Bermuda Monetary Authority. EIOPA has confirmed the Solvency II equivalence of the EBS; in simple terms this means that it has broadly equivalent prudential standards to Solvency II. Monument Re's capital management policy aims to maintain a solvency ratio of 150% of the Enhanced Capital Requirement (ECR) which is a measure broadly equivalent to the SCR under Solvency II. While Monument Life's capital position is managed to be self-sufficient, if required it could call upon Monument Re for additional capital. Given the close relationship between the two parties, in particular Monument Life's reliance on Monument Re as both parent and reinsurer, I consider the capital position of both companies to be important factors when considering the impact of the transfer on the security of policyholders.

Capital position

7.3. The Solvency II position of Monument Life before and after the proposed transfer (as if it had been effective on 30 June 2019) is set out in table 7.1, which is consistent with the presentation of prior positions shown in Table 4.1.

7.4. This presentation considers a pro-forma position as at Q2 as if the known activities (including the acquisition of Inora and the amalgamation of the Irish entities (i.e. MADAC and MIDAC) into Monument Life) had taken place at that date, then allows for the proposed transfer. This is a sensible presentation as it allows the impact of those activities to be considered.

Table 7.1: Solvency II Pillar 1 financial position (Standard Formula) at 30 June 2019 before and after the proposed transfer

| Monument Life Insurance DAC (€m) | Actual Q2 position | Pro-forma Q2 position pre-transfer | Pro-forma Q2 position post-transfer | Impact of Scheme |
|-------------------------------------|--------------------|------------------------------------|-------------------------------------|------------------|
| Eligible Own Funds | 31.2 | 34.8 | 35.8 | +1.0 |
| SCR | 5.3 | 14.6 | 16.0 | +1.4 |
| MCR | 3.7 | 3.7 | 4.0 | +0.3 |
| Surplus over SCR | 25.9 | 20.2 | 19.8 | -0.4 |
| SCR cover (%) | 525% | 238% | 224% | -14 pts |

7.5. As the policies in question are fully reinsured to Monument Re and this reinsurance will continue after the Scheme effective date but with Monument Life as cedant, there is little change in the solvency position of Monument Life due to the Scheme. As discussed further in 8.11 the reinsurance will change from reinsuring 100% of the risk to 90% of the risk, therefore Monument Life will have an increase in the risk associated with the new policies. It will also have additional counterparty risk, mitigated by the use of a funds withheld structure (which is a form of collateralisation). Therefore, as a result of the Scheme there is a small increase in SCR and a small reduction in surplus and SCR coverage ratio.

7.6. The equivalent impact of the Scheme on Monument Re's capital position is negligible since the existing reinsurance to Monument Re will remain in place, and Monument Life is a wholly-owned constituent of Monument Re, therefore there is very little impact on Monument Re's consolidated balance sheet. This is true even allowing for the proposed change in quota share from 100% to 90% (see 8.11).

7.7. In summary, I do not expect the proposed transfer to have a material impact on the capital position of Monument Life or Monument Re.

Subsequent events

7.8. As discussed earlier, the strategy of both Monument Re as a group and Monument Life as an entity within the group is to acquire blocks of business from other insurers, typically business which is in run-off. This means that the financial position of both Monument Life and Monument Re are subject to change, and I am aware of a number of potential or actual acquisitions that have taken place since Q2.

7.9. I am also aware of the plan for Monument Life to accept the liabilities of the other Irish entities within the Monument Group (i.e. MADAC and MIDAC), which will simplify the structure of the group in Ireland, but which will also impact Monument Life's

financial position, and the range of risks which Monument Life's policyholders are exposed to.

7.10. The actuarial team at Monument Life have provided me with an indication of the impact of these activities and they are reflected in the pro-forma pre-transfer values in Table 7.1. For the reasons set out above I consider it important to recognise these events and therefore I have taken them into account when forming my opinion. I will be in a position to comment fully on any such events and their impact within my Supplementary Report.

Section 8 Impact of proposed Scheme on transferring policyholders

Impact on contractual terms applicable to transferring policyholders

8.1. Within the proposed Scheme there are no intended changes to the contractual terms of any of the transferring policies.

8.2. The majority of the benefits payable under the transferring policies are fully defined, or vary only in relation to an observable external data source (e.g. the level of an inflation index). In a small number of circumstances Rothesay has some discretion over payments to be made, including in relation to the amount paid when a deferred annuity is transferred away from Rothesay to a new provider, at vesting when a portion of the pension is commuted for cash, or in how pension amounts are adjusted if the member retires earlier or later than expected. Immediately following the Scheme Monument Life will be responsible for setting the factors to be used in any such calculations.

8.3. These factors reflect a firm's views about future experience, for example estimates of the future life expectancy of the annuitants, or to reflect market conditions and expectations of interest rates and investment returns. Given that there is some judgement required as to how these types of consideration would feed into factors, it is possible that Rothesay and Monument Life would exercise that judgement in different ways, although both would apply the same principles of fairness. Monument Life have shared details of their proposed approach and I have considered how it differs from the Rothesay approach and the potential impact on transferring policyholders.

8.4. Based on the principles of the Monument approach that they have shared with me, I am comfortable that it is fair and that there is a robust approach to governance. Based upon a comparison at selected dates, the Monument Life factors are more beneficial to policyholders than the equivalent Rothesay factors. In addition, Monument Life will maintain a comparison between the Monument Life basis for commuting pension to cash at retirement and the equivalent Rothesay basis which would have applied (allowing only for market conditions) for the first six months after the transfer, and use the factor which is the most beneficial for transferring policyholders.

8.5. In the future Monument Life will update their assumptions, methodology or both as they consider to be appropriate, as would Rothesay; for example, to allow for the latest estimates of life expectancy. It is possible therefore that the approach at some point in the future may differ from that which Rothesay would have used. It is also possible that the impacts of market-related factors, which impact Rothesay and Monument Life's factors differently, may mean that the factors change in different ways. Given that it is impossible to say if there would be any material difference, or in which direction, I do not consider the potential for different outcomes to constitute a material adverse effect as a result of the Scheme.

8.6. For the avoidance of doubt, for all transferring policyholders where the benefits are currently in payment there is no scope for discretion and there will be no change to the amounts due under the contract.

8.7. Although not strictly a contractual matter, I have also been advised that there should be no impact on the amount of tax which policyholders are liable for as a result of the transfer.

Impact on security of benefits applicable to transferring policyholders

8.8. As the security of policyholders' benefits is linked to both entities I consider it appropriate to consider the financial strength of both Monument Life and Monument Re. However, I do note that Monument Life would be the primary entity responsible for the transferring policyholders if the Scheme was to happen and it is possible for Monument Life to continue to operate effectively even if its parent were in financial difficulty, hence the focus will be on the position of Monument Life.

8.9. As noted in Section 7 of this report, had the proposed Scheme come into effect as at 30 June 2019, the capital impact to Monument Life and Monument Re would have been small, and they would have continued to have capital in excess of their requirements, and in line with their capital management policies.

8.10. On completion of the Scheme, the Reinsurance Agreement between Rothesay and Monument Re will be transferred, and become a reinsurance contract between Monument Life and Monument Re, therefore it is important to consider the capital position of both Monument Life and Monument Re when assessing the Scheme's impact on the security of the transferring policyholders' benefits.

8.11. It is my understanding that following the implementation of the Scheme, the Reinsurance Agreement will be amended by Monument Life and Monument Re to reflect (amongst other things) that it becomes an intra-group reinsurance contract between Monument Life and Monument Re (its ultimate parent company). One of the proposed changes is to reduce the 'quota share' from 100% to 90%. This means that 90% of the risks will be carried by Monument Re and Monument Life will keep 10% of the risks. It is my understanding that this is consistent with other internal reinsurance arrangements between Monument Life and Monument Re, and it ensures that Monument Life has an economic interest in the performance of the portfolio which helps to align interests. I also understand that there will be some changes to the security arrangements, with a move to a 'funds withheld' structure, which should materially reduce Monument Life's counterparty exposure to Monument Re in respect of these liabilities. Such a structure means that Monument Life, as the cedant, will maintain a degree of control over the assets which would otherwise be passed directly to Monument Re as the reinsurer. Those assets will be 'withheld' and placed into a custody account, with Monument Re responsible for ensuring that the value of those assets reflects the value of the liabilities under the reinsurance. Such a structure provides Monument Life security in the event that Monument Re were to default on its obligations under the reinsurance, as they can reclaim the assets from the custody account.

8.12. Those assets therefore provide security for the transferring policyholders in the event that Monument Re (as reinsurer) defaults. I have been provided with documentation relating to the types of assets that are expected to be held and I am satisfied that the expected asset mix is appropriate, and in particular that it does not create any inappropriate risks for the transferring policyholders.

8.13. Monument Life also considers as part of its capital management policy how it may be impacted by a termination of the reinsurance it has with Monument Re. It closely

monitors the financial position of Monument Re and it has a credible plan to be able to recover should that occur. I believe this to be a sensible additional precaution and I have no material concerns about Monument Life's exposure to Monument Re. The Independent Expert report includes a comprehensive analysis of this issue and he also concludes that such exposure does not lead to a material adverse effect on the security of benefits for the transferring policyholders.

8.14. The management of Monument Life have made me aware of a number of transactions which are expected to impact on the financial position of Monument Life in the future. They have provided me with analysis which shows the financial impact of these transactions.

8.15. In the sections below I will consider the regulatory capital position of both companies, their respective capital management policies, and their risk profile, and compare these to the position with Rothesay. I have considered the position after allowing for the expected change to the quota share on the reinsurance and for the anticipated transactions, as this has allowed me to more accurately consider the impact of this Scheme on the transferring policyholders.

Risk profiles

8.16. Monument Re is a life reinsurer domiciled in Bermuda and hence subject to the Bermudan regulatory regime. Their strategy is to reinsure long-dated life insurance liabilities, and to acquire portfolios of existing long-term life business (which can include acquiring companies who own such business).

8.17. The risk profile to which the transferring policyholders are exposed will be different after the transfer. Rothesay is predominantly exposed to credit, market and longevity risks associated with the UK bulk annuity market. The Monument Group's strategy means it is exposed to a more diverse array of risks affecting a wider range of product types and jurisdictions, including mortality and morbidity risk, policyholder behaviour (i.e. lapse) risk and a wider set of market risks including equity and property risk. Annuity business also forms an element of Monument Re's strategy, for which the risk profile will be similar to Rothesay. I do not consider the different risk profile of Monument Re to be a material concern, particularly given that it will act as reinsurer to Monument Life following the Scheme.

8.18. I note that the Monument Group has ambitious plans for growth such that its balance sheet is likely to change significantly over time, with an evolving balance of risks that will depend on the types of new transactions it executes. Rothesay also has plans to grow significantly, however its risk profile is not expected to change materially, except in its scale and in the balance of the risks it has (in particular, driven how much market risk and longevity risk it chooses to or is able to hedge). I have considered the Monument Re business strategy and am comfortable that it would not be expected to lead to a material worsening of its policyholders' security over time. Subject to maintaining sufficient capital (which may include needing to raise capital to support growth), such a growth strategy reduces some of the idiosyncratic risk it may have, and gives increasing diversification of risks and a more stable risk profile.

8.19. I have also considered the possibility that the Monument Group could be unsuccessful in its growth strategy. It has a strong track record of acquiring portfolios of business so there is no reason to doubt that it will be successful. However, irrespective of

Monument Re's success, the future security of its current policyholders does not rely on its growth strategy, hence I have no concerns about this scenario.

8.20. Monument Life is a long-term insurer domiciled in Ireland, and is one of the main vehicles for the Monument Group's acquisitions of life insurance portfolios.

8.21. Monument Life's strategy is to run off the portfolio of existing business, while seeking acquisitions in line with the wider Monument Group strategy. The company has acquired various books of business, and therefore has a wide risk profile including market risk, mortality risks, morbidity risks, lapse risks and expense risk. Following the implementation of the Scheme, Monument Life will also have a meaningful increase in counterparty risk due to the 90% quota share reinsurance contract with Monument Re for the transferring policies, as well as the risks associated with the 10% of the portfolio which is retained.

8.22. Monument Life and Monument Re are subject to regulatory oversight from the CBI and the Bermuda Monetary Authority respectively. This oversight will ensure that both companies are appropriately risk managed, and both regulators have wide powers to intervene if that were not the case.

8.23. I note that the types and quantum of risks which the transferring policyholders will be exposed to will change following the Scheme, and this will include risks like lapse risk and mortality/morbidity risks. Following the conclusion of the proposed transfer of the MADAC and MIDAC liabilities, Monument Life will also take on some non-life risk in the form of liabilities relating to a small block of payment protection insurance (noting that Monument Life is not exposed to any associated mis-selling risk related to this block of business). Monument Life also has some exposure to 'group risk' which is the risk that failure of another entity in the Monument Group has a negative impact on Monument Life, for example through reducing the strength or financial flexibility of its parent and key reinsurance counterparty Monument Re. However, it is my belief that these risks are adequately managed and measured, and are fully reflected in the capital which both Monument Life and Monument Re hold as required by their respective regulatory regimes as well as how they manage that capital (see below). The risk profiles of both firms are in line with their strategic aims and reflect their positions as multi-line life insurer/reinsurer. Therefore, I do not believe that the change in risk profile of the company reflects a material deterioration in the security of policyholder benefits.

Regulatory capital

8.24. The Solvency II regime was briefly described in section 3.29, but in summary a company is required to calculate and hold an amount of capital that is designed to ensure that with a 99.5% likelihood it will have assets equal to or greater than its technical provisions over the next twelve months. This is the SCR, and provides the target level of protection embedded within the Solvency II regime.

8.25. The ratio of own funds to SCR is the SCR coverage ratio; 100% means that a firm has enough Own Funds to meet its SCR.

8.26. In practice most firms intend to hold surplus assets of a value more than the SCR, typically to provide a buffer against adverse outcomes so that they don't drop below 100% SCR coverage, or to ensure that there is sufficient capital in the company that can be used to support future new business. Such a buffer provides additional security for policyholders.

8.27. The calculation of the SCR is intended to reflect the specific risks that the firm has, and therefore a comparison of SCR coverage ratios provides a fair comparison of the relative financial strength of different firms.

8.28. As at 30 June 2019 the respective regulatory balance sheets were:

Table 8.1 Comparison of pro-forma balance sheets at 30 June 2019

| | Rothesay (pre-transfer) £m | Monument Life (post-transfer) €m |
|------------------------------|----------------------------------|--|
| Own Funds | 4,066 | 35.8 |
| Solvency Capital Requirement | 2,310 | 16.0 |
| Surplus | 1,756 | 19.8 |
| SCR cover (%) | 176% | 224% |

The numbers shown for Monument Life are pro-forma as if the Scheme had proceeded and also that a number of other planned activities had been completed as at 30 June 2019.

8.29. It can be seen that the Monument Life coverage ratio is higher, although the Monument Life balance sheet is much smaller.

8.30. However, there can be no guarantee that a firm will continue to hold capital in excess of 100% of its SCR. Excess capital can be used, amongst other things, to repay capital, to pay a dividend, or to support new business or an increased risk profile. Therefore, I have also considered the respective capital management policies, which set out the level of capital which each firm intends to hold, and the actions it will take if it has more or less capital than its target level.

Capital management

8.31. Monument Life is a long-term insurer domiciled in Ireland, and hence subject to the Irish implementation of the EU-wide Solvency II regulatory regime, which is the same regulatory regime as Rothesay is subject to. Monument Re is subject to the Bermudan solvency regime, overseen by the Bermuda Monetary Authority.

8.32. A firm's capital management policy sets out how it will manage its capital, including what level of capital it will target, usually expressed in terms of SCR coverage.

8.33. The capital management policy for both Monument Re and Monument Life set the upper target solvency level at 150%. Rothesay's policy sets out a target range of 130%-150%. All three entities use broadly comparable solvency calculation measures, in accordance with (or in the case of Monument Re similar to) the very strong Solvency II

regime. Monument Life and Monument Re have a past record of maintaining a very high solvency ratio, in excess of the level at which Rothesay typically manages its balance sheet. In absolute terms however, the size of the Monument Life and Monument Re balance sheets and surpluses are significantly smaller than that for Rothesay. Monument Life also has an overlay within its capital management policy which limits the impact of a failure of Monument Re.

8.34. The strategy for the Monument Group is to pool risk and capital at the Monument Re level, such that the group can benefit from diversification of risk and pooling of liquidity that this offers.

8.35. As shown earlier e.g. in Table 7.1, the solvency ratio for Monument Life is currently high, although there can be no certainty that it will remain as high and in fact it is expected to reduce over time due to the activities described earlier and as shown in the pro-forma position in Table 7.1. The actuarial team at Monument Life have provided a projection of the evolution of the capital position for Monument Life following the transfer:

Table 8.2 Projection of Monument Life capital position

| Balance Sheet | YE 19 | Q1 20 | Q2 20 | Q3 20 | YE 20 | YE 21 | YE 22 | YE 23 |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| €m | | | | | | | | |
| Assets | 1,007.8 | 1,673.3 | 1,895.0 | 1,974.4 | 1,916.5 | 1,716.5 | 1,553.1 | 1,416.4 |
| Liabilities | 979.2 | 1,643.0 | 1,862.5 | 1,944.1 | 1,886.5 | 1,687.6 | 1,525.4 | 1,390.3 |
| Own Funds | 28.6 | 30.3 | 32.6 | 30.3 | 30.1 | 28.9 | 27.6 | 26.2 |
| SCR | 8.6 | 14.5 | 15.5 | 12.6 | 12.3 | 11.5 | 10.8 | 10.2 |
| Solvency ratio | 332.6% | 208.5% | 209.5% | 241.6% | 244.6% | 252.0% | 255.9% | 257.3% |

This shows that the company is expected to remain well capitalised, and above the top of its target range, for the period being considered.

This does allow for the current known acquisitions and for the amalgamation of the MIDAC and MADAC books into Monument Life, but does not allow for any other future acquisitions as these are not possible to predict.

8.36. Projections such as the one above make a number of assumptions about future outcomes which cannot be predicted with certainty, and therefore the actual future solvency position is likely to differ from that shown. However, I consider the projection to be credible and it provides an indication that the company is able to operate within the capital management policy that it has set. From the end of 2020 it is assumed that the firm has completed the planned activities and the company is managing only those liabilities it will have at that point. I note that this is projected to lead to small increases in solvency ratio, showing that the company is self-sufficient on that basis. Given the options that Monument Life will have for any capital above its target range (using it to support new business or paying a dividend) I have not relied upon Monument Life maintaining such a level of solvency in the long term.

8.37. I have therefore considered the current levels of capital within Monument Life and Rothesay, as well as the relative capital management plans plus the projected capital for Monument Life. I have also taken into account the strength of Monument Re. Based upon this I have concluded that there would be no material deterioration in the security of the benefits of the transferring policyholders if the Scheme were to proceed.

8.38. Where possible, the assessment above takes into account the known future activities of Monument Life. As noted in Section 7, it is possible for the financial position of Monument Life to change as a result of new business, market conditions or management actions. I will consider the impact of any such events when I produce my Supplementary Report.

Other relevant considerations

8.39. As the policies are currently administered in Ireland and were written using passporting rights, they are already subject to the Irish conduct and consumer protection regime, as determined by the CBI. I have been advised that these rules are similar to those which apply in the UK. This means that there would be no change to the conduct of business rules which apply to the transferring policyholders as a result of the Scheme.

8.40. Currently the transferring policyholders have access to the UK's Financial Services Compensation Scheme ("**FSCS**"), which acts to provide a safety net should a "Relevant Person" for the purposes of the FSCS rules (such as Rothesay) be unable to pay claims or benefits due to policyholders. For life insurance products, including annuities, this protection is for 100% of the claim with no upper limit. It is my understanding that customers of Rothesay are eligible for FSCS protection regardless of where they are based, and under current proposals this will remain the case once the UK leaves the EU.

8.41. There is no comparable compensation scheme for life insurance business in Ireland. However at present Monument Life, by virtue of its passporting rights into the UK under FSMA, is also a "Relevant Person" for the purposes of the FSCS rules and so equivalent rights of compensation from the FSCS currently exist for eligible Monument Life policyholders with respect to it. Having taken suitable advice I understand that Monument Life's eligible status will continue for at least the duration of the transition period following the UK's withdrawal from the EU, and for a further three year transition period given by the UK Temporary Permission Regime ("**TPR**").

8.42. Monument Life has applied to enter the TPR, which will allow insurers based in the EU to continue to operate in the UK for a period of time. Monument Life has indicated to me that, following the end of the transition period (expected to be 31 December 2020), it intends to submit an application to allow it to establish a third country branch in the UK which would provide permanent authorisation. Such an authorisation cannot be put in place until after the UK leaves the EU and any transition period expires. If such a third country branch was established, the policyholders transferring to Monument Life would continue to benefit from rights of compensation under the FSCS even after the period granted by the TPR. I note though that it cannot be completely assured that Monument Life will be able to establish a third country branch in the UK and that, if Monument Life is not successful in establishing a third country branch, the policyholders transferring to Monument Life could ultimately lose this protection.

8.43. However, an additional transitional measure (the UK Financial Services Contract Regime) would apply from the end of the transition period to firms which entered

the TPR but do not obtain UK authorisation. This allows EEA firms such as Monument Life to run off policies that are already in place, for 15 years from the date on which the firm leaves the TPR. I also understand that it is possible for the 15 year period to be extended.

8.44. In summary while the situation is complex and there are some certain contingencies I believe that there is a strong possibility that FSCS protection would continue for the transferring policyholders in the long-term. It will continue to do so for the duration of the transition period, the duration of the TPR and, if applicable to Monument Life, the duration of the UK Financial Services Contract Regime. However, it is not certain indefinitely as such protection is contingent on Monument Life making a successful application to establish a third country branch in the UK. Generally, the FSCS would only be relevant in the event that Rothesay has become insolvent or is otherwise unable to make the payments to policyholders as they fall due. Given the strength of the Solvency II regime and the additional protections built on top of this by Rothesay's capital management policy, I am of the view that a scenario in which Rothesay policyholders would need to rely on the FSCS is extremely remote.

8.45. Further, given the strength of the capital regimes and capital management policies of the entities to which the transferring policies are transferring, the scenario in which there are insufficient funds to pay the transferred policyholders' benefits in full is also extremely remote. In particular, I consider that the Solvency II regime to which Monument Life is subject provides a very strong degree of policyholder protection. Therefore, in my opinion the level of additional protection from the FSCS that may possibly be lost by the transferring policyholders following the end of the relevant transitional period or periods is very minor and therefore is not a material consideration.

8.46. Currently policyholders have access to the UK's Financial Ombudsman Service (FOS), where they can obtain an independent and impartial assessment to resolve any complaints or disputes they may have with their insurance company, including Rothesay. There is a similar scheme in the Republic of Ireland, the Financial Services and Pensions Ombudsman, which the transferring policyholders who live in Ireland are also currently entitled to use. After the Scheme, the transferring policyholders would no longer have access to the UK's FOS but they would all have access to the Irish equivalent. Monument have also agreed to continue to apply the relevant parts of the UK's regulations in relation to complaints handling. Therefore, the loss of access to the UK's FOS is not a material detriment. No transferring policyholders currently have any outstanding complaints logged with the UK's FOS.

8.47. After the UK has left the EU, and should the Scheme not go ahead, Rothesay will no longer be able to legally service the Irish policies indefinitely. While in my opinion it is not certain that this would result in payment to policyholders being stopped, this is nevertheless a possibility, and I consider this risk to the transferring policyholders to be both real and imminent. Therefore by removing this risk there is a benefit to policyholders which arises from the transfer.

8.48. The costs associated with the transfer will be borne in part by Rothesay and in part by Monument Life. No costs will be passed on to the transferring policyholders.

8.49. Rothesay and Monument Life have agreed a protocol for what would happen if, after the transfer, the transferring policyholders contact Rothesay instead of Monument Life. In my opinion this is sufficient to ensure that policyholders are treated fairly and serviced appropriately.

Implications arising from the Prudential / Rothesay Scheme

8.50. On 16 August 2019 the Court, presided over by Mr Justice Snowden, declined to sanction a proposed Part VII scheme which concerned a portfolio of annuity policies which were to transfer from Prudential Assurance Company Limited (“**PAC**”) to Rothesay. That decision is being appealed but it is appropriate for me to consider the implications and relevance of the ruling as handed down as I anticipate that the Court may consider that judgement when it considers whether to sanction this Scheme.

8.51. The reasons given by Mr Justice Snowden in his judgement as to why he declined to sanction the scheme can be summarised as;

- a number of the objecting PAC policyholders had made representation that they had selected PAC for a number of reasons including PAC’s age and established reputation, which in his view Rothesay does not have to the same extent;
- the weight he placed upon the possibility of support to PAC from the accumulated resources of the wider Prudential group, as it existed at the time of his ruling; and
- that PAC’s purpose for the scheme was to release capital, which was largely but not entirely achieved by the reinsurance between PAC and Rothesay which would remain in place if the scheme was not sanctioned, and so the scheme was not necessary to achieve this purpose.

I will address the relevance of these points to the proposed Scheme in turn.

8.52. In this case the transferring policyholders did not actively choose Rothesay at the outset, as they were originally part of a pension scheme which was secured by MAL, and subsequently transferred to Rothesay. Therefore this point is not relevant.

8.53. In relation to wider capital support I note that this is not a point which has typically been considered material in previous insurance transfer schemes. I consider that it is more appropriate to focus upon the capital within the respective companies and their capital management policies in the absence of any binding commitments which can be relied upon. In addition, while there is a group structure above Monument Life, Rothesay and Monument Life are similar in terms of their ability to access capital from their ultimate shareholders, in the unlikely event that it is necessary. Therefore in my opinion this is not a relevant consideration for this Scheme.

8.54. The purpose of this Scheme is to ensure that the transferring policyholders can lawfully continue to receive their benefits once the UK leaves the EU and the transition period and any additional period provided for by the Irish government expires. This can only be achieved by the legal transfer from Rothesay to a provider domiciled in the EU such as Monument Life.

8.55. For these reasons I am satisfied that the PAC/Rothesay judgement has no bearing upon this Scheme.

Impact on transferring policyholders

8.56. Taking all of these points together, I note that Monument Life is smaller than Rothesay, but it is proportionally well capitalised, and such capital allows for the specific risks that it faces. It is subject to the same solvency regime as Rothesay, has a similar capital management policy to Rothesay, and has robust and embedded risk management

policies and governance processes. Monument Life is regulated by the Central Bank of Ireland and overall the regulatory regime in the Republic of Ireland is very similar to the UK regime.

8.57. Having considered the impacts of the Scheme on transferring policyholders in terms of solvency, capital management, risk profile and regulatory protections, overall I am of the view that the security of the transferring policyholders is not likely to be adversely affected as a result of the proposed transfer. In particular, I do not consider the possible loss of FSCS protection to be of material detriment to the policyholders, and particularly not when considered against the real risk of interruption to payments as a result of the UK leaving the EU.

Impact on administration applicable to transferring policyholders

8.58. There are no significant administrative changes that will adversely affect transferring policyholders as a result of the proposed Scheme. Given that this is a portfolio of annuities, the majority of which are in payment, administration is relatively simple. Monument Life outsources the majority of policyholder servicing activities, as does Rothesay. The Scheme will result in policyholder administration moving from Mercer (previously trading as Jardine Lloyd Thompson), which is the administrator chosen by Rothesay, to Equiniti, which is Monument Life's choice. This change will take place on the effective date of the Scheme. Equiniti are experienced administrators. I do not anticipate this would have any material impact on the administration arrangements for the transferring policyholders. I have discussed with the Rothesay administration team the terms and service standards of both Mercer and Equiniti and believe the standards to be equivalent, and in both cases to meet the expectations of policyholders.

8.59. I have also discussed the arrangements for the transfer of records between administrators and the plans to ensure that the transfer is as smooth as it can be for policyholders. I have no concerns at this stage but this is something I will consider further as plans and activities progress and I will comment on as part of my Supplementary Report.

Impact of COVID-19 outbreak

8.60. I am conscious at the time of writing this report that both the UK and RoI are dealing with challenges as a result of the COVID-19 outbreak, and that the situation and the impacts are moving rapidly. While I intend to deal with the possible impacts as fully as possible in my Supplementary Report, I can confirm that I have discussed the impact with the relevant experts, including the possible impacts on Monument Life's financial position, on the plans to transfer administration to Equiniti, and on the legal process, and at this stage I do not need to change any of my conclusions.

Summary

8.61. **Overall, in my opinion, the proposed Scheme and transfer of business will not materially adversely affect the benefits, security or administrative arrangements applicable to the transferring policyholders. Further, I note that the rationale for the Scheme is to reduce the risk to these policyholders that their pension payments may be interrupted due to the UK leaving the EU. Consequently, I do not consider that the proposed Scheme would mean that the principles to treat customers fairly are likely to be breached.**

Section 9 Impact of proposed Scheme on remaining Rothesay policyholders

Impact on contractual terms applicable to remaining Rothesay policyholders

9.1. There are no changes within the proposed Scheme to the contractual terms of any of the remaining Rothesay policies.

9.2. The majority of the benefits payable under the remaining Rothesay policies are fully defined, or vary only in relation to an external data source (e.g. the level of an inflation index). Where Rothesay has some discretion over payments to be made, for example in relation to the amount paid when a deferred annuity is transferred away from Rothesay or other types of commutations, there will be no changes in the approach or basis to be used as a result of the Scheme.

9.3. No changes will be made to any collateral or security arrangements in place with certain trustee policyholders or reinsurance cedant.

Impact on security of benefits applicable to remaining Rothesay policyholders

9.4. As noted in Section 6 of this report, had the proposed Scheme come into effect as at 30 June 2019, the capital impact to Rothesay would have been a very small improvement, and Rothesay would have continued to have capital significantly in excess of the SCR, and in line with its capital management policy. The transferring liabilities represent a very small proportion (less than 0.5%) of the total Rothesay liabilities.

9.5. The costs associated with the transfer will be borne in part by Rothesay and in part by Monument Life. No costs will be passed on to any Rothesay policyholders. These costs are not material in the context of the assets of Rothesay and will have no impact on the security of benefits for Rothesay's policyholders.

9.6. Certain policyholders of Rothesay benefit from access to the FSCS, which acts to provide a safety net should a "Relevant Person" for the purposes of the FSCS rules (such as Rothesay) be unable to pay claims or benefits due to policyholders. Generally, the FSCS covers all individuals and some businesses. The Scheme will not impact the rights of any of Rothesay's remaining policyholders who are currently eligible to make a claim under the FSCS.

9.7. Upon completion of the Scheme, Rothesay will lose all security and recourse to any collateralised assets of Monument Re that formed part of the reinsurance agreement. This is appropriate because at the same time Rothesay will no longer have any counterparty exposure to Monument Re.

9.8. The transferring policies have broadly the same risk profile as the remaining Rothesay policies. There will therefore be no change in Rothesay's risk profile, with the exception that the risk of illegally servicing the transferring policies in Ireland following the UK's exit from the EU will be removed. There will be no change to Rothesay's capital management policy as a result of the Scheme.

9.9. Overall there will be negligible change in the security of benefits of Rothesay policyholders after the Scheme.

Impact on administration applicable to existing Rothesay policyholders

9.10. There are no administrative changes that will adversely affect the existing Rothesay policyholders as a result of the proposed Scheme. Rothesay outsources the majority of policyholder servicing activities and for remaining Rothesay policyholders, members or dependents they will continue to be administered by the same outsourced providers, in the same way, and subject to the same service standards.

Impact on other stakeholders

9.11. There will be no changes to any of Rothesay's reinsurance arrangements as a result of the Scheme, except that as noted the reinsurance with Monument Re will transfer to Monument Life. It is also noted that as part of the Scheme administration of the transferring policyholders will pass from one of Rothesay's outsourced administrators, (Mercer), to one of Monument Life's choosing (Equiniti), and Mercer are working with Rothesay and Monument Life to support the transfer. None of Rothesay's other suppliers or any other stakeholders will be affected by the Scheme.

Summary

9.12. **Overall, in my opinion, the proposed Scheme and transfer of business is not likely to adversely affect the benefits, security or administrative arrangements applicable to remaining Rothesay policyholders. Consequently, I do not consider that the proposed Scheme would mean that the principles to treat customers fairly and to manage conflicts of interest fairly are likely to be breached.**

Section 10 Compliance with actuarial standards

10.1. The Financial Reporting Council (“**FRC**”) sets Technical Actuarial Standards (“**TASs**”) for members of the UK actuarial profession.

10.2. The TASs relevant to this work are:

- TAS 100: Principles for Technical Actuarial Work
- TAS 200: Insurance

10.3. I have considered the extent to which TAS 300: Pensions applies, and I have concluded that although the insurance policies in scope of the Scheme cover benefits originally provided by pension schemes (i.e. through buy-out policies), the Scheme and the associated reinsurance are solely in relation to insurance arrangements, and hence TAS 300 does not apply.

10.4. I have also taken into account guidance issued by the Institute and Faculty of Actuaries (“**IFoA**”) in relation to the TASs.

10.5. It is my assessment that this Report, and the underlying work, complies with the relevant TASs.

10.6. The IFoA issues Actuarial Professional Standards (“**APSS**”) which members must comply with. I have considered the requirements of APS X1: Applying Standards to Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries and applied them to the extent relevant.

10.7. This Report has been prepared in accordance with the Actuarial Professional Standard APS X2: Review of Actuarial Work. The drafting of this Report included an internal review by another actuary in the company, Andrew Stoker FIA, and I have taken his feedback into account when producing this Report. The Report has also been reviewed by both internal and external legal counsel. The Scheme is subject to independent review by the Independent Expert which provides a further review of the conclusions of this Report. I am satisfied that in the context of the Scheme and the purpose of this Report that this is sufficient peer review.

Simon Johnson, FIA

Chief Actuary, Rothesay Life Plc

30 March 2020

Glossary of terms used

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| Chief Actuary | The actuary appointed by Rothesay to carry out the duties set out in the Actuaries section of the PRA rulebook |
| Court | The High Court of Justice of England and Wales |
| Excluded Liabilities | Liabilities associated with the transferring policies but which will not transfer from Rothesay to Monument Life under the Scheme, e.g. tax liabilities, misselling and historic breach liabilities. |
| FRC | Financial Reporting Council |
| FCA | Financial Conduct Authority |
| FSCS | Financial Services Compensation Scheme |
| FSMA | Financial Services & Markets Act 2000 |
| Rothesay Group | Rothesay HoldCo UK Limited and its subsidiaries |
| Head of Actuarial Function | The actuary appointed by Monument Life to carry out duties of the PCF-48 role, as set out in the CBI's regulations and guidelines |
| Independent Expert | The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA |
| Monument Life | Laguna Life DAC (expected to be renamed Monument Life Insurance DAC on 30 March 2020) |
| MAL | Rothesay Assurance Limited (formerly MetLife Assurance Limited) |
| Monument Re | Monument Re Limited, the parent company of Monument Life |
| ORSA | Own Risk and Solvency Assessment. An internal assessment a company makes of its own risk profile and hence the capital needed to allow for those risks |
| Own Funds | A company's assets minus its liabilities, assessed on a Solvency II basis |
| PIM or Partial Internal Model | Partial Internal Model, a type of internal model which may be used to calculate a company's SCR, subject to regulatory approval. Some of the risks are modelled using a bespoke internal calculation, with the remaining risks using the Standard Formula approach |
| PRA | Prudential Regulation Authority |
| RHUK | Rothesay HoldCo UK Limited, the parent company of Rothesay |
| Rothesay | Rothesay Life Plc (formerly known as Rothesay Life Limited) |
| Scheme | The proposed insurance business transfer scheme relating to the transfer of a defined block of business from Rothesay to |

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| | Monument Life |
| Scheme Report | The report by an Independent Expert required as part of the procedure for gaining approval of the Scheme by the Court |
| SCR | Solvency Capital Requirement under Solvency II |
| Standard Formula | A defined method for calculating a company's SCR, using techniques and calibrations intended to be applicable for the majority of insurance companies |
| Supplementary Report | An update to this Report (or, if the context infers, to the Scheme Report), which will be produced before the secondary Court hearing reflecting any material changes that have occurred in the businesses |
| Surplus | The excess of a firm's Own Funds over its SCR |
| Technical Provisions | Solvency II base liability calculated as a sum of the Best Estimate Liability plus Risk Margin net of any transitional provisions |
