Summary of the report of the Independent Expert

Background

I have been instructed by The Prudential Assurance Company Limited ("**PAC**")[1] and Rothesay Life Plc ("**Rothesay**") (collectively "**the Companies**") to report to the High Court of Justice of England and Wales (the **"High Court**") on the terms of the proposed transfer of certain non-profit annuity insurance business of PAC ("**the Transferring Policies**") to Rothesay. The transfer will be effected by means of a scheme of transfer (the "**Scheme**") in accordance with Part VII of the Financial Services and Markets Act 2000. Subject to High Court approval, the date on which the transfer takes place ("**the Transfer Date**") is expected to be during December 2021.

The application to sanction the Scheme was originally declined by the High Court in 2019 but, following a successful appeal against this decision in 2020, the Companies are asking the High Court to consider their application to sanction the Scheme again.

On 14 March 2018, Rothesay entered into an agreement to acquire the Transferring Policies from PAC. While the formal transfer of the Transferring Policies to Rothesay requires the sanction of the High Court, PAC and Rothesay agreed that PAC's economic interest in the material risks and rewards of the Transferring Policies should be transferred to Rothesay in the meantime[2]. This was achieved by putting in place a reinsurance agreement between PAC and Rothesay ("**the Reinsurance Agreement**"). Under the Reinsurance Agreement, Rothesay must reimburse PAC for all annuity payments made to holders of the Transferring Policies unless and until the Transferring Policies are formally transferred to Rothesay under the Scheme, after which Rothesay will make the annuity payments directly to the policyholders. There are some policies that are covered by the Reinsurance Agreement which are not Transferring Policies. These policies will instead remain reinsured to Rothesay after the Transfer Date.

I am a Fellow of the Institute and Faculty of Actuaries in the UK and a partner of Milliman LLP. I have fulfilled the role of Independent Expert for over 20 insurance business transfers that have been approved by the High Court. I confirm that I do not have any direct or indirect interest in PAC, Rothesay or any other related firms that could compromise my independence.

My assessment of the effect of the transfer has been informed by the financial positions of PAC and Rothesay at 31 December 2020, the most recent date at which financial results are available for both Companies at the time of writing.

This is a summary of my full 2021 report. Please refer to my full report (which is available from the PAC and Rothesay websites, or from the Companies on request) for the scope of my work and my conclusions, and the reliances, limitations and standards applying to my work. Neither the full report nor this summary provides financial or other advice to individual policyholders.

Before the final High Court Hearing I will prepare a further report (the "**Supplementary Report**") to provide an update on my conclusions regarding the effect of the proposed transfer on the different groups of policyholders in light of any significant events arising after my full report has been finalised. The Supplementary Report will include information on the financial position of the Companies at 30 June 2021.

The effect of the transfer on the Transferring Policies of PAC

Benefit security

Transferring PAC policyholders will be transferred from a long-established company with a familiar brand name to a less well-known company founded fourteen years ago. However, the age and venerability of an insurer do not

[1] PAC is a UK insurance company and is the primary insurance entity of the M&G Group.

[2] With effect from 1 April 2018 for deferred annuities and 1 July 2018 for annuities in payment.

have a material influence on the security of its policyholders' benefits or the company's ability to meet policyholders' reasonable expectations. Relevant matters I have considered in reviewing the transfer include:

Solvency cover: If the proposed transfer had taken place on 31 December 2020, the level of cover for regulatory solvency requirements[3] would have been higher in Rothesay post-transfer than that in PAC pre-transfer.

Capital management policies: PAC and Rothesay have capital management policies aimed at maintaining solvency cover[4] at an appropriate level. I have reviewed the capital management policies of both of the Companies and have concluded that they are of broadly comparable strength. At 31 December 2020 the solvency cover of each of the Companies exceeded the requirements of its respective capital management policy, as set by its respective Board of Directors, and this would also have been the case after the transfer if it had taken place on that date. Each of the Companies is free to distribute to its shareholder(s) any surplus capital which is not ring-fenced or expected to be needed by the business, and this means that additional security provided by solvency cover in excess of the level required to meet the capital management policy may be temporary.

I have also reviewed the actions available to the Companies to mitigate any breach of their respective capital management policies, and am satisfied that both firms have an adequate range of actions at their disposal to address a scenario in which their solvency position starts to deteriorate.

Long-term guarantee measures: PAC and Rothesay have regulatory approval to make use of certain regulatory provisions (known as "**long-term guarantee measures**") in the determination of their financial position; specifically the Matching Adjustment and the Transitional Measure on Technical Provisions ("**TMTP**"). I have explained in my full report why I do not consider that differences between the Companies regarding the financial benefits received from long-term guarantee measures give rise to a material reduction in the security of benefits for policies transferred from PAC to Rothesay.

Risk exposures: Differences in the risks to which each of the Companies is exposed may lead to differences in the volatility of solvency cover as financial and other conditions change, and it is also necessary to take account of any such differences.

Based on my review of all the relevant factors, including those set out above, I am satisfied that the transfer will not have a material adverse impact on the security of benefits of the Transferring Policies.

Reasonable expectations of holders of Transferring Policies

The Transferring Policies are all non-profit annuities[5] under which income payments are contractually guaranteed, and no changes are proposed to the terms and conditions of the policies. Accordingly, in my view, policyholders' reasonable expectations in respect of their policies are that:

- The administration, management, and governance of the policies are in line with the policy terms;
- The standards of service received after the transfer will be consistent with those currently received; and
- Any discretionary benefits are fair and in line with current practice.

Holders of some of the Transferring Policies are able to elect to commute some or all of the contractual benefits of their policy in certain limited circumstances[6]; that is, the policyholder or contingent beneficiary may choose to forgo some or all of their annuity income in return for a lump sum payment. The amount of lump sum received is, in almost all cases, at the discretion of the insurer (subject to the overriding requirement to treat customers fairly),

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[3] The UK insurance regulations specify minimum levels of capital that an insurer must hold based upon the risks that the insurer has written.

[4] The capital that an insurer has available expressed as a percentage of the minimum level permitted by regulations.

[5] All transferring policies are in-payment annuities with the exception of a very small number of deferred annuity policies

[6] For in-payment annuities, these circumstances comprise:

- a situation in which a pension sharing order has been issued; or
- a situation where the benefits of a contingent beneficiary are small enough to qualify for trivial commutation following the death of the main policyholder.

and is determined by a commutation factor[7] that depends on the insurer's estimate of the life expectancy of the customer, as well as prevailing market conditions (in particular the level of long-term interest rates). I have received analysis from PAC and Rothesay showing that PAC's prevailing commutation factors are not systematically higher or lower than those of Rothesay, although the relative size of the factors varies depending on the features of the policy in question. I have provided more details on this area in my full report.

Since October 2018, the administration and servicing of all of PAC's annuity business (including the Transferring Policies) has been carried out by Tata Consultancy Services ("TCS") and Diligenta, its UK subsidiary. PAC and Rothesay have agreed a transitional services agreement under which PAC will continue to provide administration and servicing (undertaken by TCS on its behalf) to Rothesay in relation to the Transferring Policies for approximately 6 to 12 months after the transfer date, which means that no changes to administration or service standards are expected as a result of the transfer during this period. After the expiry of the transitional services agreement, Rothesay will migrate the administration of the Transferring Policies to a service provider of Rothesay's choice. Rothesay already directly manages over 247,000 individual non-profit annuities and administers these via outsourced servicing agreements (with another 212 bulk buy-in treaties where the administration is managed by the pension scheme). I have reviewed the target service standards for these policies and I consider the service standards to be reasonable and consistent with those currently applicable to the Transferring Policies. I am satisfied that the implementation of the Scheme will not result in a material adverse impact on service standards for Transferring Policies.

Following the transfer, the Transferring Policies will be managed by Rothesay and subject to the governance of the Rothesay Board of Directors. As noted above, Rothesay currently manages large volumes of non-profit annuity business, and is therefore experienced in the management and governance of such business.

After the transfer date it will be necessary to use Rothesay's Pay As You Earn ("**PAYE**") reference for Transferring Policies. For some holders of Transferring Policies, this may trigger a change in their PAYE tax code, either at or directly after the Transfer Date. PAC and Rothesay have received assurances from HMRC that everything possible will be done to avoid incorrect PAYE tax codes being applied to Transferring Policies following the transfer. In particular, HMRC will be made aware of those Transferring Policyholders who have other annuities with PAC that are not transferring, and will take this into account in its work on PAYE tax codes.

Conclusions for Transferring Policies

I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The reasonable benefit expectations of holders of Transferring Policies; or
- The service standards and governance applicable to the Transferring Policies.

The effect of the transfer on non-transferring policies of PAC

Benefit security

If the proposed transfer had taken place on 31 December 2020, there would have been an improvement to PAC's financial strength as a result of the transfer. However, this improvement would be relatively small as PAC has already transferred the risks and rewards associated with the Transferring Policies to Rothesay through the Reinsurance Agreement, and so has already realised significant financial benefits from the transfer.

[7] A commutation factor is the lump sum received by the policyholder for each £1 p.a. of pension income forgone. For example, a commutation factor of 20 means that the policyholder would receive a £20 lump sum for each £1 p.a. of pension forgone.

The proposed transfer will not lead to any material change in the risk appetite[8] or capital management policy in accordance with which PAC is managed, and PAC's ability to comply with its capital management policy will not be materially affected by the transfer.

Reasonable expectations of non-transferring PAC policyholders

No changes will be made to the terms and conditions of non-transferring policies of PAC as a result of the transfer. Furthermore, there will be no change to the operation of PAC and the governance of non-transferring PAC policies will continue to be the responsibility of the PAC Board of Directors and, in the case of with-profits policyholders (none of which will transfer to Rothesay), the role of the PAC With-Profits Committee will be unchanged.

The non-transferring policies of PAC will continue to be administered under the same arrangements and will therefore not experience any change to service standards as a result of the transfer.

The Scheme will have no effect on the benefits payable under policies remaining in PAC.

Conclusions for non-transferring policies

I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits under non-transferring policies of PAC;
- The reasonable benefit expectations of non-transferring policyholders of PAC; or
- The service standards and governance applicable to non-transferring policies of PAC.

The effect of the transfer on Rothesay policies

Benefit security

Based on the financial information I have received as at 31 December 2020, there will be no material change to the financial strength of Rothesay as a result of the transfer as PAC has already transferred the risks and rewards associated with the Transferring Policies to Rothesay through the Reinsurance Agreement.

Rothesay's existing business consists solely of annuities in payment and deferred annuities, and while the Reinsurance Agreement significantly increased the volume of business in Rothesay, it did not materially change the nature of the risks to which its policies are exposed (principally longevity risk[9] and credit risk[10]). As the risks on the Transferring Policies have already been passed to Rothesay through the Reinsurance Agreement, the transfer itself will not add to these risks.

The proposed transfer will not lead to any material change in the risk appetite or capital management policy in accordance with which Rothesay is managed, and Rothesay's ability to comply with its capital management policy will not be materially affected by the transfer.

Reasonable expectations of existing Rothesay policyholders

The transfer will not alter the terms and conditions of existing policies of Rothesay.

The transfer will not lead to any changes to the servicing and administration arrangements for existing Rothesay policies, and no change is expected to service standards for these policies as a result of the Scheme.

The governance of the existing policies will continue to be the responsibility of the Rothesay Board of Directors.

Conclusions for existing Rothesay policies

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[8] Risk appetite is the amount and type of risk that an organisation is willing to take in order to meet its strategic objectives.

[9] Longevity risk is the risk of an adverse financial impact arising from annuity policyholders living longer than expected.

[10] Credit risk is the risk of losses arising from a bond investment or a loan made to a third party. A loss may arise from failure of the counterparty to make payments when due. A loss may also arise because the market considers the likelihood of the counterparty defaulting has increased, and so the value at which the loan may be traded falls.

I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits of the policyholders of Rothesay;
- The reasonable expectations of the policyholders of Rothesay; or
- The service standards and governance applicable to the policyholders of Rothesay.

Overall Conclusions

I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of PAC and Rothesay, including the Transferring Policyholders; or
- The reasonable benefit expectations of the policyholders of PAC and Rothesay, including the Transferring Policyholders; or
- The standards of service, management and governance applicable to the PAC and Rothesay policies, including the Transferring Policies.

I am satisfied that the Scheme is equitable to all classes and generations of PAC and Rothesay policyholders.

The Independent Expert's full report is available online at **prudential.co.uk/annuitytransfer**. It shows in much more detail how the Independent Expert has reached his conclusions. You can also request a copy free of charge, by calling PAC's helpline on 0800 640 9164 or +44 203 755 9194 if calling from outside the UK, or by writing to PAC at Rothesay Transfer, Prudential, PO Box 3122, LANCING, BN15 5DA.