Co-operative Banking Group

Supplementary Report of the Independent Expert on the proposed transfer of the general insurance and reinsurance business of Royal London (CIS) Limited to CIS General Insurance Limited

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05 March 2014

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1. INTRODUCTION

PURPOSE OF REPORT

1.1 I, Derek Newton, prepared a report ("the Report") to the Court and to the Jersey Court dated 17 December 2013 entitled "*Co-operative Banking Group : Report of the Independent Expert on the proposed transfer of the general insurance and reinsurance business of Royal London (CIS) Limited to CIS General Insurance Limited*".

1.2 The conclusions of the Report were based on financial information up to 31 December 2012 and other information available to me when I prepared the Report. Since preparing the Report I have been provided with more recent financial and other information in respect of the relevant companies ("the Additional Information"). Details of some of the Additional Information are set out in Appendix A.

1.3 In paragraphs 1.32 and 6.78 of the Report I stated that I would re-review the financial strength of CISGIL, and the consequences of the Schemes for the affected groups of policyholders, to take into account any further information that may be available relating to either RLCIS or CISGIL. This report (the "Supplementary Report") provides a brief summary of that re-review and an update on my conclusions set out in the Report.

1.4 The Supplementary Report should be read in conjunction with the Report and the full terms of the Scheme. The Supplementary Report has been produced on the same bases as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplementary Report have the same meanings as in the Report.

1.5 Reliance has also been placed upon, but not limited to, the Additional Information. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. At the time of preparing the Supplementary Report, external audit review of those parts of the Additional Information that are subject to audit had not been completed. I have discussed the Additional Information with CBG and have considered how it has changed from similar information provided in support of the Report. I have not re-reviewed the methodology and assumptions used by CBG in its assessment of the liabilities and solvency capital in respect of the general insurance and reinsurance business of RLCIS and of CISGIL, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. I accept no responsibility for errors or omissions arising in the preparation of the Report, provided that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith.

1.6 CBG and Royal London have both informed me that there have been no developments since the Additional Information was made available to me that might be relevant to the Scheme.

1.7 I am required to comply with relevant professional standards and guidance issued by the Financial Reporting Council and the Institute and Faculty of Actuaries, including *Transformations Technical Actuarial Standard* (as published in December 2010), *Insurance Technical Actuarial Standard* (as published in October 2010), *Technical Actuarial Standard D: data* (as published in November 2009), *Technical Actuarial Standard M: modelling* (as published in April 2010) and *Technical Actuarial Standard R: reporting actuarial information* (as published in November 2009). I have complied with such standards, subject to the principles of proportionality and materiality. The Supplementary Report, when taken together with the Report, is intended to form an "aggregate report" as defined in Technical Actuarial Standard R.

1.8 I mentioned in the Report that certain capital requirements are private matters between insurers and the PRA and therefore I am not at liberty to disclose in the Report actual figures relating to those requirements, or figures by which those amounts could be calculated. As part of my analysis I considered the extent to which RLCIS and CISGIL each held capital in excess of their regulatory solvency level, and referred to the ratio of the actual capital that the entity under consideration held relative to the minimum regulatory solvency capital requirement to be the "Capital Cover Ratio". Purely for comparative purposes in the Report I defined the following terms:

- "sufficiently capitalised" refers to a Capital Cover Ratio between 100% and 119%;

- "more than sufficiently capitalised" refers to a Capital Cover Ratio between 120% and 149%;
- "well capitalised" refers to a Capital Cover Ratio between 150% and 199%, and
- "very well capitalised" refers to a Capital Cover Ratio of 200% or more.

In this Supplementary Report I have adopted the same terminology.

1.9 The remainder of the Supplementary Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:

- Section 2: I consider any changes in the information underlying the Report for the companies involved in the Schemes. This is equivalent to Section 3 of the Report; I have not repeated in the Supplementary Report the background to the regulatory environment in which the companies involved in the Schemes operate, which was Section 2 of the Report.
- Section 3: I consider any changes resulting from the Additional Information in my view of the likely impact of the Schemes on the transferring policyholders. This is equivalent to Section 6 of the Report; I have not repeated in the Supplementary Report the key provisions of the Schemes, which had appeared in Section 4 of the Report, or the matters I need to consider as Independent Expert and as Independent Actuary, which I had included within Section 5 of the Report.
- Section 4: I consider any changes resulting from the Additional Information in my view of the likely impact of the Schemes on the policyholders of RLCIS who would remain within RLCIS after the transfer has taken place. This is equivalent to Section 7 of the Report.
- Section 5: I consider any changes resulting from the Additional Information in my view of the likely impact of the Schemes on the current policyholders of CISGIL. This is equivalent to Section 8 of the Report.
- Section 6: I cover more general issues relating to the Schemes and the management of RLCIS and CISGIL.

1.10 I summarise my conclusions in Section 7.

2. CHANGES IN THE ENTITIES CONCERNED IN THE SCHEMES

RLCIS

2.1 As at 31 December 2013 the provisional gross outstanding general insurance and reinsurance claims reserves within RLCIS were similar to those as at 31 December 2012. Payments in respect of existing claims were almost exactly matched by upward movements in the ultimate claim costs, due to the unwinding of discount and mortality assumptions in respect of PPO claims and, in particular, to strengthening of the reserves in respect of liability business. The strengthening of the liability reserves followed an unexpected increase during 2013 in the number of industrial deafness claims notified, which related to pre-1977 underwriting years. I have been told that CISGIL (which advises RLCIS regarding the appropriate level of reserves to be held in respect of its general insurance and reinsurance reserves) has assumed within its reserve calculations for notifications to continue at this raised level for several more years.

2.2 Because of the Indemnity Agreement, as at 31 December 2013 the net outstanding general insurance and inwards reinsurance claims reserves within RLCIS were virtually zero (I understand that RLCIS provisionally intends holding a small reserve against the risk of CISGIL defaulting on the Indemnity Agreement and then of CBG not fulfilling its guarantee of the Indemnity Agreement on behalf of CISGIL).

2.3 As at 31 December 2013, the statutory MCR for the general insurance and reinsurance business remained at £9.0 million, the same as at 31 December 2012, and the capital resources available to meet the regulatory capital requirements relating to the general insurance and reinsurance business in RLCIS were £11.5 million. This amount still provided a Capital Cover Ratio for the MCR as at 31 December 2013 of 128%. This exceeds the 110% minimum level required by the SPA for the duration of the GI Capital Support Period (which has not yet expired).

2.4 Although there have been some movements during the course of 2013 in the liabilities in respect of the long-term business within RLCIS, as at 31 December 2013 those liabilities remained roughly 200 fold bigger than the gross liabilities in respect of the general insurance and reinsurance business. As at 31 December 2013, RLCIS's long-term business remains very well capitalised in respect of the MCR and more than sufficiently capitalised in respect of its ECR.

2.5 As at 31 December 2013, 37 inwards reinsurance contracts remained open, with total gross outstanding liability of £1.0 million. Of these, 34 had been written under English law or under the laws of other EEA member states – the 34 account for £0.8m of the gross outstanding liability. I have been informed that, of the 3 still-open contracts written under laws of countries outside of the EEA, CBG has in-principle agreements with one of the cedants for that contract to be novated to CISGIL, and is currently working on achieving commutation or novation to CISGIL of the remaining two inwards reinsurance contracts.

2.6 I have been told that no further legal opinions have been sought or obtained regarding the purpose, role and status of the General Reserve in relation to RLCIS's general insurance and reinsurance business, although I am aware that Royal London has been provided by external lawyers with a draft of a legal memorandum which considers these matters in relation to RLCIS's long term business. I have been provided with a copy of the draft. I maintain the view that I expressed in the Report that any assurance regarding solvency in respect of the Transferring Policyholders that is provided by the existence and level of the General Reserve should be considered transitory.

2.7 I am unaware of any further material changes relating to RLCIS which might affect the opinions that I expressed in the Report.

CISGIL

2.8 As at 31 December 2013 the proposed discounted general insurance and reinsurance claims reserves within CISGIL were slightly lower than they had been as at 31 December 2012, both gross and net of reinsurance. While there have been some changes during the course of the year to the detail of the reserving approach, overall this has had little impact on the relative strength of the booked reserves. Instead, the reduction in the reserves reflects lower volumes of business having been written during 2013 which means that the run-off of prior years' reserves have exceeded the reserves set up during the year for 2013 occurrences.

2.9 As at 31 December 2013, the MCR for CISGIL remained £205.2 million. The capital resources within CISGIL to meet the MCR were £333.4 million, i.e. the Capital Cover Ratio for the MCR is 163%.

Risks

2.10 The risks to which CISGIL is exposed have not changed during the course of 2013, nor has the nature of those risks, with the possible exception of group risk. While CBG was of the view that CISGIL did not need to hold explicit capital in respect of group risk, during the course of 2013 CBG received considerable negative publicity, mostly related to its banking operations. At the time that I wrote the Report, there was concern that problems in The Co-operative Bank plc (the "Bank") could adversely affect CFSMSL, which provides certain services to CISGIL as well as to the Bank, especially if, as then considered possible, CFSMSL were to become a wholly-owned subsidiary of the Bank. I have been told that it has since been resolved that CFSMSL remains a subsidiary of CBGL and will not become a subsidiary of the Bank. CBGL's equity share in the Bank has been materially reduced as a result of the refinancing. Furthermore, staff and systems within CFSMSL are being separated between those relating to the Bank and those relating to CISGIL. The aim is to have complete separation between the two parts, so that difficulties in one part do not affect the other, although it is anticipated that this will take up to two years to achieve. In this respect, the group risk to which CISGIL is exposed appears to have reduced slightly from that which I described in the Report.

2.11 The Board-approved risk appetite has altered slightly, following the Board meeting on 17 December 2013:

2.11.1 The return on capital measure has been amended to be a return on equity ("ROE") rather than a return on risk-adjusted equity ("RORAE"). With no change in the minimum target levels, this is a slightly higher hurdle than hitherto; and

2.11.2 The profit volatility criterion, whereby the probability of making an operating loss (excluding significant expenses) in any one year would be less than 25%, has been discontinued as it was agreed that, as a co-operative, profit volatility is not as acute a problem as it would be for a publicly quoted company, especially in light of the strengthened return on equity minimum target set out in paragraph 2.11.1 above.

2.12 Although CISGIL's stated risk appetite in relation to buffer capital is unchanged, CISGIL management believes that the latest version of the model underlying the ICA, which otherwise is considered a more effective tool than the previous version for the management of the business (see paragraph 3.14 below), models Market Risk simplistically, resulting in an overstatement within the ICA of that risk. The model will be further refined during 2014, with attention being paid to Market Risk. Any overstatement of Market Risk within the ICA would mean an implicit additional buffer capital within CISGIL.

2.13 I am unaware of any substantial changes to the reinsurance programme, to the operation of the Indemnity Agreement or to any other aspect of CISGIL that might affect the opinions that I expressed in the Report.

GOVERNANCE – TCF

2.14 I have been informed that there have been no changes to the guidance issued by CISGIL to its claims teams regarding the need to adhere to the TCF principles and providing instruction on how this should be achieved.

2.15 I have seen examples of the spreadsheet that is used as a TCF dashboard for the general insurance business. It considers and monitors performance by product line against a large number of criteria, and scores each of those on a monthly basis. Depending on the targets and the degree of tolerance, those scores are then coloured Green, Amber or Red (Green being satisfactory, Red unsatisfactory). The December 2013 example showed scores that were mostly Green, with some Amber and some Red (mostly regarding transparency of information and fulfilment of customer expectations). I note that the amount of amber and red on the dashboard has decreased since December 2012, implying some improvement overall in adherence to the TCF principles over the year.

3. CHANGES IN THE IMPACT OF THE SCHEMES ON THE TRANSFERRING POLICYHOLDERS OF RLCIS

3.1 As I explained in the Report, if the transferring policyholders of RLCIS were to be adversely affected by the Schemes, it is likely that this would be due to relative differences in:

- The financial strength of CISGIL after the transfer compared with that of RLCIS (insofar as that was relevant to the transferring policyholders), which in turn would be related to the strength of the reserves held, excess assets or capital, and specific financial support arrangements;
- The risk exposures in CISGIL compared with those in RLCIS, and
- The policy servicing levels provided by CISGIL after the transfer compared with those currently enjoyed by the policyholders of RLCIS.

3.2 In this Section I consider how, if at all, the Additional Information has affected my view of each of these, as expressed in the Report, and in particular whether the Additional Information has affected my conclusions.

RESERVING

3.3 There has been no change in the practice by which CISGIL sets reserves collectively for all of the general insurance and reinsurance business written by CISGIL and by RLCIS, and there remains no differentiation of which I am aware in the reserving approach, methodologies or assumptions between those applied to business underwritten by RLCIS and those applied to business underwritten by CISGIL.

3.4 I have been provided with details of the provisional best estimate and booked reserves as at 31 December 2013, the process by which the reserves are established and details of the internal actuarial reviews which have been performed. I have also discussed the processes and key issues arising from the review with the relevant actuaries.

3.5 The general methodology remains unaltered over the course of 2013. The main changes made during the year have been:

3.5.1 Subsidence: a report provided by PwC in respect of CISGIL's reserves as at 31 March 2013 had suggested that the approach taken hitherto by CISGIL was overly prudent. As at the year-end some of the conservatism has been removed from CISGIL's gross best estimates, releasing £4.8m.

3.5.2 Liability: there has been an unexpected increase in the number of deafness claims reported for pre-1977 covers (which would be among the Transferring Policies). The reserves now assume that this is not a blip but that such late reporting will continue for several more years, which increased gross best estimates by £7.4m

3.5.3 Motor segmentation: there have been various changes, which overall have increased the ultimate claim costs, with increases in best estimate attritional claim costs being partially offset by releases relating to large claims.

3.5.4 The overall management margin between booked reserves and best estimate has been reduced from 8.3% to 7.4%.

3.6 The sources of uncertainty have not changed over the course of the year. The reserves remain related mainly to motor insurance. The explicit management margin (net of salvage and subrogation) as at 31 December 2013 of £43.8 million is £9.3 million less than it was as at 31 December 2012 when the margin was 8.3%. Having said that, changes implemented during the year to the best estimate calculation would have strengthened the best estimates relative to those as at 31 December 2012. I have no reason to believe that the best estimate reserve calculated is not well within a range of reasonable best estimates.

Conclusion

3.7 ***I have not altered my view that the both CISGIL and RLCIS's general insurance and reinsurance business are currently reasonably reserved pre transfer, and that CISGIL will be reasonably reserved after the Effective Date.***

THE FINANCIAL STRENGTH OF RLCIS

3.8 The general insurance and reinsurance policyholders of RLCIS continue to derive their security from the assets supporting RLCIS's general insurance and reinsurance business and from the capital position of RLCIS, in particular from the Indemnity Agreement. I have been told that RLCIS will hold as at 31 December 2013 a very small reserve, net of reinsurance, against the possibility of CISGIL and CBGL defaulting on their respective obligations under the Indemnity Agreement.

3.9 As at 31 December 2013, the liabilities of RLCIS relating to its general insurance and reinsurance business were much as they had been as at 31 December 2012, although a higher proportion than before now relates to liability business. As at 31 December 2013, ignoring the General Reserve, RLCIS had capital resources available to cover general insurance and reinsurance business capital resource requirements of £11.5 million compared with a MCR of £9.0 million (this represents Capital Cover of 128%, the same as at the time of the Report). In the event that CISGIL were unable to fulfil its responsibilities to RLCIS under the Indemnity Agreement, these assets would be available to meet the obligations to RLCIS policyholders, although, based on RLCIS's gross reserves as at 31 December 2013 for its general insurance and reinsurance business, they would be far from sufficient to meet all of those obligations. In an extreme solvency scenario, claims relating to general insurance and reinsurance could be supported by the General Reserve but only insofar as it then remained available. There have been no changes since the Report to the magnitude of the General Reserve or to the intention of Royal London to release it following completion of the LTBF Scheme, subject to various approvals. Therefore, I continue to regard additional Capital Cover provided by the General Reserve to the general insurance and reinsurance business to be transitory.

3.10 There have been no material developments within RLCIS regarding the exposure to Eurozone assets.

Conclusion

3.11 ***I have not altered my view that the transferring policyholders of RLCIS under both of the Schemes currently enjoy a very high level of financial security.***

THE FINANCIAL STRENGTH OF CISGIL

MCR

3.12 As at 31 December 2013, the policyholders of CISGIL (generally) enjoyed the security of capital resources (i.e. assets available to meet regulatory capital requirements) provisionally calculated as £333.54 million compared with a MCR of £205.2 million. The Capital Cover Ratio for the MCR was therefore 163% (158% as at 31 December 2012). Based solely on the MCR, CISGIL was well capitalised as at 31 December 2013.

ECR

3.13 On an ECR basis, CISGIL was very well capitalised as at 31 December 2013, the ECR being lower than the MCR due to a quirk in the calculation of the MCR, as described in the Report. The ECR has decreased by 11% from the value filed with the FSA as at 31 December 2012. Much of this is due to lower than originally expected premium volumes having been written during 2013, and to lower planned premium volumes for 2014. During 2013, the available capital has also decreased, by 2%.

ICA

3.14 The ICA model has been enhanced since May 2013 (the last ICA-related documents that had been made available to me prior to the provision of the Additional Information) as follows:

3.14.1 There have been updates to the catastrophe model, to the economic scenario generator, to the asset models, and to the modelling of the pension deficit;

3.14.2 There have been several "process" improvements to the model; and

3.14.3 The model has been further updated to incorporate changes to the 2014-2018 strategic plan.

These changes individually have both increased and decreased the required capital; the overall impact has been virtually nil (i.e. the effects of the various changes have cancelled out one another).

3.15 I have discussed these changes with CBG. They, and their respective effects on the ICA estimates, appear broadly reasonable. Nothing in the Additional Information has emerged to change my earlier conclusion that the ICA forms a reasonable basis for assessing the capital requirements of CISGIL. I have noted that the ICA assumes that reserves are held at best estimate levels. Therefore, both the explicit margin above best estimate within the reserves held as at 31 December 2013 and the claims equalisation reserves may be included within the capital resources available to meet the ICA. Based on the latest ICA amount, I consider CISGIL to be more than sufficiently capitalised relative to its ICA.

ICG

3.16 Based on the figures provided by CBG as at 31 December 2013, I consider CISGIL to be more than sufficiently capitalised relative to its ICG. This assumes the inclusion within the capital resources available to meet the ICG of the claims equalisation reserves and the explicit margin above best estimate within the reserves held as at 31 December 2013, and of the difference between the undiscounted and discounted best estimate reserve amount. The Capital Cover Ratio has increased slightly over the course of 2013. I consider that CISGIL continues to be more than sufficiently capitalised relative to its ICG.

Conclusion

3.17 ***Overall, based on my review as described above concerning the excess assets of CISGIL as at 31 December 2013, I have not altered my view that the policyholders of CISGIL currently enjoy a level of security that is more than sufficient.***

CISGIL excess assets post transfer

3.18 The excess assets of CISGIL (save in respect of CISGIL's MCR) should remain more or less unchanged as a result of the transfer, as all RLCIS business is, in effect, currently reinsured into CISGIL by means of the Indemnity Agreement and no further assets will be transferred from RLCIS, other than outwards reinsurance contracts. In particular, no capital will be transferred from RLCIS to CISGIL as part of the Schemes.

3.19 However, as discussed in the Report, CISGIL's assets in excess of its MCR will virtually double post-transfer as the MCR will be on a restated basis post-transfer, the restated value being roughly half of the pre-transfer value. This is unchanged from that stated in the Report.

Conclusion

3.20 ***I have not altered my view that neither the Scheme nor the Jersey Scheme will have any effect on the excess assets of CISGIL, and it remains my view that the policyholders of RLCIS transferring to CISGIL (including those in respect of RLCIS's Jersey Business) will continue to benefit from the excess assets of CISGIL post transfer, as direct policyholders of CISGIL, as they did under the Indemnity Agreement pre transfer.***

Position of transferring policyholders in the event of the insolvency of CISGIL

Pre transfer

3.21 The Deed of Amendment and Restatement binds CBGL to make good any shortfall in the event of CISGIL being unable to meet its obligations to RLCIS under the Indemnity Agreement. In the Report, I stated that I considered it unlikely that, in the event of CISGIL's insolvency, CBGL would not be able to meet fully CISGIL's obligations under the Indemnity Agreement. Following the agreement to refinance the Co-operative Bank, with CBGL's equity holding in the Bank being reduced, I consider it even more unlikely that, in the event of CISGIL's insolvency CBGL, would not be able to fulfil its obligations under the Indemnity Agreement.

3.22 In the very unlikely event that both CISGIL and CBGL did not meet their respective obligations to RLCIS under the amended and restated Indemnity Agreement, RLCIS would have to rely upon available funds within RLCIS to meet (at least part of) the claims of the transferring policyholders. These are largely unaltered from the position set out in the Report.

Post transfer

3.23 The post transfer position is unaltered from that set out in the Report.

Comparison of the position pre and post transfer

3.24 I remain of the view that, in the event of the insolvency of CISGIL, the transferring policyholders would be disadvantaged by the Schemes. However, because of the current financial strength of CISGIL, which has improved slightly based on the information currently available compared with that available to me as at the time of the Report, I believe that the likelihood of CISGIL becoming insolvent in the short term is small. I therefore continue to conclude that, overall, the security of the policyholders of RLCIS transferring to CISGIL under the Schemes is not affected to a material extent by the risk of CISGIL becoming insolvent.

Conclusion on the financial strength for policyholders transferring to CISGIL

3.25 ***Based on the reserve strength and capital position of CISGIL, I maintain my view that the Scheme will not adversely affect, to any material extent, the security of the policyholders of RLCIS transferring to CISGIL.***

3.26 ***Similarly, I maintain my view that the Jersey Scheme will not adversely affect, to any material extent, the security of the policyholders of RLCIS's Jersey Business transferring to CISGIL.***

THE CHANGE IN RISK EXPOSURE DUE TO THE SCHEMES

3.27 The general insurance and reinsurance risk exposures in RLCIS remain broadly similar to those within CISGIL, save that the shorter tailed claims have now (almost) all been settled, leaving a rump of longer tailed claims still outstanding (including PPOs in payment) – the outstanding direct claims within CISGIL include a higher proportion of shorter tailed claims. However, RLCIS is already exposed to the CISGIL risks through CISGIL's indemnification of RLCIS and therefore, indirectly, the RLCIS general insurance and reinsurance policyholders are also exposed to the CISGIL risks.

Conclusion

3.28 ***I remain satisfied that neither the Scheme nor the Jersey Scheme will have a materially adverse effect on the security of policyholder benefits through any change of the risk exposures.***

THE CHANGE IN POLICY SERVICING DUE TO THE SCHEMES

3.29 The business being transferred to CISGIL is already wholly administered within CISGIL and there have been no recent changes to the administration, or to the plans for future administration, of claims and policies. I understand that the changes within CFSMSL, referred to in paragraph 2.10, are not intended to affect the services provided to CISGIL by CFSMSL but are to ensure that the provision and standards of those services are not jeopardised in the event of further problems emerging in the Bank.

Conclusion

3.30 ***I remain of the view that neither the Scheme nor the Jersey Scheme will have a materially adverse effect on the policy servicing levels enjoyed by the transferring policyholders of RLCIS compared with their current position.***

Conclusion for the policyholders of RLCIS transferring under the Scheme

3.31 ***I remain satisfied that the Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the policyholders of RLCIS transferring under the Scheme.***

Conclusion for the policyholders of RLCIS transferring under the Jersey Scheme

3.32 ***I remain satisfied that the Jersey Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the policyholders of RLCIS Jersey Business transferring under the Jersey Scheme.***

4. CHANGES IN THE IMPACT OF THE SCHEMES ON THE POLICYHOLDERS OF RLCIS WHO WILL REMAIN IN PLACE AFTER THE TRANSFER

The remaining RLCIS life assurance policyholders

4.1 I concluded in the Report that the RLCIS life assurance policyholders would be largely unaffected by the Schemes and nothing has emerged within, or from analysis of, the Additional Information to persuade me otherwise. I remain satisfied that the Schemes will not have a materially adverse effect on the security of, or the service levels enjoyed by, the RLCIS life assurance policyholders, including those whose life assurance contracts were written in accordance with RLCIS's Jersey authorisation.

Holders of Excluded Policies

4.2 There is no change to the rights of any Excluded Policies. RLCIS will hold a small net provision in respect of Excluded Policies for the non-performance of the Indemnity Agreement. The situation of the holders of Excluded Policies would be identical to that prior to the Effective Date. There would also be no changes to the policy servicing or administration of the Excluded Policies.

Conclusion for the holders of Excluded Policies

4.3 ***I also concluded in the Report that neither the security nor the service levels of the holders of Excluded Policies would be affected by the Schemes and nothing has emerged within, or from analysis of, the Additional Information to change that view. I remain satisfied that the Schemes will not have a materially adverse effect on the security of, or the service levels enjoyed by, the holders of Excluded Policies.***

5. CHANGES IN THE IMPACT OF THE SCHEMES ON THE CURRENT CISGIL POLICYHOLDERS

5.1 The discounted liabilities to be transferred to CISGIL remain significantly smaller than CISGIL's technical provisions as at 31 December 2013, both gross and net of reinsurance. There will be no change to the reserves, financial strength or risk exposures in CISGIL as a result of the Schemes. No other changes in policy servicing or administration will result from the Schemes.

Conclusion for the CISGIL policyholders

5.2 ***I remain satisfied that neither the Scheme nor the Jersey Scheme will have a materially adverse effect on the security of, or the service levels enjoyed by, existing CISGIL policyholders, including those whose contracts were written in accordance with CISGIL's Jersey authorisation.***

6. OTHER CONSIDERATIONS

THE LIKELY EFFECTS OF THE SCHEMES UPON REINSURERS OF RLCIS

6.1 I remain satisfied that the Schemes will not have a materially adverse effect on the reinsurers of RLCIS whose contracts of reinsurance are to be transferred by the Schemes.

SERVICE STANDARDS

6.2 I remain satisfied that there should be no changes to the service standards for transferring and non-transferring policyholders as a result of the Schemes.

COMMUNICATING WITH AFFECTED PARTIES

6.3 I understand that the communications have been as summarised in the Report. I have seen some examples of the communications such as the formal notice in *The Times* newspaper. I understand that 6 of the 111 letters sent have been returned undelivered. I have been notified of responses. As at 28 February 2014 there had been, in response to the communications:

- 133 calls to the dedicated call centre, of which only a small proportion came from general insurance and reinsurance policyholders;
- 348 website visits, which have resulted in the download of 27 policyholder guides, 20 summaries of the Schemes and of the Report, 12 Scheme documents and 4 Jersey Scheme documents, 9 claim forms, 11 Pre-transfer Notices and 3 Formal Notices relating to the Jersey Scheme.

I have been told that no letters or communications from brokers have been received regarding the Schemes. I have also been told that no objections to the Schemes were recorded by the dedicated call centre and I am unaware of any objections to the Schemes having been notified to CISGIL or RLCIS via any other medium.

6.4 I consider the actions taken to be appropriate for the enquiries made, although I have not personally checked those actions.

OPERATIONAL PLANS AND CHANGES IN ASSETS AND LIABILITIES UP TO THE EFFECTIVE DATE

6.5 I have already noted that CBG has announced that it no longer intends the sale of CISGIL, and that, In December 2013, the CISGIL Board agreed a revised strategic plan for 2014-18. I do not believe that either development alters adversely the future security of, or service levels enjoyed by, any group of policyholders who may be affected by the Schemes.

7. CONCLUSIONS

CONFIRMATION OF OPINION

7.1 I have further considered the effect of the proposed Schemes on the policyholders of RLCIS and CISGIL in the light of the Additional Information made available to me since the date of the Report. I confirm that my overall opinion and conclusions as set out in Section 10 of the Report are unchanged.

7.2 In reaching this opinion I have complied in all material respects with the principles of the Transformations TAS.

DUTY TO THE COURT

7.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty.

STATEMENT OF TRUTH

7.4 I confirm that, insofar as the facts stated in this Supplementary Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Derek Newton / 4 March 2014

Fellow of the Institute and Faculty of Actuaries

APPENDIX A KEY SOURCES OF DATA

A.1. In writing the Supplementary Report, I relied upon the accuracy of certain documents provided by CBG and Royal London. Several of these documents were in draft form and none had been fully audited as at the time that I received them. These documents included, but were not limited to the following:

- General Insurance 2014-18 Strategic Plan as presented to the CIS General Insurance Board, dated 17 December 2013;
- An actuarial reserve report to the Quarterly Reserving Forum entitled *General Insurance Reserving (and P&L Impact on Q4 2013 Results* dated 20 January 2014 – I have also received a slide pack (also dated 20 January 2014) which summarises this report;
- An actuarial reserve report entitled *Electricity Industry Run-Off Services Limited – Actuarial estimation of EL and PL IBNR as at 30 June 2013* and dated 13 December 2013 which had been prepared by Towers Watson;
- An Excel spreadsheet entitled *Info for finance – Year End 2013 – Sent 2014-01-24* which sets out, as at 31 December 2013, the best estimate and booked outstanding claim amounts, discounted, both gross and net of salvage & subrogation and of outwards reinsurance;
- An Excel spreadsheet entitled *Capital Buffer Calcs P12 2013 – for Indep Expert (Part VII)* which sets out, monthly for years 2012 – 2017 (using actual figures for 2012 and 2013, and projected figures for 2014 – 2017), the following:
    - The component parts of the ECR as at the end of each month
    - The consequential ICG amounts as at the end of each month
    - The MCR amount as at the end of each month
    - The available capital at the start and end of each month
    - The sources of the movement in those capital amounts during each month;
- A note, from Neil Southworth and Roger Dawber, dated 17 January 2014, explaining changes made, following the December 2013 Board meeting, to the stated risk appetite of CISGIL;
- A spreadsheet of all RLCIS inwards reinsurance treaties that remained open as at 31 December 2013, with those written under non-EEA law highlighted and with a note that identified those for which novation had been agreed in principle with the cedant;
- Copies of a weekly Excel spreadsheet used by CBG to monitor responses to the communications issued regarding the Schemes – the most recent spreadsheet received was as at 14 February 2014, but I was provided orally with an update of the spreadsheet content as at 28 February 2014;
- Copies of the call logs for each of the 60 calls received by the dedicated call centre on or before 14 February 2014;
- An e-mail dated 17 January 2014 from Royal London providing certain information regarding the long-term liabilities and related capital requirements within RLCIS as at 31 December 2013;
- A Powerpoint presentation pack entitled "*General Insurance Financial Performance December 2013 version 2.0*"; and
- Four slides (extracted from a larger pack which was not provided) which provide a matrix with commentary and certain indicators regarding TCF performance in relation to the general insurance business.

A.2. Information relating to the items listed above and to other matters was also gathered during discussions with staff of CBG and Royal London.