The Equitable Life Assurance Society

Proposed Transfer of Annuities to Canada Life Limited

Report by M. W. Sinkinson, Head of Actuarial Function of The Equitable Life Assurance Society, on the impact of the proposed transfer on its policyholders

2 October 2015

1. Introduction

1.1 Background

The Equitable Life Assurance Society (the “Society”) is a mutual life insurance company. Canada Life Limited (“CLL”) is a proprietary life insurance company owned by The Canada Life Assurance Company, which is a subsidiary of Great-West Lifeco Inc in Canada.

Pursuant to an Annuity Business Transfer Agreement between the Society and CLL dated 2 March 2015 (the “Transfer Agreement”), an application is being made to the High Court for approval of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “Scheme”) to transfer certain annuities in payment (the “Transferring Annuities”) from the Society to CLL. If approved, the Scheme is expected to take effect on 19 February 2016 (the “Effective Date”).

A reassurance agreement dated 2 March 2015 (the “Reassurance”) is in place under which all Transferring Annuities, except for unit-linked annuities, have been reassured by CLL with economic effect from 1 January 2015. The Reassurance will terminate automatically when the Scheme becomes effective.

The Transferring Annuities are currently administered by the Society. Responsibility for the administration of the Transferring Annuities will pass to CLL upon the Scheme becoming effective. The Society has agreed to provide assistance to CLL for a period following the Effective Date. That assistance will be sufficient to enable Canada Life to take on the administration, investment management and custodian services.

The Society has one long-term business fund and, as a mutual company, has no shareholder fund. The Transferring Annuities are liabilities of the long-term business fund. With-profits policyholders participate in the profits and losses of the Society, including those attributable to the Transferring Annuities.

1.2 Purpose of Report

The purpose of this report is to describe the impact of the Scheme on all policyholders of the Society. In particular, this report describes how the Scheme will affect the security of their benefits and their reasonable benefit expectations. It also sets out how the Scheme is consistent with the requirement to treat customers fairly.

This report has been written for the Society’s Board in my capacity as Actuarial Function Holder. The report may also be used by the Independent Expert, the High Court, Prudential Regulation Authority (“PRA”), Financial Conduct Authority (“FCA”) and the courts and relevant regulators in Jersey and Guernsey in forming their own judgements about the Scheme.

Under the professional standards of the Institute and Faculty of Actuaries I confirm that:

a) I have taken into account the requirements of the Technical Actuarial Standards issued by the Financial Reporting Council when preparing this report. The Technical Actuarial Standards which apply to the work performed in preparing this report are TAS R: Reporting Actuarial Information; TAS D: Data, TAS M: Modelling; the Insurance TAS and the Transformations TAS.

b) In my opinion, there are no material departures from any of these Technical Actuarial Standards.

1.3 Other advice and opinions

The Society's With-Profits Actuary has prepared a report on the Scheme and concludes that both the Reassurance and the Scheme are beneficial to the Society's with-profits policyholders and in line with the Society's strategy. She considers the proposed Scheme to be fair to with-profits policyholders.

1.4 Disclosure

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as Actuarial Function Holder for the Society on 19 October 2011.

I am an employee of the Society. I am not a Director of the Society. I am not a policyholder of either the Society or CLL. I have no interest in the shares of CLL or Great-West Lifeco Inc.

The opinions expressed in this report have been formed without regard to my personal interests.

2. Overview of the Equitable Life Assurance Society

2.1 History

The Society was established in 1762 as the Society for Equitable Assurances on Lives and Survivorships. It was registered as an unlimited company with its current name, The Equitable Life Assurance Society, on 18 August 1892.

The Society is authorised in the United Kingdom by the PRA to effect and carry on insurance policies in long term insurance authorisation classes I (Life and annuity), II (Marriage and birth), III (Linked long-term), IV (Permanent health), VI (Capital redemption) and VII (Pension fund management). The Society is regulated by the PRA and the FCA.

The Society started selling pension business in 1913 and, in 1957, introduced the Retirement Annuity contract as a flexible pension for the self-employed. The Society actively started growing its pensions and life business in 1973 through a direct sales force. During the 1980s and 1990s Equitable Life experienced a period of rapid growth, particularly in the area of pensions.

Initially, the Society only offered a standard non-profit annuity. A very limited form of unit-linked annuity followed in the 1970s. Over the years, however, the Society widened its annuity product range to include with-profits, further unit-linked and index-linked pension and purchased life annuities, and managed pensions (income drawdown).

On 8 December 2000, the Society closed to new business, including open market options from other insurers' pension policies. Since then, only existing pension policy holders have been able to purchase non-profit and index-linked pension annuities.

On 1 March 2001, the Society's unit-linked business and all non-profit business, excluding immediate annuities in payment at that time, were reinsured with Halifax Life.

On 9 February 2007, £4.6bn of the Society's UK pension annuity business was transferred to Canada Life.

On 31 December 2007, the Society's with-profits annuity business, with a value of around £1.75bn, was transferred to Prudential.

The Society's strategy is to recreate policyholder value.

To deliver the strategy the Society has stated that it will, amongst other things:

- Reduce risks leading to lower solvency capital requirements, so increasing the amount available for distribution to with-profits policyholders;

- Distribute all of the assets, after meeting obligations to non-profit and unit-linked policyholders, amongst with-profits policyholders as fairly and as soon as possible.

On 1 April 2011, the Society began the process of distributing capital to its with-profits policyholders. The initial level was 12½% of policy values. That was increased to 25% of policy values in 2014 and to 35% with effect from 1 April 2015.

Further details on the Society's use of policy values and approach to capital distribution are set out in its Principles and Practices of Financial Management.

On 7 March 2015, the Society's unit-linked business and pension term assurance business was recaptured from Halifax Life. This reduced significantly the Society's Solvency II capital requirements.

2.2 Nature of business written

The vast majority of the Society's business was written in the UK. A small proportion was written through branches in Guernsey, Germany and the Republic of Ireland.

Business was sold by representatives of the Society and by direct marketing.

2.2.1 With-profits business

The majority of with-profits contracts are in the following categories:

- Unitised with-profits pension policies;
- Unitised with-profits critical illness policies on a non-guaranteed premium basis;
- Unitised with-profits savings plans;
- Traditional endowment and whole of life policies;
- Traditional deferred annuity policies with guaranteed annuity rates;
- Traditional endowment pension policies, some with guaranteed annuity rates;
- Single premium unitised with-profits whole life bonds;
- Unitised with-profits whole life policies; and
- Unitised with-profits income drawdown policies (managed pensions).

Unitised with-profits pension plans form the largest category of the business currently in force. Several of these plans originally contained Guaranteed Annuity Rates ("GARs"). In 2002, a compromise scheme was agreed in which policyholders gave up their GARs in exchange for an uplift to their policy values. The few remaining categories of policies on which GARs still exist were excluded from the compromise scheme.

2.2.2 Non-profit and Unit-Linked business

The majority of non-profit and unit-linked contracts are in the following categories:

- Non-profit immediate annuities, both level and increasing;
- Index linked annuities;
- Non-profit deferred annuities;
- Traditional endowment and whole of life policies;
- Term assurances on a guaranteed premium basis;
- Unit-linked critical illness policies on a non-guaranteed premium basis;
- Unit-linked immediate annuities;
- Unit-linked deferred annuities;
- Unit-linked regular and single premium life policies;
- Unit-linked pension policies; and
- Unit-linked income drawdown policies (managed pensions).

2.2.3 Transferring Annuities

The Transferring Annuities comprise:

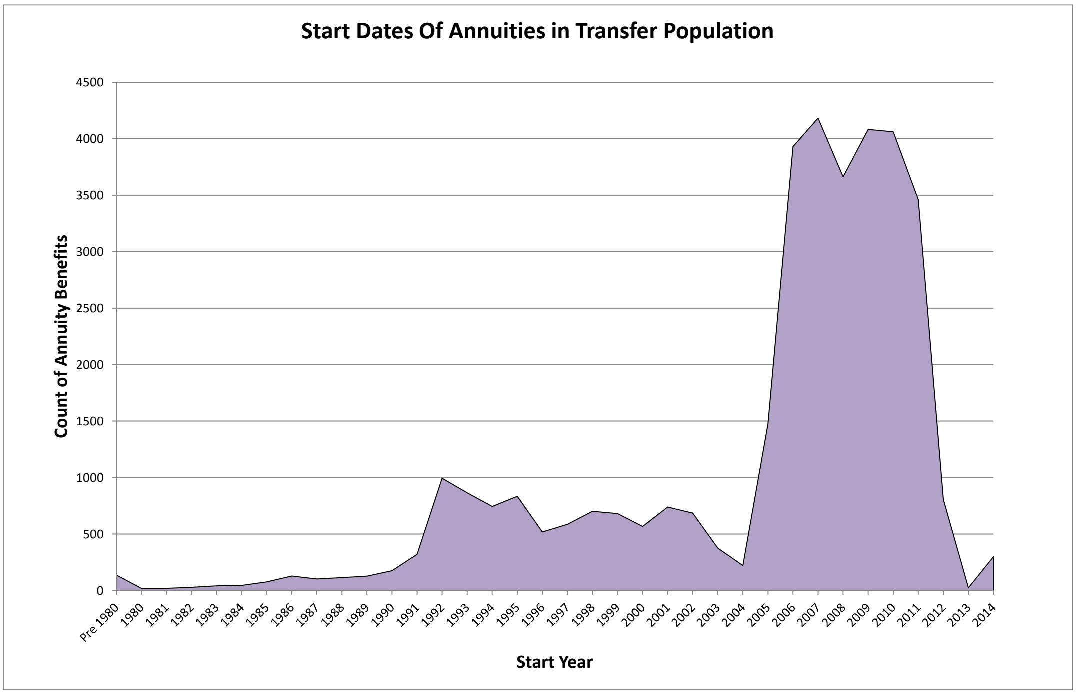
- UK Sterling-denominated non-profit and index-linked annuities;
- UK Sterling-denominated unit-linked annuities;
- Guernsey and International Branch Sterling-denominated non-profit annuities;
- Republic of Ireland Branch Euro-denominated Non-Profit annuities, life and pension;
- Federal Republic of Germany Euro-denominated Non-Profit annuities; and
- International Branch Dollar-denominated annuities.

They include policies that are the continuation of, or have been bought from the proceeds of, the Society's pension policies, or have been purchased by individuals using open market options from other insurers' pension policies, or that have been bought by the trustees of occupational pension schemes for their members. They may also have been purchased using policyholders' own funds outside any pension contract.

The Transferring Annuities do not include policies that are the continuation of non-profit deferred annuity policies reassured with Halifax Life since 1 March 2001.

The Transferring Annuities comprise approximately 31,000 policies. Annuities are paid to approximately 29,000 policyholders.

The chart below shows a breakdown of the Transferring Annuities by start date. The majority were written following the transfer of annuities to Canada Life in February 2007. That transfer covered a large proportion of pension annuities in force prior to 1 January 2006. Since April 2012, policyholders taking pension policy benefits have been provided with an annuity illustration from Canada Life together with details of their Open Market Option. In consequence, the Society has written relatively few new annuities since April 2012.



The Society held reserves in respect of the Transferring Annuities of around £975m at 31 December 2014. The assets transferred to CLL in respect of the non-profit and index-linked Transferring Annuities had a value of £851m on 31 December 2014. The value of the unit-linked Transferring Annuities at 31 December 2014 was around £29m. Together, the value of the Transferring Annuities was around £875m at 31 December 2014. The Transferring Annuities represent a mature book of annuities in payment with no deferred annuities.

2.2.4 Unit-Linked Annuities

Unit-linked annuities were sold in the UK only. There have been no new unit-linked annuities sold since the Society closed to new business in 2000.

At each payment date, the unit-linked annuity is the value of a pre-determined number of units in one, or more, of the Society's unit-linked funds. That value is calculated using the bid prices for each relevant fund for the first day of the previous calendar month. Each payment is calculated as the product of the pre-determined number of units and the bid price of the relevant fund.

Most policyholders could choose at the outset of the policy to anticipate future unit-linked price growth which, if achieved, would keep their gross annuity payment level. If the anticipated future growth was exceeded, the gross annuity payment would increase. Conversely, if the anticipated future growth was not achieved, the gross annuity payment would decrease.

By anticipating a future unit-linked growth rate, the starting level of annuity was increased; the higher the anticipation, the higher the starting level of annuity. The range of anticipated unit-linked growth rates was subject to a maximum. This limit varied over time to keep the starting annuity at the maximum anticipated growth rate in line with the level non-profit annuity which could be purchased at the same time.

3. Proposed Transfer

3.1 Reassurance

On 2 March 2015, all Transferring Annuities in force on that date, other than unit-linked annuities, were fully reassured to CLL under the Reassurance. A premium was paid to CLL which consisted of assets worth around £851m at 1 January 2015, adjusted for asset and liability cash flows over the period from 1 January 2015 to 2 March 2015. The purpose of the Reassurance was to accelerate the transfer of the economic risk and reward in the Transferring Annuities to CLL.

To provide security for the Society, those assets were immediately deposited back with the Society under a deposit back arrangement and placed in three separate custody accounts. There is one account for the assets backing each of the following:

- Non-profit annuities denominated in Sterling;
- Index-linked annuities denominated in Sterling; and
- Non-profit annuities denominated in Euros.

Annuities denominated in Dollars are de minimis and are included in the Non-Profit Sterling Custody Account. Investment income and redemption proceeds from the assets are separately identified and paid to the same custody account as the asset. Annuity payments are charged to the appropriate ring-fenced assets as are other costs on bases set out in the Reassurance Agreement.

Both the Reassurance and the deposit back security arrangement have no fixed termination date, although the Reassurance:

- will terminate on the Scheme becoming effective, when the deposit assets will transfer to CLL under the Scheme; or

- may be terminated by either party in circumstances set out in the Reassurance, including in the event that the Scheme has not become effective by 31 December 2016.

The Reassurance allows for the premium paid by the Society to be adjusted to take account of any inaccuracies discovered in the policy data relating to the Transferring Annuities providing those inaccuracies are disclosed by 2 July 2015 and to reflect any deaths being reported in the period up to and including 2 June 2015 which occurred prior to 1 January 2015.

3.2 Proposed Scheme

It is intended that, under the Scheme, the Transferring Annuities will be transferred to CLL together with assets and records attributable to the Transferring Annuities. Those assets comprise:

- The premium paid by the Society to CLL under the Reassurance. The basis for the calculation of the premium is defined in the Reassurance between the Society and CLL. These assets are separately identified and held by the Society in the custody accounts described above. The assets in these funds will be transferred to CLL when the Scheme becomes effective.

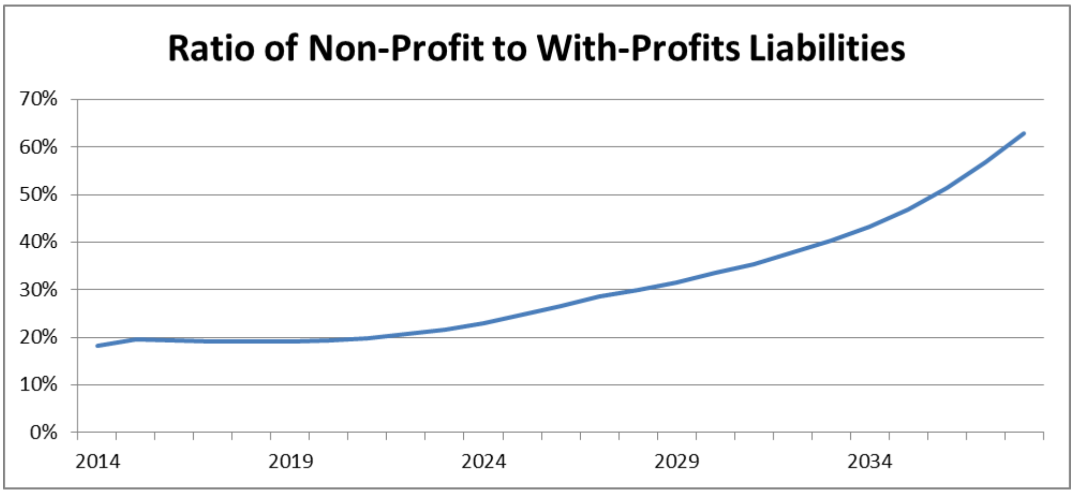
- A premium, to be paid in cash, in respect of the unit-linked annuities comprised within the Transferring Annuities. The basis for the calculation of the premium is defined in the transfer agreement between the Society and CLL.

- A premium to be paid in cash, in respect of new annuities written by the Society between the signing date of the transfer agreement and the Effective Date. This amount is to be determined applying the same principles used to determine the premium described in the first bullet point above.

3.3 Rationale for Scheme

Prior to Reassurance with CLL, the Society had exposure to the risk that annuitant longevity improves at a faster rate than currently anticipated. The Society has a finite amount of capital available to meet regulatory requirements and, as a mutual company, has no access to proprietary capital.

The chart below shows the ratio of non-profit annuity reserves to with-profits liabilities over the next twenty years. The ratio increases steadily over time showing a slower run-off of the non-profit annuity business compared with the with-profits portfolio. The risk being taken by the remaining with-profits policyholders increases over time until it would be disproportionately large.



Corporate bonds are used as investments to back annuity business. If those corporate bonds default, then it falls to the with-profits policyholders to make good those losses. The Reassurance and Scheme, therefore, also reduce credit risk for with-profits policyholders as the risk of losses passes to Canada Life.

As stated earlier in this report, the Society's strategy is to recreate policyholder value. It has achieved this aim, over recent years, by reducing risk in the long-term business fund. It is the Society's aim to continue to reduce risk exposures generally. The transfer of longevity risk and credit risk through the Reassurance and Scheme will assist in regulatory capital requirements being met in adverse events.

The Reassurance has already substantially transferred the longevity risk and credit risk in respect of the Transferring Annuities to CLL. However, the longevity risk in respect of the unit-linked annuities and a counterparty credit risk exposure to CLL remain. The counterparty credit risk exposure is mitigated by the deposit back security arrangement relating to the Reassurance.

The Society wishes to remove the counterparty risk and longevity risk entirely via the Scheme. As the Reassurance may be terminated in the event that the Scheme has not become effective by 31 December 2016, it is necessary to implement the Scheme before this date to preserve the transfer of the longevity risk and credit risk in respect of the Transferring Annuities.

The Scheme also removes the need to account for, and perform other administrative tasks in relation to, the Transferring Annuities and Reassurance, reducing administration costs of the Society and its regulatory capital requirements.

4. Financial position before and after transfer

4.1 Solvency capital measures

PRA currently requires insurance companies to maintain a minimum level of capital calculated on three bases:

- Pillar 1, Peak 1 – This is referred to as the Regulatory Valuation. The basis on which this calculation must be carried out is set out in the PRA Handbook. The Capital Resource Requirement ("CRR") is the amount of capital required to meet this test.

- Pillar 1, Peak 2 – This is referred to as the Realistic Valuation. The basis on which this calculation must be carried out is also set out in the PRA Handbook. The Minimum Capital Requirement ("MCR") is the amount of capital required to meet this test.

- Pillar 2 – This is referred to as Individual Capital Assessment ("ICA"). It is a calculation of the capital required as calculated by the insurance company. It is submitted to PRA privately. It requires the insurance company to assess the risks it is running and calculate the amount of capital required to be able to meet liabilities to policyholders in all but the most extreme circumstances. PRA may require companies to hold additional capital through Individual Capital Guidance ("ICG").

With effect from 1 January 2016, a new European-wide solvency regime comes into force. This is referred to as Solvency II. As is the case for ICA, it requires the insurance company to hold sufficient capital consistent with the risks it is running. The Solvency Capital Requirement ("SCR") is the amount of capital required to meet this test.

There remain areas within the Solvency II regime which are uncertain. Two key areas are the approval of transitional measures from the current regime, and the approval of certain technical adjustments.

4.2 The Society before and after the transfer

4.2.1 Regulatory and Realistic Valuation Impact

The effect of the Reassurance on the financial position of the Society was beneficial on both the realistic and the regulatory basis.

The effect of the Scheme on the financial position of the Society is not expected to be significant on the regulatory basis, based on the current expectations for the costs of performing the work involved.

The table below shows the Society's Regulatory Valuation solvency position as at 31 December 2014 in three scenarios: prior to the Reassurance ("Pre-Reassurance and pre-Scheme"), with the Reassurance prior to the implementation of the Scheme ("Pre-Scheme") and as if the Scheme had taken place on that date ("Post-Scheme").

	Pre-Reassurance and pre-Scheme	Pre-Scheme £m	Post-Scheme £m
Available Capital (AC)	456	546	544
Long-Term Insurance Capital Requirement (LTICR)	224	209	185
Excess (available – required)	232	337	359
Rate of (AC/LTICR)	204%	261%	294%

Note: Figures have been produced including the effect of the Society's recapture of its unit-linked business and pension term assurance business from Halifax Life.

If the Scheme were not to proceed and the Reassurance terminated, the Society's Regulatory Valuation solvency position would revert to a position similar to that shown in the first column of figures above.

The effect of the Scheme on the Society's Realistic Valuation solvency position is not expected to be significant, based on current expectations for the reduction in risk and the costs of performing the work involved.

4.2.2 ICA Impact

An ICA calculation was carried out based on data as at 31 December 2014 both including and excluding the Reinsurance. The report was approved by Board on 23 March 2015. These calculations have been disclosed to PRA.

In my opinion, and as advised to Board, the Reassurance had a beneficial effect on both the capital available and risk capital required. The effect was a positive impact on the Society's ability to meet ICA capital requirements.

The effect of the Scheme on the Society's ICA position is not expected to be significant, based on current expectations for the reduction in risk and the costs of performing the work involved.

4.2.3 Solvency II Impact

A Solvency II calculation was carried out based on data as at 31 December 2014 both including and excluding the Reinsurance and Scheme. These calculations have been shared with the Society's Board and have been disclosed to PRA.

In my opinion, and as advised to Board, the Reassurance had a beneficial effect on both the capital available and risk capital required. The effect was a positive impact on the Society's ability to meet Solvency II capital requirements.

The effect of the Scheme on the Society's Solvency II position is not expected to be significant, based on current expectations for the reduction in risk and the costs of performing the work involved.

4.3 CLL before and after the transfer

The report of the Head of Actuarial Function for CLL states that, allowing for the Scheme, the CLL Pillar 1 ratio of available capital to the Capital Resources Requirement (CRR) at 31 December 2014 would, as a result of the Scheme, be slightly reduced from the position before the Scheme.

The report further states that the CLL Pillar 2 ratio of capital resources to ICA would, as a result of the Scheme, be largely unchanged from the position before the Scheme.

5. Effect of the Scheme on the Society's policyholders

5.1 Transferring Annuities

Since 2 March 2015, all Transferring Annuities in force on that date, other than unit-linked annuities, have been reassured by CLL. For all Transferring Annuities, the direct contractual liability to continue to pay annuitants remains with the Society until the transfer to CLL. Liabilities in respect of all Transferring Annuities will transfer to CLL under the Scheme. Policyholders with Transferring Annuities were advised of the Reassurance and proposed transfer in March 2015.

5.1.1 Capital

Prior to transfer, the security of benefits for non-profit and index-linked annuitants is ensured by:

i. The assets CLL have deposited with the Society, from which amounts due under the annuities and associated costs are paid; and

ii. Other assets held by CLL; and, in extremis

iii. The value of assets within the Society's long-term fund continuing to exceed the value of liabilities.

The security of benefits for unit-linked annuitants prior to transfer is ensured by item iii. above.

The assets in the long-term fund, i.e. item iii. above, also provide security to other policyholders of the Society.

The excess assets within the Society's long-term fund are earmarked for future capital distributions to with-profits policies. Nevertheless, to the extent that they have not been distributed, they are available to meet annuity payments.

Security following transfer will be provided by CLL's assets. CLL meets all current regulatory solvency requirements and expects to be fully compliant with Solvency II regulations when they are implemented on 1 January 2016.

5.1.2 Risk

CLL is owned by The Canada Life Assurance Company, which has a Standard & Poor's financial strength rating of AA. That rating recognised the significantly larger capital resources available to CLL as part of an international life assurance group.

A major part of CLL's business consists of annuities in payment of a similar nature to the non-profit and index-linked policies being transferred.

CLL is open to new non-profit and unit-linked business and it is possible that increased or new risk exposures will be incurred, including additional bulk annuity payments.

I consider that the security of benefits for Transferring Annuities is likely to be higher with CLL than with the Society.

5.1.3 Benefit expectations

a) Non-profit annuities

The benefits payable on non-profit and index-linked Transferring Annuities are set out in the policy terms and conditions. No changes will be made to policy terms and conditions of any Transferring Annuities under the Scheme.

b) Unit-linked annuities

The benefits payable under unit-linked Transferring Annuities are dependent on the performance of the funds in which the annuitant has invested.

At transfer, unit-linked Transferring Annuities will be switched from the Society's unit-linked funds to the CLL funds which most closely match the Society's funds taking account of fund objectives, risk profiles and charges.

For many of the matched CLL funds, annual management charges will be lower than those of the Society. However, annual management charges for five matched CLL funds are currently higher than those for the Society. The five Society funds to which the CLL funds have been matched are the Far Eastern (CLL 0.06% pa higher), High Income (CLL 0.02% pa higher), Ethical (CLL 0.31% pa higher), Smaller Companies (CLL 0.34% pa higher) and Special Situations (CLL 0.35% pa higher).

Where Canada Life charges are higher than those of the Society, unit-linked annuitants will be compensated for as long as the Society's charges remain lower. The Society is reviewing its unit-linked fund charges, which are somewhat below those of other offices, with a view to making a proposal in respect of any increase to charges when the review has been completed.

Following transfer, there will be a range of funds to which these annuities can be linked. Unit linked annuitants will have the option, of a free switch within twelve months of the effective date to move into other funds in the range offered by CLL.

Annuitants will have available a range of funds managed by CLL and a range of funds managed by external fund managers. The range of funds will be wider than that offered by the Society.

Investment performance of CLL funds could be better or worse than that of the comparable funds with the Society. These differences could lead to unit-linked annuitants receiving more or less than they would have received if the annuities had remained with the Society.

The Society has not charged a fee to switch funds for many years, although it has the right to under the terms and conditions of the policies. Canada Life does not currently charge for switches either, and has no plans to do so.

5.1.4 Quality of Administration

In 2007, the Society transferred a portfolio of UK pension annuities to CLL. There was not a material volume of complaints following that transfer.

CLL has experience in administering large portfolios of annuities in the UK. All annuities except Irish and German policies will be administered in the UK on existing systems.

Irish policies will be reinsured with Irish Life Assurance and administered in Ireland. I understand that Irish Life have existing annuities in payment and systems to administer these annuities.

German policies will be reinsured with Canada Life Assurance Europe and administered in Ireland. I understand that organisation has a small number of existing annuities in payment and has German speaking staff. I am informed that new systems are being developed to administer the German transferring annuities. Systems are expected to be in place at the transfer date. If that is not the case, Canada Life has contingency plans which would enable these annuities to continue to be paid.

I am also informed that Canada Life has the majority of systems in place to administer unit-linked annuities. There is some system enhancement required for record keeping. There is a risk that full system support is not available for unit-linked annuities at the effective date. If this risk materialises, CLL have contingency plans which would enable unit-linked annuities to continue to be paid.

There is no reason to expect the quality of service that annuitants will receive to deteriorate following the transfer to CLL.

5.2 <u>Non-transferring policies</u>

5.2.1 Capital

As discussed in sections 4.2.2 and 4.2.3 above, the effect of the Reassurance has been to increase the available capital and reduce the risk capital requirements of the Society. The effect of the Scheme is not expected to be significant. Taking the Reassurance and the Scheme together, security for the Society's remaining business will be improved.

5.2.2 Risk

The removal of longevity risk, through the Reassurance, reduces the significant exposure to this risk type. There is also a benefit of reduced risk arising from fewer holdings of corporate bond investments which suffer from the risk of spread widening and default.

The Scheme also removes the longevity risk in respect of the unit-linked annuities.

5.2.3 Benefit expectations

a) Non-profit policies, including unit-linked policies

The benefits payable on non-transferring non-profit policies are set out in the policy terms and conditions. No changes will be made to policy terms and conditions of any non-transferring policies as a result of the Scheme.

In the case of unit-linked non-annuity policies, there will also be no changes to the unit-linked funds in which those policies are invested as a result of the Scheme, and policies will continue to have the same number and value of units, and the same range of fund choices available. The pricing principles used for each of the Society's unit-linked funds and the level of fund charges will also be unchanged as a result of the Scheme.

The Society's unit-linked funds invest exclusively in Open-Ended Investment Companies (OEICs) which have a single unit price. The pricing basis for these OEICs is set by the relevant Investment Manager. The Society's funds are reducing in size as the Society's business runs off. The removal of units backing the unit-linked annuities is unlikely to have a material impact on the pricing basis of the underlying OEICs.

As a consequence, I am satisfied that the Scheme is unlikely to have any significant impact on the benefit expectations of any of the Society's non-transferring non-profit and unit-linked policyholders.

b) With-profits policies

I consider that the Reassurance and Scheme will be to the advantage of with-profits policyholders. The effect of the Reassurance was to release around £100m of economic capital for the Society as a result of the reduction in risk and the crystallisation of mortality and investment valuation margins from the Transferring Annuities. That, together with the repurchase of unit-linked business from Lloyds Banking Group, was material in allowing the Society to increase the level of capital distribution from 25% to 35% with effect from 1 April 2015.

The Scheme does not have a significant effect on the solvency capital measures after allowing for the costs of carrying out the transaction, including fees for advisers.

Expense reserves are held to cover the variable costs of administering the Transferring Annuities. These are included in the premium paid to CLL. Fixed costs of administration are fully covered by with-profits policyholders. As a result of the Reassurance and Scheme, there is no material impact on with-profits policyholders from the fixed costs being spread across fewer policies.

In forming this opinion, I have taken into account the opinion of the Society's Board referred to in 5.2.6 below, with whose conclusions I concur. Below, in 5.2.5, I also summarise the opinion on the Scheme, given by the Society's With-Profits Actuary.

5.2.4 Quality of Administration

The Society will continue to administer the remaining business. There will be no changes to the management of and governance arrangements which currently apply to the non-transferring policies. Existing service standards will continue to apply. There is no reason to expect the quality of service to deteriorate as a consequence of the reduction in the quantity of this business.

5.2.5 Report of the Society's With-Profits Actuary

The Society's With-Profits Actuary has prepared a report on the Scheme and concludes that the Reassurance and Scheme increase the security of with-profits policyholder benefits. Her conclusion is reproduced below:

"In my opinion, both the Reassurance and Scheme are beneficial to the Society's with-profits policyholders and in line with the Society's strategy. I consider the proposed Scheme to be fair to with-profits policyholders."

5.2.6 The Opinion of the Society's Board

The opinion of the Board on the Scheme, and the preceding Reassurance Agreement, is set out below:

- The Reassurance Agreement and proposed Scheme would remove from the Society the longevity risk and credit risk attaching to the Transferring Annuities.

- The terms of the transaction were agreed following a competitive auction process which had involved a number of parties. CLL were selected as the Society's preferred bidder.

The Board concluded that the proposed Scheme was in the best interests of the Society and its policyholders as a whole. The Board acts as the With-Profits Committee of the Society.

5.3 Taxation

Appropriate tax clearances have been applied for from the relevant taxation authorities and are expected to be received. The Scheme will not proceed unless satisfactory tax clearances are received.

5.4 Notification of Policyholders

It is intended that a letter will be sent by the Society to its policyholders, as described below:

- In respect of the Transferring Annuities:

    - to the legal holders of Transferring Annuities;
    - to trustees of group pension policies for forwarding to individual members of their group pension policies who are beneficiaries of policies with the Society; and
    - to beneficiaries of group pension policies with the Society where the Society makes payments direct to the individual.

    The letter to holders of Transferring Annuities will also enclose a booklet describing the Scheme. The booklet will contain a question and answer section giving further details about the transfer proposal. The Society intends to make the booklet available on the Society's website.

- In respect of the rest of the Society's business, to the legal holders of policies including individuals and trustees of group pension policies.

    Non-transferring policyholders will be able to view the booklet, referred to above, on-line or request a copy from the Society.

The letters will inform policyholders affected by the Scheme how to obtain further information and of their right to make representations to the Court. Notices containing the same details will also be published in three UK national newspapers, in the London, Edinburgh and Belfast Gazettes and in national newspapers in certain other EEA States in which a material number of transferring annuitants are currently resident.

The Society has discussed the proposed approach to notifying its policyholders of the Scheme and the content of the circular with the PRA and FCA.

In addition, the Society will also be sending a letter to the holders of unit-linked Transferring Annuities in December. This letter will set out the matters they should consider in assessing the appropriateness of the CLL funds matched to their existing funds with the Society. The letter will also include proposals in respect of any increase to charges.

I consider the publicity proposals to be appropriate and proportionate given the likely effects of the Scheme. In particular, I consider that it is reasonable, given there is no material impact of the Scheme on the non-transferring policyholders, for those non-transferring policyholders to be sent more limited information about the Scheme than the holders of Transferring Annuities.

5.5 Treating customers fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly both as regards the holders of Transferring Annuities and all other policyholders of the Society.

5.6 Other Matters

The Society and CLL will bear their own costs of implementing the Scheme except for the following provision. The fees and expenses of the Independent Expert, Counsel and any of the legal advisers jointly appointed by the Society and CLL, any court fees and the cost of placing any legal notices and advertisements in newspapers and gazettes will be shared equally between the Society and CLL.

6. Conclusion

In my opinion, and taking into account the opinion of the Society's Board, no class of the Society's policyholders will be materially adversely affected by the implementation of the Scheme. In particular, the Scheme will at least maintain the current security of benefits of all the Society's policyholders and will not affect the fair treatment of those policyholders.

Martin Sinkinson
Head of Actuarial Function
The Equitable Life Assurance Society

2 October 2015