Hodge Life Assurance Company Limited
Omnilife Insurance Company Limited

Supplementary Report by the Independent Expert on the proposed transfer of the business of Hodge Life Assurance Company Limited to Omnilife Insurance Company Limited by means of a Scheme under Part VII of the Financial Services and Markets Act 2000

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Independent Expert

For and on behalf of Hymans Robertson LLP

1 March 2023

Contents

A term in this report that is underlined indicates that it is explained in the glossary, which can be found in Appendix 1. A number of abbreviations are also used throughout this report. These are defined where they are first used and also in Appendix 2.

1 Introduction

Background and instructions

1.1. Hodge Life Assurance Company Limited ("HLAC") and Omnilife Insurance Company Limited ("Omnilife") have made an application to the High Court of Justice in England and Wales (the "Court") for approval of a scheme of transfer pursuant to Part VII of the Financial Services and Markets Act 2000 (the "Scheme"), which will transfer HLAC's insurance business to Omnilife.

1.2. The application to the Court must be accompanied by a report on the terms of the transfer (the "Scheme Report"), produced by a person nominated or approved by the Prudential Regulation Authority ("PRA") for that purpose (the "Independent Expert"). I have been instructed jointly by HLAC and Omnilife to report in the capacity of Independent Expert on the terms of the Scheme, pursuant to Section 109 of the Financial Services and Markets Act 2000 ("FSMA"). My appointment as Independent Expert has been approved by the PRA, them having consulted with the Financial Conduct Authority ("FCA"). I reported on my findings in relation to the Scheme in the Scheme Report dated 27 October 2022.

1.3. The conclusions drawn in the Scheme Report were as follows:

- I was satisfied that the Scheme was not expected to have a material adverse effect on the benefit security of any group of policies,
- I was satisfied that the Scheme was not expected to have a material adverse effect on the benefit expectations of any group of policyholders,
- I did not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies,
- I was therefore satisfied that the Scheme was equitable to all classes and generations of HLAC's and Omnilife's policyholders, and
- I was also satisfied that I did not expect the Scheme to have a material adverse effect on HLAC's reinsurers whose contracts will be transferred to Omnilife.

1.4. The Scheme Report was submitted to the Court ahead of an initial hearing, referred to as the "Directions Hearing", which took place on 7 November 2022. At the Directions Hearing, the Court gave the parties permission to send communication packs to their policyholders notifying them of the proposed Scheme, and to send similar communication packs to HLAC's reinsurers and outsource providers. These communication packs have subsequently been sent and, having considered their contents, some policyholders have exercised their right to object to the Scheme. The Court will take these objections into account when deciding whether or not to sanction the Scheme at the second hearing, referred to as the "Sanctions Hearing".

1.5. I stated in the Scheme Report that I would prepare a further report for the Court (my "Supplementary Report"), the purpose of this which is to report on any developments since the date of the Scheme Report so as to confirm or otherwise update the conclusions drawn in the Scheme Report in the light of any changed circumstances. I have considered the objections raised by policyholders as part of this assessment.

1.6. This report is my Supplementary Report. Some of the defined terms used in the Scheme Report have been used in this Supplementary Report without restating their definitions, although these are included in the glossary.

1.7. My duty is to the Court. This Supplementary Report is primarily for the purpose of assisting the Court in considering the Scheme being presented to it.

1.8. While not the primary audience of my Supplementary Report, I also expect it to be used by:

- the policyholders of HLAC and Omnilife, to assist them in understanding the likely effects of the Scheme,
- the directors and senior management of HLAC and Omnilife, to assist in the decision whether to present the Scheme to the Court,
- the PRA and the FCA, and
- the professional advisers of any of the above assisting in the development and implementation of the Scheme.

Status, credentials and independence

1.9. Details of my status, credentials and independence from the parties – including in relation to those Hymans Robertson employees who have assisted me in preparing and reviewing this Supplementary Report – can be found in Section 1 of the Scheme Report. These remain unchanged as at the date of this Supplementary Report.

Other advice and opinions

1.10. Mr Stephen Grigg, who is the Chief Actuary for both HLAC and Omnilife, prepared separate reports on the Scheme for each firm's Board. He has subsequently prepared separate supplementary reports for each firm's Board, which I have read. I have relied on the information and analysis set out in Mr Grigg's reports, and I note their conclusions in respect of the impact of Scheme on policyholders' benefit expectations and on the future security of those benefits.

Reliances and Limitations

1.11. This Supplementary Report should be read in conjunction with the Scheme Report and must be read in its entirety.

1.12. The reliances and limitations set out in the Scheme Report apply equally to this Supplementary Report. Like the Scheme Report, the Supplementary Report is also subject to the terms and conditions (including the reliances and limitations) of an engagement letter dated 4 May 2022.

Regulatory and Professional Guidance

1.13. The Supplementary Report has been prepared in line with the regulatory guidance issued by the PRA, as set out in Statement of Policy "The PRA's approach to insurance business transfers" January 2022. Its preparation is also in line with the regulations set out in Chapter 18 of the Supervision Manual of the FCA Handbook ("SUP18") and the FCA's guidance set out in Finalised Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers".

1.14. I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"). The Financial Reporting Council sets out technical actuarial standards for members of the IFoA. This report is subject to and complies with the following standards:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work, and
- Technical Actuarial Standard 200: Insurance.

1.15. In addition, the IFoA sets professional standards for its members. This report has been prepared having due regard to APS X2: Review of Actuarial Work and has been subject to independent peer review.

Structure of the Supplementary Report

1.16. The remainder of the Supplementary Report is structured as follows:

- Section 2 considers the updated financial positions of the parties.
- Section 3 provides an overview of the mailing exercise and a discussion of the communications received from policyholders and other stakeholders.
- Section 4 discusses other relevant developments since the date of the Scheme Report.
- Section 5 contains my conclusions, having now prepared this Supplementary Report.
- Section 6 certifies that the Scheme Report complies with Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims.

The Supplementary Report also has three appendices:

- Appendix 1 provides a glossary for certain terms used throughout the Supplementary Report. Where a term is underlined in the Supplementary Report, this indicates that it is explained in the glossary.
- Appendix 2 provides definitions of the abbreviations used throughout the Supplementary Report.
- Appendix 3 lists the principal documents I have considered and relied upon in preparing the Scheme Report.

2 Updated financial positions of the parties

2.1. The Scheme Report set out the financial positions of the parties as at 30 June 2022. The parties have subsequently provided me with details of their financial positions as at 30 September 2022.

Assets

2.2. Figure 1 shows a breakdown of HLAC's assets as at 30 September 2022. The breakdown as at 30 June 2022, as included in the Scheme Report, is also shown for comparison.

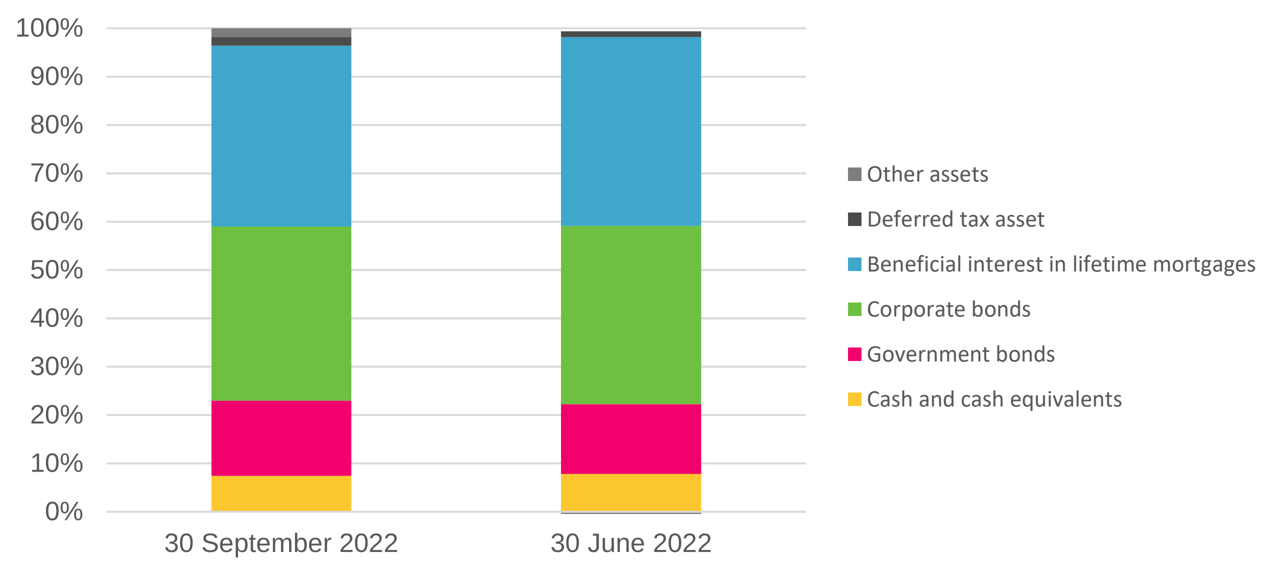
Figure 1: HLAC's asset portfolio as at 30 September 2022 and 30 June 2022

£m	30 September 2022	30 June 2022
Cash and cash equivalents	21.6	26.1
Government bonds	45.0	48.3
Corporate bonds	104.4	123.4
Beneficial interest in lifetime mortgages	108.5	130.9
Deferred tax asset	5.3	3.8
Other assets	5.2	(2.2)
Reinsurance recoverables	161.7	200.3
Total	**451.7**	**530.5**

Source: HLAC Chief Actuary's supplementary report on the Scheme, and further information provided by HLAC

2.3. While HLAC's assets have fallen in value over the period, as would be expected given the significant increase in the yields on fixed income assets observed in the financial markets, the key point to note from Figure 1 is that HLAC has not invested in any new asset classes, and its allocation across the various asset classes has not changed materially, as illustrated in Figure 2 below. For the avoidance of doubt, the observed increase in yields has similarly reduced the value of HLAC's liabilities, such that HLAC continues to comply with its capital management policy, which I discuss in paragraph 2.9.

Figure 2: HLAC's asset allocation as at 30 September 2022 and 30 June 2022



Source: HLAC Chief Actuary's supplementary report on the Scheme, and further information provided by HLAC. Note that reinsurance recoverables have been excluded for the purposes of this comparison.

2.4. Figure 3 shows a breakdown of Omnilife's assets as at 30 September 2022. The breakdown as at 30 June 2022, as included in the Scheme Report, is also shown for comparison.

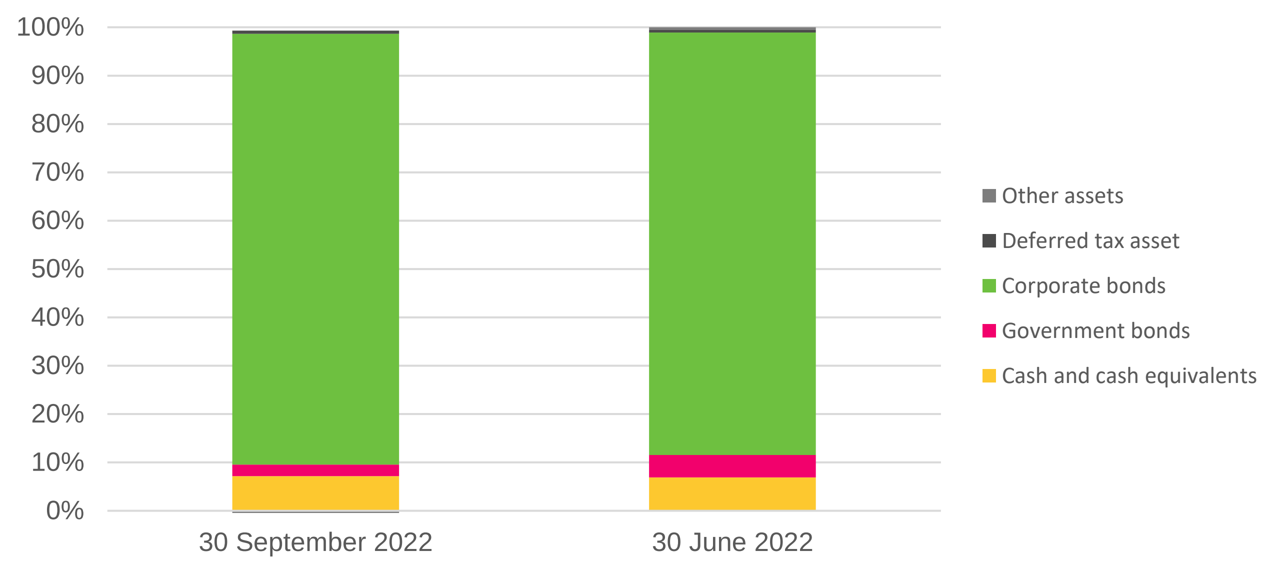
Figure 3: Omnilife's asset portfolio as at 30 September 2022 and 30 June 2022

£m	30 September 2022	30 June 2022
Cash and deposits	21.9	24.2
Government bonds	7.2	16.1
Corporate bonds	271.4	305.3
Deferred tax asset	2.0	2.0
Other assets	(2.1)	1.8
Reinsurance recoverables	110.8	136.0
Total	**411.2**	**485.4**

Source: Omnilife Chief Actuary's supplementary report on the Scheme, and further information provided by Omnilife

2.5. Omnilife's assets have also fallen in value over the period but, like HLAC, the value of its liabilities has also fallen. It can be seen that Omnilife has not invested in any new asset classes and its allocation between the various asset classes has not changed materially, as illustrated by Figure 4.

Figure 4: Omnilife's asset allocation as at 30 September 2022 and 30 June 2022



Source: HLAC Chief Actuary's supplementary report on the Scheme, and further information provided by HLAC. Note that reinsurance recoverables have been excluded for the purposes of this comparison.

Pro-forma financial positions

2.6. Figure 5 below sets out an estimate of Omnilife's regulatory balance sheet as it would have been at 30 September 2022, had the Scheme been effective at that date. It also shows, for comparison, the actual regulatory balance sheet for Omnilife at 30 September 2022, and a pro-forma balance sheet for HLAC which allows for the dividend of £22m that was approved by its Board on 22 December 2022 and paid to HLAC's immediate parent company (RGA Americas Reinsurance Company, Ltd) the following day.

Figure 5: Regulatory balance sheets pre- and post-Scheme

As at 30 September 2022 (£m)	HLAC pro-forma post-dividend, pre-scheme[1]	Omnilife actual pre-scheme[2]	Omnilife pro-forma post-Scheme[2]
Total Assets	429.7	411.2	833.9
Best Estimate Liabilities ("BEL")	(368.7)	(339.5)	(704.8)
Risk Margin	(5.6)	(6.0)	(11.6)
Transitional Measure on Technical Provisions ("TMTP")	30.2	-	30.2
Total Liabilities	(344.1)	(345.5)	(686.2)
Own Funds	85.6	65.7	147.7
Eligible Own Funds	82.8	65.7	146.3
Solvency Capital Requirement ("SCR")	17.0	22.7	39.2
Excess of Eligible Own Funds over SCR	65.8	43.0	107.1
Solvency coverage ratio	488%	289%	373%

Source: (1) HLAC Chief Actuary's supplementary report on the Scheme; (2) Omnilife Chief Actuary's supplementary report on the Scheme. It should be noted that:

(i) The estimated value of Omnilife's assets after implementation of the Scheme is less than total assets held in HLAC and Omnilife before implementation owing to the expected £7m of assets to remain in HLAC (value unchanged since the date of the Scheme Report).

(ii) The estimated value of Omnilife's BEL after implementation of the Scheme is less than the total BEL held by HLAC and Omnilife before implementation. As discussed in the Scheme Report, this is a result of expense savings expected to be made in the management of the combined business.

(iii) The estimated value of Omnilife's SCR after the implementation of the Scheme is less than the sum of the SCRs for HLAC and Omnilife before implementation. As discussed in the Scheme Report, this arises from increased diversification from bringing the two blocks of business together.

2.7. I explained in the Scheme Report that I place no weight on any capital held over and above the amount required by a firm's capital management policy, since such capital may be distributed by management through the payment of dividends. Accordingly, I would not consider the Scheme to have a material adverse effect on the benefit security of the holders of the Transferring Policies provided that Omnilife's capital management policy is not materially weaker than HLAC's and that Omnilife expects to comply with its capital management policy following the implementation of the Scheme. Similarly, I would not consider the Scheme to have a material adverse effect on the benefit security for Omnilife's existing policyholders provided that Omnilife complied with its capital management policy following the implementation of the Scheme.

2.8. I also explained in the Scheme report that the capital management policies of HLAC and Omnilife are calibrated to the same strength. Since the date of the Scheme Report, relatively minor refinements have been made to the calibration of the firms' Capital Targets. Each Capital Target is still set such that, if the firm in question complies with it, the probability that the firm will exceed its Capital Limit in one year exceeds a specified level. While the specified level has not changed, the parties have updated their approach to modelling the impacts of changes in interest rates in light of the changed economic conditions. The crucial point to note, however, is that the same changes have been made for both firms, meaning that their capital management policies continue to be calibrated to the same strength as each other.

2.9. After the implementation of the Scheme, Omnilife's Capital Limit and Capital Target will be further recalculated to allow for the change in risk profile that arises from acquiring the Transferring Business. Omnilife has determined the pro-forma Capital Limit and Capital Target as at 30 September 2022, had the Scheme become effective at that date. The pro-forma regulatory balance sheet suggests that Omnilife would have comfortably complied with its Capital Target on 30 September 2022, had the Scheme become effective at that date.

Omnilife's TMTP application

2.10. I mentioned in the Scheme Report that Omnilife intended to make an application to the PRA to use TMTP in the valuation of the Transferring Policies. The PRA had previously told Omnilife that, subject to its application being satisfactory, it would grant ahead of the Effective Date approval to use TMTP, subject to the Scheme being sanctioned by the Court and implemented on the Effective Date.

2.11. Since the date of the Scheme Report, Omnilife has submitted its application to the PRA and the PRA has confirmed that the application contains all of the information required for the regulator to commence its review. At the date of this Supplementary Report the PRA was in the process of reviewing the application.

2.12. Omnilife's pro-forma regulatory balance sheet shown in Figure 5 assumes that this approval is obtained in respect of the Transferring Business. Omnilife has also provided me with the estimated impact on its pro-forma regulatory balance sheet of failing to obtain regulatory approval to apply the TMTP, which is shown in Figure 6 below.

Figure 6: Estimated impact of loss of TMTP on pro-forma regulatory balance sheet of Omnilife

As at 30 September 2022 (£m)	Omnilife (pro-forma post-Scheme) with TMTP	Omnilife (pro-forma post-Scheme) without TMTP	Difference
Total invested assets	554.2	554.2	-
Reinsurance recoverables	272.5	291.6	19.1
Deferred tax asset	7.3	10.0	2.8
Total assets	833.9	855.8	21.9
Best Estimate Liabilities	(704.8)	(704.8)	-
Risk Margin	(11.6)	(11.5)	0.0
TMTP	30.2	-	(30.2)
Total Liabilities	(686.2)	(716.4)	(30.2)
Eligible Own Funds	147.7	139.4	(8.3)
SCR	39.2	38.1	(1.1)
Excess of Eligible Own Funds over SCR	108.5	101.3	(7.2)
Solvency coverage ratio	373%	354%	(19%)

Source: Omnilife Chief Actuary's supplementary report on the Scheme

2.13. It can be seen that Omnilife would still be expected to comfortably comply with its regulatory capital requirements with a solvency coverage ratio of 354% in this scenario. Omnilife's analysis also suggests that, even without TMTP, it would have complied with its Capital Target on 30 September 2022 had the Scheme become effective at that date.

Financial position of the parties at 31 December 2022

2.14. In order to assess whether market movements or any other events since 30 September 2022 may have caused the analysis presented in Figure 5 to have become out of date, I have also considered the parties' regulatory balance sheets as at 31 December 2022.

2.15. The parties are currently finalising their regulatory balance sheets as at 31 December 2022, and have provided me with advanced estimates of these which they expect to be materially stable. For HLAC, the estimated balance sheet shows that the level of Eligible Own Funds held over and above the Capital Target decreased between 30 September 2022 and 31 December 2022 by very slightly more than the £22m dividend paid, although the Capital Target was still complied with comfortably. For Omnilife, the estimated balance sheet shows that the level of Eligible Own Funds held over and above the Capital Target increased slightly.

2.16. Since I place no weight in my assessment on any Eligible Own Funds held over and above the firms' Capital Targets, the key consideration is whether the Capital Targets continue to be complied with. Given that this was the case at 31 December 2022, the changes in the parties' regulatory balance sheets between 30 September 2022 and 31 December 2022 do not cause me to change my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

Market movements since 31 December 2022

2.17. Having considered the parties' regulatory balance sheets as at 31 December 2022, there remains the question of whether market movements since then might cause me to reconsider my conclusions. In that regard I would note that financial markets have been relatively benign during the period from 31 December 2022 to the date of this Supplementary Report. For example, at 17 February 2023 the 10-year gilt yield was 3.51%, which was very similar to its value of 3.66% at 31 December 2022. This is in sharp contrast to the increase of more than 200bps between 30 June 2022 (the date underlying the analysis presented in the Scheme Report) and 30 September 2022 (the date underlying the analysis presented in this report), or indeed the c.70bps decrease between 30 September 2022 and 31 December 2022. Market movements since 31 December 2022 therefore do not cause me to change my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

Conclusion drawn from the updated financial positions of the parties

2.18. As shown above, if the Scheme had become effective at 30 September 2022, Omnilife would have been expected to meet its Capital Target at that date, and this would have been the case even if it was not able to use TMTP in the valuation of the Transferring Policies. Given this, I am satisfied that changes in the parties' financial positions between 30 June 2022 and 30 September 2022 do not change my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

2.19. Having also considered the parties' financial positions at 31 December 2022 and market movements to the date of this Supplementary Report, I am satisfied that the changes after 30 September 2022 also do not change my conclusions.

3 Policyholder communications

Notification process

3.1. At the Directions Hearing, the Court granted the parties permission to notify their policyholders of the Scheme. The Court also granted the parties certain waivers from the notification requirements set out in the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001, meaning that there were certain groups of policyholders that the parties did not have to notify. As set out in the Scheme Report, I was satisfied with the contents of the parties' communication packs and I supported the waivers applied for.

3.2. Shortly after the Directions Hearing, the parties sent communication packs to all of their policyholders, other than those covered by the waivers granted by the Court. They also published notices of the Scheme in each of the London, Edinburgh and Belfast Gazettes, as well as in the Daily Mail and the Financial Times, and they made the communication packs available on their websites together with certain other materials as outlined in the Scheme Report.

3.3. On 20 December, Omnilife discovered that the contact email address shown on the covering letter sent to its policyholders was incorrect, although the correct email address was shown elsewhere in the communication pack and on Omnilife's website. Omnilife responded by setting up an additional email account with the address shown on the covering letter, meaning that any emails sent by policyholders to that address after 21 December will have been received. Policyholders who emailed the address shown on the covering letter before 21 December should have received a notification that their email could not be delivered, and there were several other ways that these policyholders could obtain further information and/or object to the Scheme.

3.4. Omnilife notified me of the email address issue at the time, and I was satisfied with the action the firm had taken. An alternative action that Omnilife could have taken would have been to send another (physical) letter to all of its policyholders, but I consider that that would have been disproportionate given the points discussed in paragraph 3.3.

Correspondence and objections from policyholders

3.5. Figure 7 shows the numbers of communication packs sent to policyholders and the numbers of policyholders who subsequently contacted one of the parties.

Figure 7: Correspondence from policyholders received prior to 24 February 2023

	HLAC	Omnilife	Total
Number of communication packs mailed	13,078	3,154	**16,232**
Number of responses from policyholders	193 (1.5%)	104 (3.3%)	297 (1.8%)
Number of objections	4 (0.03%)	1 (0.03%)	5 (0.03%)

Source: HLAC and Omnilife

3.6. Of the 297 policyholders who contacted one or other of the parties, the vast majority requested additional information, either about the Scheme or about their policy. Only three policyholders have objected to it proceeding, although the parties have recorded this as five objections since one policyholder stated his objection on three different occasions. I discuss the nature of each of these objections in the following paragraphs.

3.7. One holder of a Transferring Policy objected to the Scheme on the grounds that he wished to take his annuity benefits as a lump sum rather have his ongoing policy obligations transfer to be paid by Omnilife. I noted in the Scheme Report that the terms and conditions of the Transferring Policies do not provide the policyholder with the option to receive a lump sum rather than an annuity and, since the Scheme will not change the terms and conditions of the Transferring Policies, I am satisfied that the Scheme will not affect their benefit expectations.

3.8. Another holder of a Transferring Policy objected to the Scheme on the grounds that Omnilife had a lower solvency coverage ratio than HLAC, from which the policyholder inferred that his benefits would be less secure in Omnilife than in HLAC. I do not consider the solvency coverage ratio to be an appropriate metric for measuring benefit security since it takes into account all of a firm's capital, including that which is over and above the amount that the firm's capital management policy requires it to hold. As discussed in paragraph 2.7 above, I place no weight on capital held in excess of that required by the capital management policy. Instead, I consider the security of benefits provided by HLAC and Omnilife to be broadly equal, since their capital management policies are calibrated to the same strength, and each complies with its capital management policy.

3.9. One of Omnilife's existing policyholders objected to the Scheme on the grounds that it will transfer the beneficial interest in a portfolio of lifetime mortgages to Omnilife. This is an asset class in which Omnilife does not currently invest, and the policyholder argued that this would increase the level of risk to which Omnilife's policyholders are exposed. This issue was discussed in paragraph 8.9 of the Scheme Report where I concluded that this will not materially adversely impact the benefit security of Omnilife's existing policyholders because:

(i) The lifetime mortgages will make up a relatively modest proportion of Omnilife's assets after implementation of the Scheme.

(ii) Omnilife will hold capital against the associated risks, the quantum of which I am content is appropriate given my view that the Standard Formula will remain appropriate.

(iii) Omnilife's key calibration scenario will be recalculated after the implementation of the Scheme to allow for the change in risk profile arising from it.

(iv) Omnilife's management team will be well-equipped to manage the risks of these assets given the current team also manages HLAC and its current exposure to them.

3.10. Furthermore, as noted in paragraph 8.10 of the Scheme Report, Omnilife already has an appetite to hold lifetime mortgages, as set out in its risk strategy statement. Omnilife currently accepts lifetime mortgages as part of the collateral posted by its reinsurers and, given the wording of its risk strategy statement, it is not inconceivable that the firm could choose to invest in lifetime mortgages even if the Scheme is not implemented. No developments have occurred since the date of the Scheme Report that would cause me to change my conclusion that I do not consider the acquisition of HLAC's investments in lifetime mortgages to constitute a material adverse effect on Omnilife's existing policyholders.

3.11. Accordingly, none of the objections received from policyholders cause me to reconsider the conclusions in the Scheme Report.

Communication with reinsurers, outsource providers and other partners

3.12. The parties have provided communication packs to their reinsurers, outsourced service providers, and other partners, including Pure Retirement Limited ("Pure Retirement") and Welfare Dwellings Trust Limited ("Retirement Bridge"). None of these have objected to Scheme. One of HLAC's reinsurers queried whether a new contract with Omnilife would need to be put in place, and was advised that the existing contract will be transferred to Omnilife by the Scheme.

4 Other developments since the date of the Scheme Report

Changes to the Scheme

4.1. In paragraph 5.7 of the Scheme Report I noted that the Transferring Assets include HLAC's beneficial interest in lifetime mortgages, but that HLAC expected legal ownership of the lifetime mortgages to have transferred to Pure Retirement before the Effective Date. HLAC no longer expects the transfer to Pure Retirement to complete before the Effective Date, and so the Scheme has been amended to exclude the legal ownership of the lifetime mortgages from the Transferring Assets.

4.2. I do not consider this change to have any effect on any stakeholders, including the lifetime mortgage borrowers. The intention that legal ownership will transfer from HLAC to Pure Retirement remains unchanged, and I do not think it is important whether this happens before or after the Effective Date of the Scheme.

4.3. At the date of this Supplementary Report, no HLAC policyholders are on a stated sanctions list, meaning that none would be classed as "Excluded Sanctioned Policies" by the Scheme.

Developments affecting the parties

4.4. I noted in the Scheme Report that each of the parties has various outsourcing arrangements with RGA UK Services Limited. These include the administration of Omnilife's legacy business and the oversight of Equiniti, which administers the annuity business of both parties. Since the date of the Scheme Report there have been some changes to the reporting lines for the RGA UK Services Limited staff who perform these activities, with them now reporting to the parties' Chief Operating Officer. To allow this to happen, there have been some consequential changes to the contractual framework governing these arrangements.

4.5. I do not consider these changes to have had a material impact on parties' direct administration and administration oversight arrangements. In forming this view, I note that the same activities continue to be carried out by the same staff as before the changes to operational reporting lines.

Potential changes to the UK prudential regulatory regime

4.6. In the Scheme Report I noted that HM Treasury ("HMT") was undertaking a review of the Solvency II regulatory regime. I noted that a significant part of the proposed changes related to the rules around the Matching Adjustment ("MA"), and that any changes in this area would not affect either HLAC or Omnilife, since neither has either approval to use the MA or any current plans to apply for it. Both firms would be affected by proposed changes to the Risk Margin and by proposals to reduce the reporting and administrative burden on firms, but I concluded in the Scheme Report that I did not expect that the proposed changes would affect my conclusion that the Scheme is not expected to have a material adverse effect on any group of policyholders.

4.7. At the date of the Scheme Report, the most recent development in this review was in April 2022, when HMT published a consultation on the proposed changes outlined above. In November 2022, HMT published its response to the consultation. Its proposals in relation to the Risk Margin are essentially unchanged, with the Government saying that it will legislate as necessary to reform the calculation of the Risk Margin in a way that will reduce its size by 65% for long-term life insurance business under recent economic conditions. Similarly, the Government's plans in relation to regulatory reporting and administration requirements are unchanged, with HMT stating that it will work with the PRA to ease burdens caused by these. HMT's consultation response has therefore not changed my view that I do not expect the proposed changes to Solvency II to alter my conclusions set out in the Scheme Report.

War in Ukraine

4.8. Since the date of the Scheme Report there have been no significant changes to the political ramifications of Russia's invasion of Ukraine. As noted in the Scheme Report, the parties have advised me that they have reviewed their asset portfolios to determine whether they have any exposures to either Russia or Ukraine. The reviews confirmed that the asset portfolios do not contain any direct exposures to either Russia or Ukraine, such as securities issued by the Russian government or companies domiciled in Russia. The asset portfolios do contain minor indirect exposures, such as securities issued by multinational companies with operations in Russia, but the issuers have advised that they are in the process of ceasing these operations.

4.9. As noted in paragraph 4.3, no HLAC policyholders have been added to a stated sanctions list since the date of the Scheme Report.

COVID-19 pandemic

4.10. Since the date of the Scheme Report there has been an increase the number of COVID-19 infections in the UK. I considered the parties' resilience to any operational disruption that could result from the pandemic and set out my findings in the Scheme Report, which concluded that I was satisfied with the parties' contingency plans. My conclusions in that regard remain unchanged.

5 Conclusions

5.1. Based on the analysis set out in this Supplementary Report, I am content that all of the conclusions set out in the Scheme Report remain valid. These conclusions are restated below.

5.2. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit security of any group of policies.

5.3. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit expectations of any group of policyholders.

5.4. I do not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies.

5.5. I am therefore satisfied that the Scheme is equitable to all classes and generations of HLAC's and Omnilife's policyholders.

5.6. I am also satisfied that I do not expect the Scheme to have a material adverse effect on HLAC's reinsurers whose contracts will be transferred to Omnilife.

6 Certificate of compliance

6.1. I understand that my duty in preparing the Scheme Report is to help the Court on all matters within my expertise and that this duty overrides any obligation I have to those instructing me and/or paying my fees. I have complied with this duty.

6.2. I am aware of the requirements applicable to experts as set out in Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims. I understand my duty to the Court.

6.3. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed represent my true and complete professional opinions on the matters to which they refer.

Stephen Makin

Stephen Makin FFA CERA
Independent Expert

For and on behalf of Hymans Robertson LLP

1 March 2023

Appendix 1: Glossary

Term	Definition
Annuity	A contract of insurance under which an insurer pays a regular income, usually until the death of the insured.
Best Estimate Liabilities	In Solvency II, the best-estimate valuation of liabilities refers to the discounted value (i.e. in today's terms) of expected future obligations that an insurer expects to have to pay. The cash flows underlying the valuation are "best-estimate" in the sense of being "expected". They may therefore be considered to be neither pessimistic nor optimistic. Further information is given in Appendix 6 in the Scheme Report.
Capital Limit	Both HLAC and Omnilife have capital management policies in place which require a formal recovery plan to be prepared by management and presented to the Board if the level of Eligible Own Funds in excess of the SCR is lower than the Capital Limit.
Capital Target	The level of Eligible Own Funds in excess of the SCR that each of HLAC and Omnilife aims to maintain, according to their capital management policies. If the level of Eligible Own Funds over and above the SCR exceeds the Capital Target then the firm may pay the excess as a dividend to shareholders.
Directions Hearing	The hearing that took place on 7 November 2022, at which the Court granted the parties permission to send notification of the Scheme to their policyholders and other interested parties.
Diversification	The reduction in risk (and therefore capital requirements) that results from an expectation that adverse outcomes from one risk can be offset by more favourable outcomes from others. This arises from not all risks being expected to occur at the same time.
Effective Date	Effective Date means the time and date on which the Scheme will take effect, which is expected to be 23:59 GMT on 30 April 2023.
Eligible Own Funds	Own Funds that an insurer is permitted to use to cover its SCR. The regulations categorise various Own Funds items into tiers according to their loss absorbency, degree of subordination, and term. The regulations also specify limits on the amount of Own Funds in each tier that may be used to cover the SCR. Further information is given in Appendix 6 in the Scheme Report.
Excluded Sanctioned Policies	This term is defined fully in the Scheme, but in essence it means any of HLAC's policies that is held by a policyholder on a sanctions list at the Effective Date.
Key calibration scenario	Omnilife and HLAC set their Capital Limits such that, if the firm in question complies with its Capital Limit, it expects to be able to cover the SCR in the key calibration scenario. In the key calibration scenario, HLAC's key market and reinsurance counterparty risks crystallise.
Legacy business	The business written by Omnilife prior to the transfer of annuities from Generali. The legacy business comprises group risk business together with individual savings and term assurance policies.

Term	Definition
Lifetime mortgage	A loan secured on the borrower's home which does not need to be repaid until a specified event occurs, such as the death of the borrower or the borrower moving into long-term residential care. The borrower is normally provided with a no negative equity guarantee.
Matching Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The value of the Matching Adjustment is derived from the spread on the assets held by the insurer to back the relevant business. Further information is given in Appendix 6 in the Scheme Report.
Own Funds	The total of: • the excess of assets over liabilities – according to the regulatory balance sheet – less the amount of own shares held by the insurer, and • subordinated liabilities Further information is given in Appendix 6 in the Scheme Report.
Regulatory balance sheet	A balance sheet showing assets and liabilities recognised and valued in accordance with the Solvency II regulations.
Reinsurance	Insurance protection taken out by an insurer to limit its exposure to losses on its direct insurance contracts.
Risk Margin	This is an addition to the Solvency II best-estimate liabilities. Its calculation is prescribed by the Solvency II rules, and it is intended to represent the amount in excess of the best-estimate liabilities that would have to be paid to another insurer in order for it to agree to take on the underlying insurance obligations. Further information is given in Appendix 6 in the Scheme Report.
Sanctions Hearing	The second Court hearing, at which it will decide whether or not to sanction the Scheme.
Solvency II	The name given to the regulatory regime that UK insurers are required to comply with. The regime is currently identical to that with which insurers in the EU are required to comply, the legislation having been written into UK law after Brexit. Solvency II imposes quantitative requirements on insurers, for example relating to how assets and liabilities are measured, and how much capital insurers are required to hold. Solvency II imposes qualitative requirements, for example relating to governance and risk management processes and controls. Solvency II also places disclosure requirements on insurer, relating to what and to whom insurers must report on their financial health.

Term	Definition
Solvency Capital Requirement	Under Solvency II, insurers are required to hold a Solvency Capital Requirement. The Solvency Capital Requirement is specific to each insurer and is calculated based on the risks that each insurer faces. It aims to ensure that an insurer holds enough Own Funds to withstand certain stress events. Further information is given in Appendix 6 in the Scheme Report.
Solvency coverage ratio	This is a measure of financial strength of an insurer, calculated as the value of its Eligible Own Funds divided by its Solvency Capital Requirement.
Standard Formula	A prescribed approach to calculating the Solvency Capital Requirement which insurers must use unless they have regulatory approval to use their own internal model. Further information is given in Appendix 6 in the Scheme Report.
Technical Provisions	Liabilities held on the regulatory balance sheet in respect of future benefit payments under contracts of insurance and the expenses of administering those contracts. Usually calculated as the sum of the Best Estimate Liabilities and the Risk Margin. Further information is given in Appendix 6 in the Scheme Report.
Term assurance	A type of life insurance policy that provides cover, usually against death but sometimes also being diagnosed with certain critical illnesses, for a specified period of time.
Transferring Assets	This term is fully defined in the Scheme, but in essence it means all of HLAC's assets at the Effective Date save for any Residual Assets, any legal titles held by HLAC for properties that are the subject of home reversion plans, and c.£7m of cash and cash equivalents which will be retained in HLAC.
Transferring Business	This term is fully defined in the Scheme, but in essence it means the Transferring Assets, Transferring Liabilities, Transferring Policies, Outwards Reinsurance Agreements, and Transferring Third Party Contracts collectively.
Transferring Liabilities	This term is fully defined in the Scheme, but in essence it means all of HLAC's liabilities, which includes liabilities under the Transferring Policies, but also all other liabilities of the company, both actual and contingent.
Transferring Policies	This term is fully defined in the Scheme, but in essence it means all of HLAC's policies in force at the Effective Date.
Transferring Third Party Contracts	This term is fully defined in the Scheme, but in essence it means all of HLAC's outsourced contracts in force at the Effective Date.
Transitional Measure on Technical Provisions	A deduction from the Technical Provisions for insurance contracts written before Solvency II came into effect, based on the difference between the Technical Provisions calculated in accordance with Solvency II and those calculated in accordance with the previous regulatory regime. Further information is given in Appendix 6 in the Scheme Report.
Volatility Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. Insurers may apply for regulatory approval to add a Volatility Adjustment to the basic risk-free rate. Further information is given in Appendix 6 in the Scheme Report.

Appendix 2: Abbreviations

Abbreviation	Definition
BEL	Best Estimate Liabilities
Court	The High Court of Justice in England and Wales
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
HLAC	Hodge Life Assurance Company Limited
HMT	HM Treasury
Hymans Robertson	Hymans Robertson LLP
IFoA	Institute and Faculty of Actuaries
Independent Expert	The person responsible for preparing the Scheme Report in accordance with Section 109(2) of FSMA
MA	Matching Adjustment
Omnilife	Omnilife Insurance Company Limited
PRA	Prudential Regulation Authority
Pure Retirement	Pure Retirement Limited
Retirement Bridge	Welfare Dwellings Trust Limited
Scheme	The proposed scheme of transfer, the terms of which I have been instructed to report on in the capacity of Independent Expert
Scheme Report	The report on the terms of the Scheme required under section 109(1) of FSMA
SCR	Solvency Capital Requirement
SUP18	Chapter 18 of the Supervision Manual of the FCA Handbook
TMTP	Transitional Measure on Technical Provisions
UK	United Kingdom
VA	Volatility Adjustment

Appendix 3: Documents considered

The principal documents reviewed in preparing the Supplementary Report were:

- advanced draft of the Scheme,
- HLAC Chief Actuary's supplementary report on the Scheme,
- Omnilife Chief Actuary's supplementary report on the Scheme,
- details of correspondence and objections received from policyholders.