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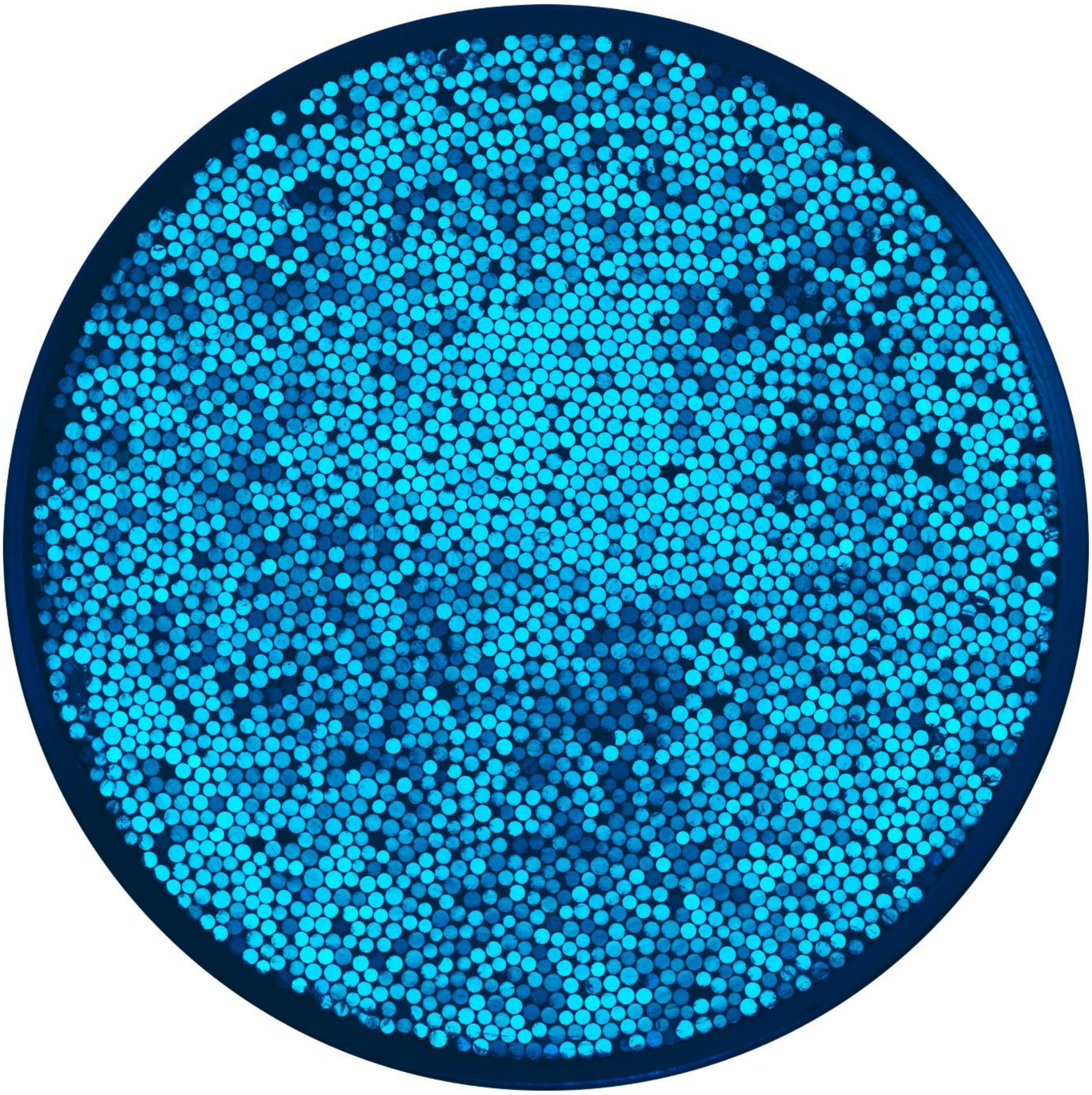

TAL Life Insurance Services Limited and TAL Life Limited

Independent Actuarial Report on the Proposed Scheme of Transfer

9 September 2024

MAKING AN IMPACT THAT MATTERS since 1845

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To Whom it May Concern

Re: Independent Actuarial Report

TAL Life Insurance Services Limited (TLISL), previously known as Westpac Life Insurance Services Limited (previously known as BT Life), was acquired by TAL Dai-ichi Life Australia Proprietary Limited (TDA), with completion occurring in July 2022. TAL is now preparing for the process of consolidating the statutory funds of TLISL and TAL Life Limited ("TAL Life") and aims to implement a transfer, which, if approved, will occur under Part 9 of the Life Insurance Act 1995 and Life Insurance Regulations 2024 by way of a statutory asset transfer (Part 9 Transfer) by 31 March 2025.

TAL Life and TLISL (the "Companies") have engaged me through Deloitte Touche Tohmatsu ("Deloitte") to prepare an independent actuarial report ("the Report") to provide an opinion in relation to the Policy Owner implications of the proposed Part 9 transfer of TLISL to TAL Life ("the Proposed Transfer").

In preparing my opinions in regards to the Proposed Transfer, I consider the effect of the Proposed Transfer on the following areas for TLISL and TAL Life Policy Owners:

- Contractual benefits and other rights,
- Reasonable benefit or other Policy Owner expectations,
- Benefit security (including capital position, investment strategy, reinsurance arrangements and risk management framework), and
- Any other matters that arise in the course of my review of the Proposed Transfer which have the potential to impact on either group of Policy Owners.

My Report is subject to Reliances and Limitations which are set out in Section 8 of the Report.

Yours sincerely

Alan Merten, Fellow of the Institute of Actuaries of Australia

Partner, Deloitte Touche Tohmatsu Limited

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1. Executive Summary

1.1 Scope of report

Through Deloitte ("us", "we"), Alan Merten ("I", "me") has been engaged by TAL Life Limited ("TAL Life") and TAL Life Insurance Services Limited ("TLISL") to prepare an independent actuarial report ("the Report") which provides an opinion in relation to the Policy Owner implications of the proposed Part 9 transfer of the TLISL Business to TAL Life ("the Proposed Transfer").

The Proposed Transfer is anticipated to occur as at 31 March 2025. The assessments made in this preliminary report are based on audited financial information as at 31 March 2024. I expect to issue a supplementary update to this report to provide an updated opinion based on financial information as at 30 September 2024.

In preparing my opinion in regards to the Proposed Transfer, I consider the effect of the Proposed Transfer on the following areas for TAL Life and TLISL Policy Owners, both those that are transferring and those that are remaining:

- Contractual benefits and other rights,
- Reasonable benefit or other Policy Owner expectations,
- Benefit security (including capital position, investment strategy, reinsurance arrangements and risk management framework ("RMF")), and
- Any other matters that arise in the course of my review of the Proposed Transfer which have the potential to impact on either group of Policy Owners.

The Policy Owners referred to throughout this report includes current Policy Owners, members of any trust of which a current Policy Owner is a trustee and members of any group insurance scheme of which the current Policy Owner holds the policy. In preparing this report, I have considered the interest of both current Policy Owners and underlying beneficiaries.

In preparing the opinion, I have focused on the changes that arise as a result of the Proposed Transfer, rather than changes that might arise in the ordinary course of business.

1.2 Summary of the Proposed Transfer

TAL Life and TLISL have entered into a transaction to transfer the TLISL Policies, Liabilities and Assets as at the date of the Proposed Transfer to TAL Life.

The Proposed Transfer will be effected via a Scheme for the transfer of life insurance business under Part 9 of the Life Insurance Act 1995 (Cth) ("the Scheme") under which:

- The TLISL Policies, Assets and Liabilities from TLISL' Statutory Fund No. 1 ("SF1") and Statutory Fund No. 2 ("SF2") will be transferred to TAL Life's Statutory Fund No. 1 ("SF1") and Statutory Fund No. 2 ("SF2") respectively.
- All rights and liabilities under the Life insurance policies and contracts relating to TLISL's SF1 and SF2 will transfer to TAL Life, and TLISL SF1 and SF2 Policy Owners will become Policy Owners of TAL Life.
- Existing reinsurance arrangements for in-force TLISL business will be transferred to TAL Life with no changes to the arrangements.
- All costs associated with the Proposed Transfer will be borne by the shareholders of TAL Life and the shareholders of TLISL (i.e. borne at the TDA level).

The details of the Proposed Transfer are more fully described in Section 5. It is anticipated that the Scheme will be effective 31 March 2025, if confirmed.

1.3 Approach

In order to assess how the Proposed Transfer may affect the contractual benefits and other rights, Policy Owner expectations and benefit security, it is necessary to identify the activities and decisions that may be taken that may impact Policy Owners. In particular, there are aspects of the benefits provided which involve discretion being applied by TLISL. I consider how TLISL applied such discretions historically and my understanding of TAL Life's future intentions in these areas.

In assessing the potential Policy Owner impact of the Proposed Transfer, I consider:

- The potential differences in management of policies and Policy Owners in the future. This will be assessed by understanding historical and intended management approach of both TLISL and TAL Life for the different groups of Policy Owners (including particularly product strategy, underwriting and claims management);
- The transition period, and potential impact on customer service level, claims management and sales/lapse impacts;
- The readiness of the TAL Life management team to successfully execute the integration between the two companies and potential impact on the existing TAL Life Policy Owners;
- The management of risk and capital including Target Surplus and dividend policy and the resulting financial position/strength of TAL Life post transfer;
- The management of participating Policy Owners.

1.4 Opinion on TLISL Policy Owners

In summary, my observations in relation to Policy Owner impact of the Proposed Transfer for TLISL Transferring Policy Owners are:

1. There will be no changes to the contractual benefits and other rights of TLISL Transferring Policy Owners.
2. In relation to areas where decisions are being made that could impact Transferring Policy Owner expectations, TLISL operations have mostly been harmonised with those of TAL Life through common ownership and staff in shared services. All key decisions related to harmonisation have been already made, and so I am comfortable any remaining decisions regarding harmonisation with respect to the Proposed Transfer will not adversely impact Policy Owners.
3. Service provided to TLISL Transferring Policy Owners in future by TAL Life should be at least at levels experienced while Policy Owners of TLISL, given TAL Life's commitment to take on staff and systems and its largely completed integration plan.
4. TLISL Transferring Policy Owners will not be exposed to the costs of transition as a result of the Proposed Transfer being implemented. Costs relating to the Proposed Transfer will be met by the shareholder of TLISL and TAL Life, TAL Dai-ichi Life Australia Pty Limited (TDA).
5. Security of Policy Owner benefits should not be adversely impacted by the Proposed Transfer. The capital position of TAL Life after the Proposed Transfer is sound with the merged capital position indicating that after the Proposed Transfer benefit security is maintained.
6. TLISL is closed to new business and TAL Life is open to new business. The Proposed Transfer into TAL Life will mitigate the risks related to the standalone TLISL entity in this regard, such as a reducing pool of Policy Owners leading to increased volatility in claims experience which may impact future premium rates.
7. TLISL does not hold any participating insurance policies so there is no need to consider reasonable benefit expectations of any Transferring Policy Owners contracts with regards to participation in profits of the entity.

Given the above, I conclude that the Proposed Transfer will not materially adversely affect any group of TLISL Transferring Policy Owners in respect of:

- Contractual rights
- Reasonable benefit or other Policy Owner expectations
- Benefit security.

1.5 Opinion on TAL Life Policy Owners

In summary, my observations in relation to Policy Owner impact of the Proposed Transfer for TAL existing Policy Owners are:

1. There will be no changes to the contractual benefits and other rights of TAL Life Policy Owners.
2. There are no adverse changes proposed to the TAL Life products, product strategy, customer service levels or claims management.
3. TAL Life Policy Owners will not be exposed to the costs of transition as a result of the Proposed Transfer being implemented. Costs relating to the Proposed Transfer will be met by TDA. Ultimately, successful integration is expected by TAL Life to lead to unit cost savings due to economies of scale.
4. TAL Life participating Policy Owners will continue to be managed via a separate sub-fund with no changes to investment policy, profit allocation approach, expense allocation approach and bonus policy.
5. The capital position of TAL Life, for each Statutory Fund and the entity overall, post transfer is expected to remain sound after completion of the Proposed Transfer with no diminution in benefit security for Policy Owners as a result of the Proposed Transfer.

Given the above, I conclude that the Proposed Transfer will not materially adversely affect any group of TAL Life Policy Owners in respect of:

- Contractual rights
- Reasonable benefit or other Policy Owner expectations
- Benefit security.

1.6 Reliances and limitations

In forming the opinions contained in this Report, I have relied on the accuracy and completeness of information provided to me by TLISL and TAL Life, both orally and in writing, without independently verifying it. The detailed reliances and limitations are set out in Section 8.

This Report should be considered in its entirety. This Executive Summary is intended to provide an overview of this Report and does not cover all of the issues addressed in the Report.

This Report is solely for the purpose set out in the Scope section of the Report and is not to be used for any other purpose. This report has been prepared at the request of TLISL and TAL Life in accordance with the terms of our engagement letter dated 20 March 2024.

Third parties who use this Report acknowledge that they are not a party to the engagement letter dated 20 March 2024. Deloitte shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of any reliance by the third parties on this Report.

2. Introduction

2.1 Scope of report

With reference to Section 192 of the Life Insurance Act 1995, I have been engaged through Deloitte by TAL Life and TLISL to prepare an independent actuarial report, which provides an opinion in relation to the Policy Owner implications of the proposed Part 9 transfer of the Life Business of TLISL to TAL Life. The Proposed Transfer arises because TDA has chosen to consolidate the TLISL and TAL Life businesses with the aim to reduce operational complexity, costs and capital.

In preparing my opinions regarding the Proposed Transfer, I consider the effect of the Proposed Transfer on the following areas for TLISL and TAL Life Policy Owners:

- Contractual benefits and other rights,
- Reasonable benefit or other Policy Owner expectations,
- Benefit security (including capital position, investment strategy, reinsurance arrangements and Risk Management Framework), and
- Any other matters that arise during my review of the Proposed Transfer which have the potential to impact on either group of Policy Owners.

I have reviewed the Joint Appointed Actuaries Report for the Part 9 Transfer ("the Actuarial Report") titled: "TLISL and TAL Life - Part 9 AA report" and the proposed Scheme under Part 9 of the Life Insurance Act 1995 ("the Scheme") titled: "Scheme Document". These documents describe the proposed scheme for the transfer of the life insurance business of TLISL to TAL under Part 9 of the Life Insurance Act 1995 (Cth) ("Scheme") of the Business and an analysis of the impact on the Policy Owners' terms and benefit security. My opinion is prepared based on the information provided in these documents, the documents specified in the Appendix, and a detailed question and answer process with TLISL and TAL Life staff.

In preparing my Report, I have focused on the changes that arise as a result of the Proposed Transfer, rather than changes that might arise in the ordinary course of business irrespective of the Proposed Transfer.

The Report has been prepared in compliance with the requirements of the Institute of Actuaries of Australia including the Code of Professional Conduct and Professional Standard 201, as well as with the Federal Court of Australia's (the "Court") 'Expert Evidence Practice Note (GPN-EXP)'.

In the remainder of this Report, the different parties and groups of Policy Owners are to be referred to as per the figure below:

Figure 1 Proposed Transfer Structural Diagram (Pre-Transfer)

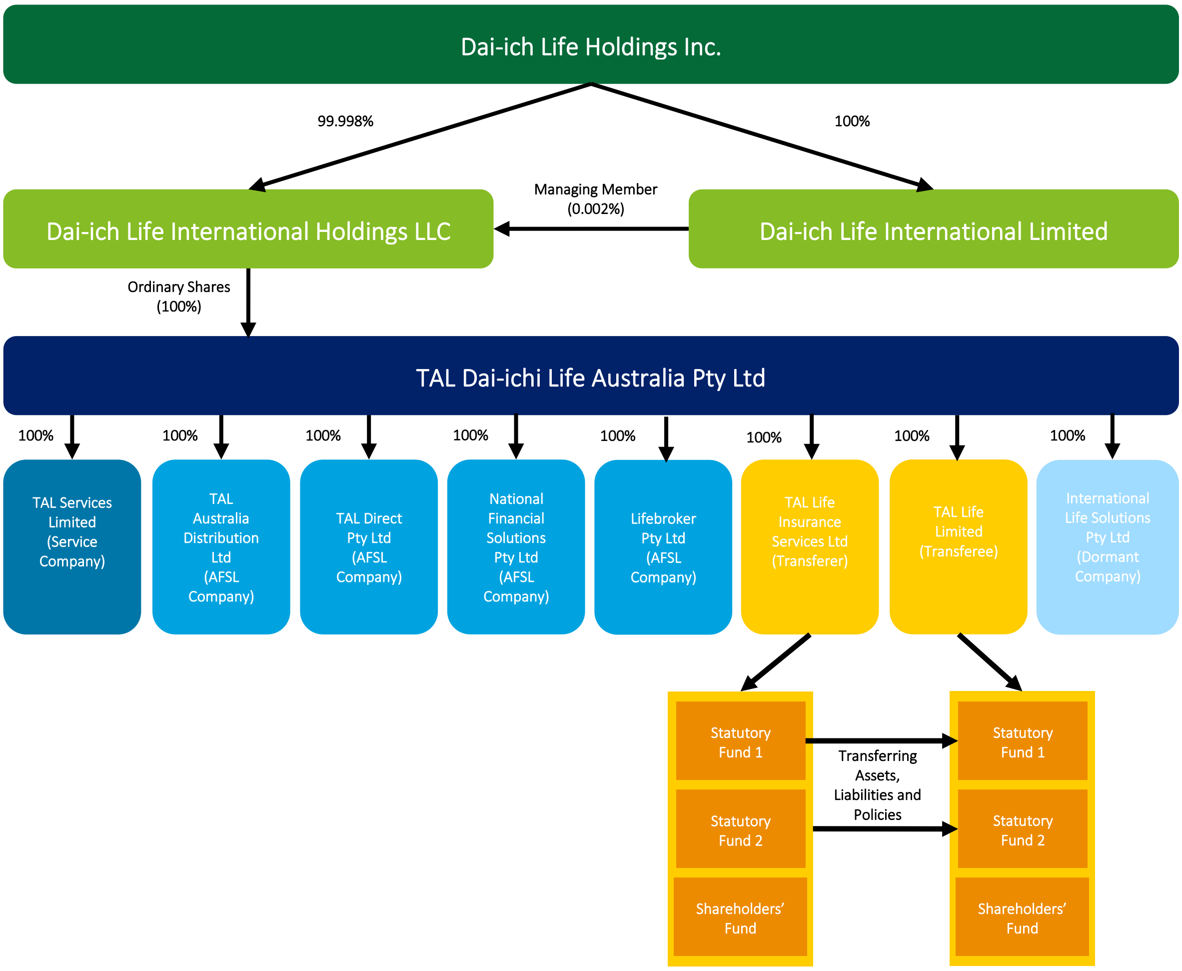
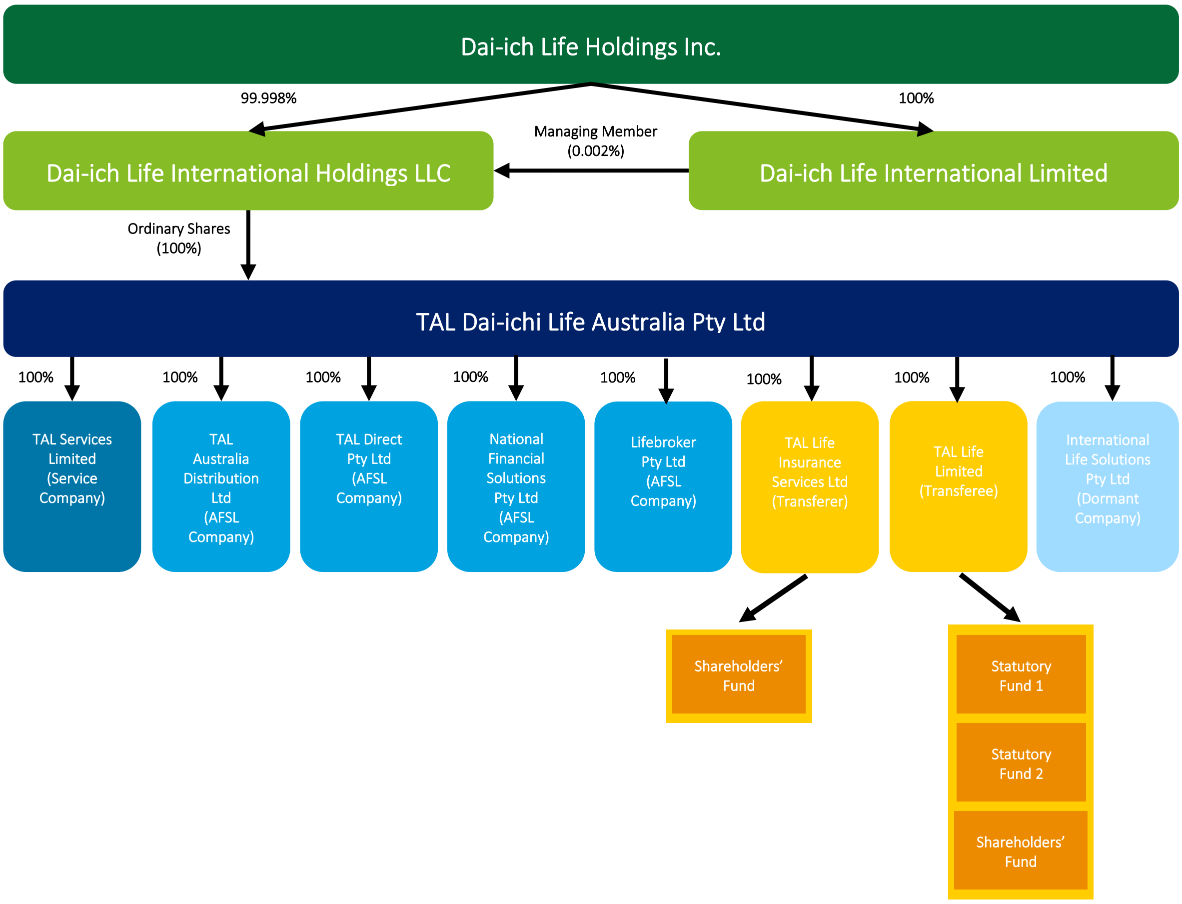


Figure 2 Proposed Transfer Structural Diagram (Post-Transfer)



A full glossary of terms is provided in Appendix A. All monetary amounts in this Report are denominated in Australian Dollars, unless otherwise stated.

2.2 The Independent Expert

When a scheme for the transfer of insurance business from one company to another is submitted to the Court for approval, the Australian Prudential Regulation Authority ("APRA") may arrange for an independent actuary to make a written report on the Scheme. This is a provision in Section 192 of the Life Insurance Act 1995, and APRA may give a copy of the report to each company affected by the scheme.

TLISL and TAL Life (the "Companies") have chosen to seek an independent actuarial review in anticipation of this provision. The Companies have appointed me, Alan Merten, through Deloitte to perform the independent actuarial review, and the appointment has been supported by APRA.

As the Independent Expert, I have led the team that has prepared this Report on a proposed scheme for the transfer of the TLISL Life business to TAL Life.

I am a Fellow of the Institute of Actuaries of Australia, having qualified in 1990. I am a Partner of Deloitte Touche Tohmatsu, having joined Deloitte and been admitted as a Partner in 2016. I am a Partner in Deloitte Australia's actuarial team. I have previously been approved as "fit and proper" for, and have performed, Appointed Actuary roles in the life insurance sector. The opinions I provide are based wholly or substantially on the specialised knowledge acquired through actuarial training and experience as a practitioner.

I have read, understood and complied with the Federal Court of Australia's Practice Note CM 7 on 'Expert witnesses in proceedings in the Federal Court of Australia'.

Neither I, nor my immediate family, hold any policies, investments, shareholdings or have any other financial interests with either of the Companies, nor have I advised on any significant projects impacting the Proposed Transfer.

Deloitte has previously provided and may continue to provide, a range of services to both Companies. However, it has not acted as external auditor or performed any regulatory roles. Deloitte has not acted for the Companies in developing any aspects of the Scheme and has not carried out any of the calculations (or the development of any of the underlying financial models) connected with the Scheme. I do not believe that any of these assignments compromise my ability to report independently on the Proposed Transfer.

2.3 Reliances and sources of information

In forming my opinion, I have relied on the accuracy and completeness of information provided to me by TLISL and TAL Life, both orally and in writing, without independently verifying it. The full list of documents relied upon can be found in Appendix B.

I note that projections of future financial position and estimates of insurance liabilities are generally subject to inherent uncertainties. The actual financial position on TLISL and TAL Life at the Scheme transfer date and beyond is subject to the outcome of events that have not yet occurred. Actual experience could vary significantly from the estimates contained within this Report and the Actuarial Reports. Deviations are normal and are to be expected. The outcome of insurance business and ongoing solvency of TAL Life cannot be guaranteed. I note that no absolute guarantee can be provided given the inherent uncertainty in insurance outcomes.

2.4 Structure of the Report

The remainder of this Report is structured as follows:

- Section 3 provides an overview of the TLISL business and the Transferring Statutory Funds.
- Section 4 provides an overview of the TAL Life business and the receiving statutory funds.
- Section 5 summarises the proposed Scheme and the key changes which are likely to impact Policy Owners.
- Section 6 explains my view of the impact of the Proposed Transfer on the TLISL Policy Owners. It sets out my analysis and conclusions on how these Policy Owners are affected by the Scheme in respect of:
    - Contractual benefits and rights
    - Policy owner reasonable expectations
    - Security of Policy Owner benefits
- Section 7 explains my view of the impact of the Proposed Transfer on the TAL Life Policy Owners. It sets out my analysis and conclusions on how these Policy Owners are affected by the Scheme in respect of:
    - Contractual benefits and rights
    - Policy owner reasonable expectations
    - Security of Policy Owner benefits
- Section 8 provides the Reliances and Limitations that I place on my Report.
- Further detail is given in the Appendices, including a glossary and the full list of documents and information that have been relied upon in forming my conclusion.

Note that references to the combined entity capital position within this report are written as if the Proposed Transfer were to have occurred 31 March 2024. An updated addendum will be provided closer to the date of transfer which details the actual capital position as at 30 September 2024 on which to consider the decision on the actual date of Transfer (expected to be 31 March 2025).

3. Overview of TLISL Business

TAL Life Insurance Services Limited (TLISL) is 100% owned by TAL Dai-ichi Life Australia Pty Limited (TDA), which in turn has been 100% owned by Dai-ichi Life International Holdings LLC (“DLIHD”) since 9 December 2020. On 1 August 2022, TDA acquired 100% ownership of TLISL (previously known as Westpac Life) from Westpac. TDA is TLISL’s ultimate Australian parent company and is subject to regulatory oversight by APRA as a registered non-operating holding company. TLISL is closed to new business for all product lines (though allowing increases or changes in policies for existing Policy Owners).

3.1 Statutory Funds

TLISL has two statutory funds and one shareholders’ fund:

- **Statutory Fund No. 1 (“SF1”):** This fund contains all ordinary and super individual risk business, group risk business, and lifetime annuity business.
- **Statutory Fund No. 2 (“SF2”):** This fund contains all ordinary investment linked business.
- **Shareholders’ Fund (“SHF”)”:** This fund is maintained separately from the Statutory Funds as required by the Life Insurance Act. The main activity of the SHF is the investment of the assets of the SHF.

For the 12 months ended 31 March 2024, the key financial metrics were:

Table 1 TLISL Key Financial Metrics as at 31 March 2024

Measure ($m)	SF1	SF2	SHF	Total*
Profit (NPAT)	308	3	0	310
In-Force Annual Premium (IFAP)	949	0	0	949
Funds Under Management (FUM)	0	116	0	116
Net Insurance Contract Liabilities	1,952	116	0	2,068

*totals may not equal the sum of underlying figures due to rounding.

3.2 Products and Pricing

The four core product types for TLISL are retail, group, direct and wealth. There are no participating products and benefits are not discretionary nor dependent on profitability outcomes.

Table 2 TLISL Key Product Types

Product Type	Description	Statutory Fund	Status
Retail Life Insurance	Death, Total and Permanent Disability (TPD), Trauma (or Critical Illness) and Disability Income life insurance products distributed to individuals principally through Independent Financial Advisers.	SF1	Closed to new business
Group Life Insurance	Death, TPD and Disability Income life insurance products distributed through industry superannuation schemes, MasterTrust platforms and corporate superannuation schemes	SF1	Closed to new business
Direct Life Insurance	Death, Trauma (or Critical Illness) and Disability Income life insurance products direct to individuals	SF1	Closed to new business
Wealth (Annuities)	Investment business, including Lifetime Annuities	SF1	Closed to new business
Wealth (Investment Linked)	Investment business, including ordinary investment linked products	SF2	Closed to new business

Key features of TLISL's pricing are:

- **Re-pricing rights:** There are no explicit guarantees limiting re-pricing, noting that any limits are implicitly based on historic premiums. Future premiums will be impacted by experience within the product groups and business expenses allocated to TLISL policies, to the extent that management decides to reprice the products on the basis of these.
- **Pricing principles:** TLISL's pricing is set separately for each product based on the experience within each product (where credible), with overlays applied based on industry experience across TLISL and TAL Life. TLISL considers a range of principles in its pricing, some of which include:
  - Financial performance of TLISL;
  - Guarantees made, or the reasonable expectations of policyholders;
  - Ability to rationally justify any premium increases;
  - Competitive environment;
  - Expected lapses driven by repricing;
  - Expected anti selective lapse experience; and
  - Expected impact on the value of in-force business.

3.3 Capital Position

APRA's Regulatory Capital requirements are outlined in the Appendix, including descriptions of the Prescribed Capital Amount ("PCA"), Prescribed Capital Requirement ("PCR"), Target Surplus and Target Capital.

TLISL's Target Surplus, which is consistent with TDA's Target Capital requirements, is set so that the Life Company will only breach the PCR as a result of a shock which is more severe than a 1 in 40 year event (i.e. 2.5% probability).

The financial position of TLISL as at 31 March 2024 is shown below including Net Assets, PCA and capital in excess of PCA. TLISL has significant assets in excess of its PCA, noting that it plans to distribute a dividend which will reduce this position to bring excess assets closer to, but still above 100% of TLISL's Target Capital level.

TLISL's FCR demonstrates a continuing strong financial position expected over the next 3 years, with projected available assets remaining in excess of Target Capital over the period.

Table 3 TLISL Capital Position as at 31 March 2024

Amount ($'m)	SF1	SF2	SHF	Total*
Assets	2,689	139	2	2,830
(less) Net Insurance Contract Liabilities	(1,952)	(116)	0	(2,068)
(less) Other Liabilities	(38)	(6)	0	(44)
Net Assets	**699**	**15**	**2**	**717**
Regulatory Adjustments to Net Assets	109	(5)	0	104
Capital Base	**808**	**10**	**2**	**820**
Asset Risk Charge	57	0	0	57
Insurance Risk Charge	169	0	0	169
Operational Risk Charge	37	0	0	37
Asset Concentration Risk Charge	0	0	0	0
Aggregation Benefit	(37)	0	0	(37)
Combined Scenario Adjustment	48	0	0	48
Prescribed Capital Amount (PCA)	**274**	**0**	**0**	**274**
Capital in Excess of PCA ($)	**534**	**10**	**2**	**546**
Capital Adequacy Multiple (%)	**295%**	**N/A**	**N/A**	**299%**

*totals may not equal the sum of underlying figures due to rounding.

3.4 Investment Strategy and Asset Allocation

TLISL's investment strategy is aligned with TDA's strategy, where each product group has a set strategic asset allocation, which indicates the intended characteristics of each asset class as well as the permitted deviation ranges. TLISL management has noted that no other changes to the investment strategy are expected, and it still considers the TLISL investment strategy to be on the conservative side for assets backing risk and annuity business.

The investment approach adopted by TLISL is summarised below:

- **SF1:** assets backing risk business are invested in cash and Australian fixed interest securities.
- **SF2:** assets backing investment linked business are invested so that the asset allocation is consistent with the achievement of the investment objectives for the different unitised products over the long term. SF2 investments are managed externally by Janus Henderson Investors (Australian) Funds Management Limited (JHIFML) and Blackrock Investment Management (Australia).
- **SHF:** assets are held in cash.

3.5 Expense Allocation

TAL Services Limited is a service company which employs most staff performing activities for TLISL and TAL Life. Expenses incurred by TAL Services Limited and TDA in respect of TLISL policies are allocated to TLISL, employing an Activity Based Costing model to distribute expenses by category and type across business units and products, consistent with the model used for TAL Life. A detailed bottom-up expense analysis is conducted every few years to determine appropriate expense drivers and allocation for various life policies, with the most recent detailed investigation performed as at 31 March 2024 so I do not expect any material changes to expense allocations following the Proposed Transfer. In interim years, a high-level top-down allocation focuses on significant business changes. The allocation basis includes:

- Direct allocation of expenses and activities to specific products and statutory funds.
- Surveys to allocate indirect overhead and general management expenses based on function and cost type.

Since all TLISL business lines are closed to new business, all expenses are allocated to maintenance rather than acquisition. TLISL's underwriting and claims management are performed largely in-house. SF1 Investments are managed externally by Pendal Institutional Limited (Pendal) and SF2 investments are managed externally by Janus Henderson Investors (Australian) Funds Management Limited (JHIFML) and Blackrock Investment Management (Australia).

3.6 Underwriting

Given that TLISL products are closed to new business, the underwriting process is limited to increases in sum insured for existing policies. TLISL's underwriting standards are derived from internal rules and an underwriting manual published from Pacific Life Reinsurance, TLISL's primary reinsurer. In accordance with the Life Insurance Code of Practice, these standards are occasionally reviewed and altered. TLISL is currently refining its underwriting philosophy by reviewing the information presented in both TLISL and TAL Life Adviser Guides. TAL Life's management intends to harmonise the TLISL and TAL Life practices so that, in time, a consistent approach can be adopted for both TLISL and TAL Life customers.

3.7 Risk Management Framework

TLISL has adopted TDA's Risk Management Framework ("RMF"), which is also applied to TAL Life. The RMF is designed to support TLISL's Risk Management Strategy, which is to identify, monitor and manage the material risks faced by TLISL consistent with TLISL's risk appetite, and ensure that sufficient capital is held against the residual risk exposure to TLISL.

The material risks to which TLISL is exposed, based on TDA's ICAAP, include credit risk, market and investment risk, liquidity risk, insurance risk, operational and strategic risks. The AA's view of key business risks noted in the Actuarial Report are more specific to the underlying insurance risks, market risks and counterparty risk.

3.8 Reinsurance Arrangements

TDA's Risk Management Policy ("RMP") forms part of the Risk Management Framework ("RMF") and sets out the reinsurance management framework. The reinsurance management framework has the purpose to meet obligations to Policy Owners, effectively manage capital and risk, and comply with regulatory requirements.

According to the TLISL Financial Condition Report, the core elements of TLISL's reinsurance strategy that are considered in managing the reinsurance programme are:

- Earnings growth
- Protection from earnings volatility
- Achieving a higher level of risk diversity
- Maximising embedded value
- Maximising capital efficiency and return on capital
- Regulatory compliance
- Managing counterparty default risk set by the Credit and Counterparty Risk Management Policy and the Risk Appetite Statement.

TLISL's largest reinsurance exposure is with Pacific Life Re Australia ("PLRA"). This is a combined quota share and surplus reinsurance arrangement. Overall the proportion of risk ceded under this treaty is approximately 35% for lump sum and 20% for income protection products. TLISL also has a number of other less material reinsurance arrangements with exposure to Hannover Re, Munich Re Australia, RGA, Swiss Re and Transamerica Premier Life Insurance Company. TLISL's reinsurance arrangements can be summarised as follows:

Table 4 TLISL Reinsurance Arrangements

Product Type	Reinsurance Arrangement Type	Reinsurers
Retail Life Insurance	Quota Share Treaty Surplus Treaty Facultative Treaty	Hannover Life Re of Australasia Ltd Munich Reinsurance Company of Australasia Ltd Pacific Life Re (Australia) Pty Limited RGA Reinsurance Company of Australia Ltd Swiss Re Life & Health Australia Ltd
Group Life Insurance	Quota Share Surplus Treaty	Munich Reinsurance Company of Australasia Ltd RGA Reinsurance Company of Australia Ltd
Direct Life Insurance	Quota Share Surplus Treaty	Hannover Life Re of Australasia Ltd RGA Reinsurance Company of Australia Ltd Swiss Re Life & Health Australia Ltd Transamerica Premier Life Insurance Company, Inc.

3.9 Proposed Dividends and Transfers

Under TLISL's capital management policy, assets in excess of Target Capital are considered to be available for distribution. Where available assets fall below 80% of Target Capital for TLISL, TDA will consider whether recovery actions are needed to improve the capital position. APRA approved[1] a dividend payment from TLISL to TDA of $340m following the 31 March 2024 results, which was subsequently paid in May 2024. TLISL has informed me that immediately prior to the Transfer, TLISL SF1 and TLISL SF2 will distribute any excess capital above a Target Capital Ratio (defined as the ratio of Capital Base to Target Capital) of 100% to the TLISL shareholders' fund.

[1] APRA approval is required in cases where the dividend or other capital reduction exceeds the after-tax earnings of the company over the last 12 months.

4. Overview of TAL Life Business

TAL Life is 100% owned by TAL Dai-ichi Life Australia Pty Limited (TDA), which in turn has been 100% owned by Dai-ichi Life International Holdings LLC (“DLIHD”) since 9 December 2020. TDA is TAL Life’s ultimate Australian parent company and is subject to regulatory oversight by APRA as a non-operating holding company.

4.1 Statutory Funds

TAL Life has two Statutory Funds and one Shareholders’ Fund:

- **Statutory Fund 1 (“SF1”):** which contains individual risk, group risk, participating traditional and investment account, non-participating traditional and investment account, and immediate annuity business.
- **Statutory Fund No. 2 (“SF2”):** which contains ordinary investment linked, superannuation investment linked, and allocated annuity and allocated pension investment linked business.
- **Shareholders’ Fund (“SHF”):** is maintained separately from the Statutory Funds as required under the Life Insurance Act. The main activity under the SHF is the investment of assets of the SHF.

I note that TAL Life’s statutory funds include previously transferred business. Most recently, TAL Life conducted a Part 9 transfer of the policies from Asteron Life to TAL Life statutory funds.

For the 12 months ended 31 March 2024, the key financial metrics were:

Table 4 TAL Life Key Financial Metrics as at 31 March 2024

Measure ($m)	SF1	SF2	SHF	Total*
Profit (NPAT)	310	(1)	0	308
In-Force Annual Premium (IFAP)	6,682	0	0	6,682
Funds Under Management (FUM)	0	236	0	236
Net Insurance Contract Liabilities	7,330	236	0	7,566

*totals may not equal the sum of underlying figures due to rounding.

4.2 Products and Pricing

The four core product types for TAL Life are retail, group, direct and wealth.

Table 5 TAL Life Key Products Types

Product Type	Description	Statutory Fund	Status
Retail Life Insurance	Death, Total and Permanent Disability (TPD), Trauma (or Critical Illness) and Disability Income life insurance products distributed to individuals through Independent Financial Advisers including dealer groups	SF1	Mixture of products open and closed to new business
Group Life Insurance	Life insurance products distributed through industry superannuation schemes, MasterTrust platforms and corporate superannuation schemes	SF1	Mixture of products open and closed to new business
Direct Life Insurance	Funeral, Death, Trauma (or Critical Illness), Income Protection life insurance products distributed direct to individuals through the TAL and Insurance-Line brands, as well as through alliance partner distribution channels	SF1	Mixture of products open and closed to new business
Wealth (Immediate Annuities)	Superannuation and retirement products, including immediate annuities	SF1	Closed to new business
Wealth (Participating)	Traditional participating products	SF1	Closed to new business
Wealth (Investment Linked)	Superannuation and retirement products, including ordinary investment linked, allocated annuities and allocated pension products	SF2	Mixture of products open and closed to new business

Key features of TAL Life's pricing are:

- Re-pricing rights:
    - TAL Life's participating products have guaranteed premium rates for the life of the policy.
    - TAL Life has a small cohort of level premium products with guaranteed premiums which cannot be repriced.
    - Apart from the small cohort noted above, TAL Life's level premium risk business does not contain premium rate guarantees. There are no explicit guarantees limiting re-pricing on stepped premium risk business, noting that any limits are implicitly based on historic premiums. Future premium rates will be impacted by experience within the product groups and business expenses allocated to TAL Life policies to the extent that management decides to reprice the products on the basis of these.

- **Pricing principles:** TAL Life's pricing is set separately for each product based on the experience within each product (where credible), with overlays applied based on industry experience across TLISL and TAL Life. TAL Life considers a range of principles in its pricing, some of which include:
    - Financial performance of TLISL;
    - Guarantees made, or the reasonable expectations of policyholders;
    - Ability to rationally justify any premium increases;
    - Competitive environment;
    - Relationship between new business and in force pricing;
    - Expected lapses driven by repricing;
    - Expected anti selective lapse experience; and
    - Expected impact on the value of in-force business.

4.3 Capital Position

APRA's Regulatory Capital requirements are outlined in the Appendix, including descriptions of the Prescribed Capital Amount ("PCA"), Prescribed Capital Requirement ("PCR"), Target Surplus and Target Capital.

The financial position of TAL Life as at 31 March 2024 is shown below including Net Assets, PCA and capital in excess of PCA.

TAL Life has strong capital in excess of its PCA. TAL Life's Target Capital, which is consistent with TDA's Target Capital requirements, is set so that the Life Company will only breach the PCR as a result of a shock which is more severe than a 1 in 40-year event (i.e. 2.5% probability). TAL Life's Target Capital Ratio is above 100%.

TAL Life's FCR demonstrates a continuing strong financial position expected over the next 3 years, with projected available assets remaining in excess of Target Capital over the period.

Table 6 TAL Life Capital Position as at 31 March 2024

Amount ($'m)	SF1	SF2	SHF	Total*
Assets	8,336	253	0	8,589
(less) Net Insurance Contract Liabilities	(7,330)	(236)	0	(7,566)
(less) Other Liabilities	(24)	(8)	0	(32)
Net Assets	**982**	**10**	**0**	**992**
Regulatory Adjustments to Net Assets	7	0	0	7
Capital Base	**989**	**10**	**0**	**1,000**
Asset Risk Charge	191	1	0	192
Insurance Risk Charge	265	0	0	265
Operational Risk Charge	159	1	0	160
Asset Concentration Risk Charge	78	0	0	78
Aggregation Benefit	(100)	0	0	(100)
Combined Scenario Adjustment	6	0	0	6
Prescribed Capital Amount (PCA)	**599**	**2**	**0**	**601**
Capital in Excess of PCA ($)	**390**	**8**	**0**	**399**
Capital Adequacy Multiple (%)	**165%**	**531%**	**N/A**	**166%**

*totals may not equal the sum of underlying figures due to rounding.

4.4 Investment Strategy and Asset Allocation

The TAL Life investment approach is aligned with TDA's strategy, where each product group has a set strategic asset allocation, which indicates the intended characteristics of each asset class as well as the permitted deviation ranges. TAL Life's investment assets are classified based on asset owners and include shareholder's assets (backing liabilities and assets in excess of liabilities), participating assets (80% Policy Owner and 20% shareholder), assets backing non-participating liabilities, and Policy Owner assets. The investment approach adopted by management for TAL Life is summarised below:

- SF1: assets backing risk business in SF1 are invested in cash and Australian fixed interest securities. Assets backing the insurance contract liabilities for participating business are predominantly invested in Australian fixed interest securities, with a small portion held in cash and equities.
- SF2: investment linked funds are invested to ensure the asset class structure for each investment option is consistent with the achievement of the investment objectives for the different unitised products over the long term, at an appropriate level of risk and cost given the relevant constraints.
- SHF: assets in the shareholders' fund are held in cash.

4.5 Expense Allocation

TAL Services Limited is a service company which employs most staff performing activities for TLISL and TAL Life. Expenses incurred by TAL Services Limited and TDA in respect of TAL Life are allocated to TAL Life, employing an Activity Based Costing model to distribute expenses by category and type across business units and products. A detailed bottom-up expense analysis is conducted every few years to determine appropriate expense drivers and allocation for various life policies. In interim years, a high-level top-down allocation focuses on significant business changes. The allocation basis includes:

- Direct allocation of expenses and activities to specific products and statutory funds.
- Surveys to allocate indirect overhead and general management expenses based on function and cost type.

4.6 Underwriting

TAL Life's underwriting principles aim to offer coverage to a broad range of individuals while ensuring that the coverage provided equates to a replacement of potential financial loss. TAL Life underwriting guidelines were developed by TAL Life's internal Health Services team and the Underwriting Risk & Strategy team. TAL Life's management plans to harmonise the underwriting practices of TLISL and TAL Life over time.

4.7 Risk Management Framework

TAL Life utilises TDA's Risk Management Framework ("RMF"). The RMF is designed to support TAL Life's Risk Management Strategy, which is to identify, monitor and manage the material risks faced by TAL Life consistent with TAL Life's risk appetite, and ensure that sufficient capital is held against the residual risk exposure to TAL Life.

They material risks to which TAL Life is exposed include credit risk, market and investment risk, liquidity risk, insurance risk, operational and strategic risks. The AA's view of key business risks noted in the Actuarial Report are more specific to the underlying insurance risks, market risks and counterparty risk.

4.8 Reinsurance Arrangements

TDA's Risk Management Policy ("RMP") forms part of the Risk Management Framework ("RMF") and sets out the reinsurance management framework. The reinsurance management framework and core elements on TAL Life's reinsurance strategy are aligned with TDA's, as outlined for TLISL in Section 3.8.

Based on premiums received, TAL Life reinsures around 35% of its core insurable risks of mortality and morbidity. The structure also provides some relief on the capital costs of funding acquisition unit costs. TAL Life's reinsurance agreements are predominately quota share with some surplus treaty arrangements. TAL Life's single largest open reinsurance exposure is with Munich Re. TAL Life's reinsurance arrangements can be summarised as follows:

Table 8 TAL Life Reinsurance Arrangements

Product Type	Reinsurance Arrangement Type	Reinsurers
Retail	Quota Share Surplus Treaty Facultative Treaty	General Reinsurance Life Australia Ltd Hannover Life Re of Australasia Ltd Monumental Life Munich Reinsurance Company of Australasia Ltd RGA Reinsurance Company of Australia Ltd Swiss Re Life & Health Australia Ltd
Group	Quota Share Surplus Treaty	Allianz SE Asteron Life & Superannuation Limited AXA France Vie Dai-ichi Life Japan General Reinsurance Life Australia Ltd Hannover Life Re of Australasia Ltd MetLife Insurance Ltd Munich Reinsurance Company of Australasia Ltd Pacific Life Re (Australia) Pty Limited Partner Reinsurance Asia Pte Ltd RGA Reinsurance Company of Australia Ltd Scor Global Life Swiss Re Life & Health Australia Ltd Zurich Life Insurance Company Ltd
Direct	Quota Share	General Reinsurance Life Australia Ltd Hannover Life Re of Australasia Ltd Swiss Re Life & Health Australia Ltd
Wealth (Annuities)	Quota Share	Hannover Life Re of Australasia Ltd Challenger Life Insurance Co. Ltd

Corporate (entity level)	Excess of Loss	Endurance Worldwide Insurance Ltd Hamilton Lloyd's Syndicate 4000 Lancashire Syndicate 4608

4.9 Proposed Dividends and Transfers

Under TAL Life's capital management policy, assets in excess of Target Capital are considered available for distribution. Where available assets fall below 80% of Target Capital for TAL Life, TDA will consider whether recovery actions are needed to improve the capital position.

5. Overview of the Proposed Transfer

This section of the Report outlines the details of the Proposed Transfer and the plans which TAL Life has made in respect of the key areas that may impact contractual terms and rights, Policy Owner expectations and benefit security.

5.1 Strategic Rationale

Although both companies are managed within the same group and already operate with many integrated processes, TDA's view is that maintaining two life insurance entities increases operational complexity, costs, and capital requirements. TDA's expectation is that the Part 9 transfer of TLISL into TAL Life will help reduce costs, operational risks, and capital requirements. This was TDA's intention upon acquisition of the TLIS business.

5.2 Scheme under Part 9 of the Life Act

The Proposed Transfer is to be undertaken by way of a scheme for the transfer of life insurance business under Part 9 of the Life Act. If the scheme is confirmed by the Federal Court of Australia, on the Transfer Date, all of the life policies, associated liabilities and equivalent assets will be transferred to TAL Life. These will be transferred from TLISL SF1 and SF2 to TAL Life SF1 and SF2, respectively. The benefits provided under TLISL policies include life risk insurance business, life annuities and ordinary investment linked policies.

More formally, the Proposed Transfer will consist of the following:

- Transfer of Liabilities
    - Statutory Funds: All liabilities from TLISL SF1 will be transferred into TAL Life SF1 and all liabilities from TLISL SF2 will be transferred into TAL Life SF2.
    - Shareholders Fund: The liabilities within the TLISL shareholders' fund will be unaffected by the Proposed Transfer.
- Transfer of Assets:
    - Statutory Funds: Immediately prior to the Transfer, TLISL SF1 and TLISL SF2 will distribute any excess capital above a Target Capital Ratio of 100% to the TLISL shareholders' fund. All remaining assets from TLISL SF1 will be transferred into TAL Life SF1 and all remaining assets from TLISL SF2 will be transferred into TAL Life SF2.
    - Shareholders Fund: The assets within the TLISL shareholders' fund will be unaffected by the Proposed Transfer.
- Transfer of Policies
    - TAL Life becomes the issuer of the TLISL policies, and TLISL ceases to be the issuer.
    - TLISL Policy Owners will become TAL Life Policy Owners.
    - The rights and liabilities of TLISL Policy Owners will remain unchanged, as if:
        - The applications for TLISL policies had been made to, or accepted by, TAL Life instead of TLISL.
        - The TLISL policies had originally been issued by TAL Life instead of TLISL (subject to the variations outlined in the scheme).
    - TAL Life will assume all liabilities and obligations of TLISL under the TLISL policies, and TLISL will be released from all such liabilities and obligations.
    - TAL Life will be entitled to all rights and benefits under the TLISL policies, including:
        - The right to receive any fees, charges, or other forms of remuneration payable under the TLISL policies.
        - The right to receive premiums payable under the TLISL policies.
        - The right to enforce all rights and remedies available under the TLISL policies in case of non-payment of premiums or fees.
- Transfer of Reinsurance
    - All reinsurance arrangements associated with the TLISL policies will be transferred to TAL Life.

5.3 Financial Implications

I received reports from TAL Life and TLISL as detailed in the Appendix, including the Financial Condition Reports and ICAAP Report, which contained financial results and projections for TAL Life and TLISL entities. The results in this section are based on the information in the reports I received. Although I have not independently verified this information, I gained comfort with the results presented through reading explanations in the reports and seeking clarifications through discussions with the TAL Life and TLISL Appointed Actuaries. I note that these results were produced through a Finance and Actuarial driven process which includes significant review and challenge by Management and the Board.

5.3.1 Financial Implications for Assets

The tables below show the assets of the TLISL and TAL Life Statutory and Shareholders' funds as if the Transfer occurred as at 31 March 2024:

- prior to the transfer and before distributions.
- prior to the transfer and after the distributions.
- post the transfer and after distributions.

Management confirmed that the transferring assets will be transferred from TLISL to TAL Life at a consistent accounting value, with the transfer having no impact on total asset value at the TDA entity level.

Table 7 Financial Implications for Assets as at 31 March 2024

Summary of assets before the transfer and before the distributions ($m)			
Entity	Fund	Total Assets*	Receiving or Transferring Statutory Fund
TLISL	SF1	2,689	$382m to be transferred to TLISL SHF
	SF2	138	$9m to be transferred to TLISL SHF
	SHF	2	$391m to be received from TLISL SF1 and TLISL SF2
	Sub-Total	2,829	
TAL Life	SF1	8,336	N/A
	SF2	253	N/A
	SHF	-	N/A
	Sub-Total	8,589	
	Total	11,418	

Summary of assets before the transfer and after the distributions ($m)			
Entity	Fund	Total Assets*	Receiving or Transferring Statutory Fund
TLISL	SF1	2,307	Transferring to TAL Life SF1
	SF2	129	Transferring to TAL Life SF2
	SHF	393[2]	N/A
	Sub-Total	2,829	
TAL Life	SF1	8,336	Receiving from TLISL SF1
	SF2	253	Receiving from TLISL SF2
	SHF	-	N/A
	Sub-Total	8,589	
	Total	11,418	

Summary of assets after the transfer and after the distributions ($m)			
Entity	Fund	Total Assets*	Receiving or Transferring Statutory Fund
TLISL	SF1	-	N/A

[2] This amount is before the May-24 dividend to TDA of $340m.

	SF2	-	N/A
	SHF	393[3]	N/A
	Sub-Total	393	
TAL Life	SF1	10,643	N/A
	SF2	382	N/A
	SHF	-	N/A
	Sub-Total	11,025	
	Total	11,418	

*totals may not equal the sum of underlying figures due to rounding.

5.3.2 Financial Implications for Liabilities

The tables below show the liabilities of the TLISL and TAL Life Statutory and Shareholder funds as if the Transfer occurred as at 31 March 2024:

- prior to the transfer.
- post the transfer.

Management has confirmed that the Scheme provides for transferring liabilities from TLISL to TAL Life with no change in accounting value and has endorsement of this approach with its external auditors. The transfer will also therefore have no impact on total liability value at the TDA entity level or on consolidation. I understand that upon execution of the Proposed Transfer, TAL Life SF1 and SF2 net asset values will increase by the amounts that sit within TLIS SF1 and SF2 respectively immediately before the transfer.

Table 8 Financial Implications for Liabilities as at 31 March 2024

Summary of liabilities before the transfer ($m)					
Entity	Fund	Net Insurance Contract Liabilities	Other Liabilities	Total*	Receiving or Transferring Statutory Fund
TLISL	SF1	1,952	38	1,990	Transferring to TAL Life SF1
	SF2	116	6	122	Transferring to TAL Life SF2
	SHF	-	-	-	N/A
	Sub-Total	2,068	44	2,112	
TAL Life	SF1	7,330	24	7,355	Receiving from TLISL SF1
	SF2	236	8	243	Receiving from TLISL SF2
	SHF	-	-	-	N/A
	Sub-Total	7,566	32	7,598	
	Total	9,634	76	9,709	

Summary of liabilities after the transfer ($m)					
Entity	Fund	Net Insurance Contract Liabilities	Other Liabilities	Total*	Receiving or Transferring Statutory
TLISL	SF1	-	-	-	N/A
	SF2	-	-	-	N/A
	SHF	-	-	-	N/A
	Sub-Total	-	-	-	
TAL Life	SF1	9,282	62	9,344	N/A
	SF2	352	14	365	N/A
	SHF	-	-	-	N/A

[3] This amount is before the May-24 dividend to TDA of $340m.

	Sub-Total	9,634	76	9,709	
	Total	9,634	76	9,709	

*totals may not equal the sum of underlying figures due to rounding.

5.4 Capital Implications

The tables in this section outline the capital position of the TAL Life and TLISL Statutory Funds and Shareholders' Funds pre- and post-Transfer as if the Transfer occurred as at 31 March 2024. I observe the following:

Pre-transfer,

- TLISL will distribute its assets in excess of those required to support the liabilities and Target Capital in SF1 and SF2, to the SHF. Following the distribution, TLISL will have $153m assets in excess of its PCA across SF1 and SF2, with coverage of its PCA at 156% and coverage of Target Capital at 100%.
- TAL Life will not distribute excess capital as a result of the transfer and has $399m assets in excess of its PCA across SF1 and SF2 as at 31 March 2024, i.e. coverage of its PCA at 166% and coverage of Target Capital above 100%.

Post-transfer, assuming the transfer had taken place as at 31 March 2024,

- The combination of TLISL and TAL Life statutory funds leads to a reduction in total PCA of $98m, driven by a reduction in the Asset Concentration Risk Charge due to the larger Value of Assets of the Fund, and reductions in the other risk charges from diversification benefits.
- TAL Life will have $660m assets in excess of PCA across SF1 and SF2, with PCA coverage of 186%.
- TAL Life will continue to meet minimum regulatory requirements and remain in line with TDA's Target Capital policy, with assets above the Target Capital level.
- TAL Life has not reassessed its underlying insurance risk stress margins or Target Capital requirements giving consideration to the combined portfolios of TAL Life and TLISL. I expect this exercise will be conducted post-transfer and may lead to further capital changes. I note that this would be a reassessment of stresses for the new combined portfolio and any reduction would not represent a weakening of benefit security given TAL Life's ICAAP, RAS and prudential regulatory requirements.

In addition to the above observations, I note that TLISL and TAL Life are both in strong capital generating positions over the next 3 years based on each entity's FCR projections as at 31 March 2024. This provides comfort that post-transfer neither TLISL or TAL Life policies would be expected to be subsidising capital losses on the other business.

Table 9 Capital Implications as at 31 March 2024

Capital Position Pre-Transfer ($'m)	TLISL SF1	TLISL SF2	TLISL SHF	TAL Life SF1	TAL Life SF2	TAL Life SHF
Assets	2,689	139	2	8,336	253	0
(less) Net Insurance Contract Liabilities	(1,952)	(116)	0	(7,330)	(236)	0
(less) Other Liabilities	(38)	(6)	0	(24)	(8)	0
Net Assets	**699**	**15**	**2**	**982**	**10**	**0**
Regulatory Adjustments to Net Assets	109	(5)	0	7	0	0
Capital Base	**808**	**10**	**2**	**989**	**10**	**0**
Asset Risk Charge	57	0	0	191	1	0
Insurance Risk Charge	169	0	0	265	0	0

Operational Risk Charge	37	0	0	159	1	0
Asset Concentration Risk Charge	0	0	0	78	0	0
Aggregation Benefit	(37)	0	0	(100)	0	0
Combined Scenario Adjustment	48	0	0	6	0	0
Prescribed Capital Amount (PCA)	**274**	**0**	**0**	**599**	**2**	**0**
Capital in Excess of PCA ($)	**534**	**10**	**2**	**390**	**8**	**0**
Capital Adequacy Multiple (%)	**295%**	**N/A**	**N/A**	**165%**	**531%**	**N/A**

Capital Position Pre-Transfer Post Distribution ($'m)	TLISL SF1	TLISL SF2	TLISL SHF	TAL Life SF1	TAL Life SF2	TAL Life SHF
Assets	2,307	128	393[4]	8,336	253	0
(less) Net Insurance Contract Liabilities	(1,952)	(116)	0	(7,330)	(236)	0
(less) Other Liabilities	(38)	(6)	0	(24)	(8)	0
Net Assets	**317**	**6**	**393**	**982**	**10**	**0**
Regulatory Adjustments to Net Assets	109	(5)	0	7	0	0
Capital Base	**426**	**1**	**393**	**989**	**10**	**0**
Asset Risk Charge	57	0	0	191	1	0
Insurance Risk Charge	169	0	0	265	0	0
Operational Risk Charge	37	0	0	159	1	0
Asset Concentration Risk Charge	0	0	0	78	0	0
Aggregation Benefit	(37)	0	0	(100)	0	0
Combined Scenario Adjustment	48	0	0	6	0	0
Prescribed Capital Amount (PCA)	**274**	**0**	**0**	**599**	**2**	**0**
Capital in Excess of PCA ($)	**152**	**1**	**393**	**390**	**8**	**0**
Capital Adequacy Multiple (%)	**155%**	**N/A**	**N/A**	**165%**	**531%**	**N/A**

Capital Position Post-Transfer ($'m)	TLISL SF1	TLISL SF2	TLISL SHF	TAL Life SF1	TAL Life SF2	TAL Life SHF
Assets	0	0	393[5]	10,643	382	0
(less) Net Insurance Contract Liabilities	0	0	0	(9,282)	(352)	0
(less) Other Liabilities	0	0	0	(62)	(14)	0
Net Assets	**0**	**0**	**393**	**1,300**	**16**	**0**
Regulatory Adjustments to Net Assets	0	0	0	116	(5)	0
Capital Base	**0**	**0**	**393**	**1,416**	**11**	**0**
Asset Risk Charge	0	0	0	241	1	0
Insurance Risk Charge	0	0	0	429	0	0
Operational Risk Charge	0	0	0	188	1	0
Asset Concentration Risk Charge	0	0	0	0	0	0
Aggregation Benefit	0	0	0	(138)	0	0

[4] This amount is before the May-24 dividend to TDA of $340m.
[5] This amount is before the May-24 dividend to TDA of $340m.

Combined Scenario Adjustment	0	0	0	45	0	0
Prescribed Capital Amount (PCA)[6]	0	0	10	765	2	0
Capital in Excess of PCA ($)	0	0	383	651	9	0
Capital Adequacy Multiple (%)	N/A	N/A	3930%	185%	488%	N/A

5.5 Parent Financial Strength Implications

TAL Life and TLISL both have the same ultimate holding parent company in Australia, TDA. As such, there is no change to the credit rating or the financial strength of the parent company as a consequence of the Proposed Transfer.

5.6 Contractual Policy Term Implications

All contractual benefits and rights (including surrender value bases) under the existing TLISL policies will remain unchanged as a result of the Proposed Transfer. The Scheme does not intend to modify any contractual policy terms.

5.7 Product and Pricing Implications

There are no planned changes to management fees, product features, product options or pricing of Transferring Business as a result of the Proposed Transfer. There are no planned changes to granularity of pricing or core pricing principles for TLISL or TAL Life.

5.8 Investment Strategy Implications

The TAL Life and TLISL investment approaches are aligned with TDA's strategy, including in benchmark setting, asset manager instructions, and exposure management. TLISL and TAL Life Appointed Actuaries noted in our discussions that the investment strategy for assets backing risk products is overall very conservative with most of the harmonisation between TAL Life and TLISL being recently achieved by extending the credit exposure limit for TLISL. Hence, there will be no material changes to the investment strategy of the assets backing the existing non-participating and non-investment linked TLISL business or any of the shareholders' funds as part of the Proposed Transfer.

TAL Life is currently working to diversify its asset managers, expecting to realise benefits from managing assets across a wider more diversified set of managers longer term. Once all funds are merged, TAL management has noted that it may reinvest funds across managers but aims to retain the existing asset managers.

5.9 Policy Administration System Implications

TLISL policies are managed through the CLOAS policy administration system ("PAS") which is separate to the TAL Life PAS. This PAS for TLISL policies has been directly transferred to TAL Life as part of the integration program. No changes will be made to TAL Life's or TLISL's existing administration systems as a result of the Proposed Transfer.

5.10 Expense Allocation Implications

The current expense allocation methodology will remain in place following the transfer, and there are no material changes expected in the proportions of expenses allocated to product groups within TAL Life or TLISL.

[6] PCA is subject to Minimum Capital Requirement of $10m.

5.11 Claims Management Implications

TLISL claims are managed through the FINEOS claims management system. This claims management system for TLISL policies has been directly transferred to TAL Life as part of the integration. No changes will be made to TAL Life's or TLISL's claims management systems as a result of the Proposed Transfer.

5.12 Customer Service Implications

The TAL Life and TLISL customer call centres will not be merged post transfer. Instead, TAL Life and TLISL will retain separate onshore call centres, with the ability to transfer calls between them. Furthermore, different contact numbers and email addresses will be shared in Policy Owner communications for TLISL and TAL Life. The only point of difference is that the website will display the TAL Life contact details only, so if TLISL Transferring Policy Owners visit the website for contact details, they will call into the TAL Life call centre and be redirected to the TLISL call centre, leading to slightly longer wait times. However, average call wait times shared with me from TLISL and TAL Life teams are less than a minute so I consider this to be an insignificant impact on customers.

5.13 Reinsurance Arrangement Implication

TLISL holds 23 reinsurance treaties. If the Part 9 Transfer is confirmed by the Court, TAL Life's legal team has confirmed that the existing TLISL reinsurance treaties will be automatically novated to TAL Life as contractual arrangements covered under the Scheme of Transfer. TLISL will notify all its reinsurers that these treaties will be transferred to TAL Life under the Scheme. There will be no further changes to the reinsurance contracts as a result of the Transfer.

5.14 Risk Management Implications

TLISL and TAL Life currently adhere to the TDA Risk Management Strategy, which outlines TDA's methods for managing significant risks. In FY23, the Risk Appetite Statement (RAS) and Recovery Plans were aligned, ensuring uniformity across TDA's Risk Management Framework. Both TLISL and TAL Life now follow the same Internal Capital Adequacy Assessment Process (ICAAP) report, utilising a unified approach for stress and scenario testing.

5.15 Transition Cost Implications

All costs and expenses associated with the Proposed Transfer will be borne by TDA and hence will not impact TLISL nor TAL Life Policy Owners. I understand that these costs will be excluded from the expense allocation process and so do not flow into unit expenses considered for profitability testing of products, expense charges for funds/products or bonus calculations for participating business.

5.16 Tax Implications

The implications for tax from the Proposed Transfer are as follows:

- Goods and Services Tax (GST): TAL Life will assume the obligation for paying GST after the transfer. TLISL will transfer the liabilities for any GST accrued before the transfer to TAL Life.
- Stamp Duty: TAL Life will assume obligation for paying stamp duty after the transfer. Any stamp duty associated with the transfer of the TLISL business will be borne by TDA and not by TLISL Policy Owners or TAL Life Policy Owners.
- Employee Tax: All employees working on the TLISL entity are employees of TAL Services Limited so there will be no residual employee tax as a result of the Proposed Transfer.

5.17 Recent significant events

I understand that there have been no significant events since the 31 March 2024 numbers and information contained in this Report that would change the conclusions of the Report.

5.18 Remediation matters

I note that there are currently ongoing remediation programmes within TAL Life and TLISL. TAL Life and TLISL have confirmed that funding for these remediation programmes has been provisioned for and will not be considered when performing expense allocations for pricing purposes. From this, I have concluded that remediations will not be funded by future premium increases for Policy Owners.

TAL Life and TLISL have also confirmed that any potential future funding obligations for these remediation programmes will be met by TDA and will therefore not negatively impact Policy Owners.

The Scheme specifically refers to the obligations for TAL Life to continue policies and practices related to remediation to satisfy contractual rights and benefits on TAL Life and TLISL Policy Owners. I understand that TDA has a set of principles in the "TAL Enterprise Remediation Guiding Principles" and that this remains unchanged following the Proposed Transfer.

5.19 Merits of the Transfer

The Proposed Transfer is expected to provide the following merits to TAL Life and TLISL Policy Owners:

- The integration of staff between TLISL and TAL Life is expected to lead to economies of scale, reducing combined business expenses. This can be passed onto Policy Owners through lower premiums.
- TLISL's FCR recommends further streamlining of data and actuarial and finance models following the Proposed Transfer, which is expected to lead to lower costs in the longer term, hence having a positive impact on premiums.
- The combined capital requirements will reduce, reflecting the lower risk of the combined businesses, leading to lower costs of capital, which may also be passed onto Policy Owners through lower premiums.
- TLISL is closed to new business. The Proposed Transfer into TAL Life which is open to new business will mitigate the risks related to the standalone TLISL entity in this regard, such as a reducing pool of Policy Owners leading to increased volatility in claims experience which may impact future premiums.

6. Impact of the Proposal on TLISL Policy Owners

In order to assess how the Proposed Transfer may impact the contractual benefits and other rights, Policy Owner expectations and benefit security, it is necessary to identify the activities and decisions that may be taken which may impact on Policy Owners. In particular, there are areas of the benefits provided which involve the application of discretion by the Companies. I consider how TLISL applied such discretions historically and my understanding of TAL Life's future intentions in these areas.

All of the TLISL Policies are non-participating and hence are not entitled to share in the profits or performance of TLISL. Hence any issues concerning participating Policy Owners' contractual benefits and reasonable expectations or their interest in any retained profits within TLISL are not relevant to the Report.

6.1 Impact on Contractual Benefits and Rights

Under the Scheme, there are no proposed changes to policy premium rates or fee rates, benefits, terms and conditions for the TLISL SF1 and TLISL SF2 business. Therefore, I consider that the Proposed Transfer will have no adverse impact on the contractual benefits and other rights of the TLISL Transferring Policy Owners.

6.2 Reasonable Expectations

Policy owner reasonable expectations in relation to risk insurance business include the payment of claims as and when due, that the ongoing management of the policy results in outcomes consistent with their understanding in areas such as pricing and claims management, and that they will receive a certain level of client service when needed. I assessed the impact on reasonable expectations based on:

- Product Strategy
- Pricing Strategy
- Claims Handling Philosophy
- Underwriting Philosophy
- Customer Service
- Policy Administration.

6.2.1 Product Strategy

I observe the following with respect to product strategy:

- TLISL and TAL Life both have the philosophy towards product improvements under which any product improvements that do not result in premium rate increases will automatically be passed to existing Policy Owners. In addition, TLISL's philosophy is that Policy Owners have the choice as to whether they accept improvements which result in premium increases. Such a product philosophy has not been made explicit by TAL Life, however, TLISL has been closed to new business since August 2022 and the last time the product improvements were offered to Policy Owners was in September 2021, with no future updates expected. Furthermore, the current on sale product suite at TAL Life will remain a separate closed product series with different product features and pricing to the in force TLIS product suite, so it would not be reasonable to offer new product features in TAL Life products to TLIS Policy Owners following the Proposed Transfer. I consider it reasonable that the existing TAL philosophy will be adopted for TLISL Policy Owners upon transfer, as this will not disadvantage Policy Owners compared to their current benefits under TLISL.
- In relation to product, it is noted that TAL Life, as did TLISL, operates in a competitive market and this provides an overarching impetus for TAL Life to continue to offer competitive products and terms in order to retain policies in force.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the product strategy.

6.2.2 Pricing Strategy

I observe the following with respect to pricing:

- There are no changes proposed to the pricing strategy of TLISL Transferring policies.
- TLISL and TAL Life have both changed premium rates in the past for products which do not offer premium guarantees so any future repricing should not contradict Policy Owner reasonable expectations.
- TLISL and TAL Life are both entities owned by TDA and so their approaches to setting premium rates follow a consistent philosophy. That is, TLISL and TAL Life both consider claims experience, customer impacts, relative competitor positioning and the expected return on capital for the portfolio when setting premium rates.
- Under TAL Life, premium rate changes are made with consideration to the experience of individual product groups. Therefore, the TLISL policies and their respective premium rates will continue to be analysed separately until such time the TLISL business becomes too small to justify separate analysis and management.
- The profitability of the TLISL Transferring book will continue to be monitored and any pricing changes will be in response to evidence of poor experience, and as such repricing appropriately to strengthen the security of the future benefits as well as ensuring that future benefit expectations can be met, together with ensuring competitive position is maintained to support retention of the policies.
- In relation to pricing, it is noted that TAL Life, as did TLISL, operates in a competitive market and this provides an overarching impetus for TAL Life to continue to offer competitive pricing in order to retain policies in force.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the product strategy.

6.2.3 Claims Handling Philosophy

I observe the following with respect to claims handling:

- There are no changes proposed to claims handling philosophy as a consequence of the Proposed Transfer.
- As TAL Life and TLISL are owned by TDA, the life companies follow a consistent claims philosophy and have similar procedures. TAL Life and TLISL aim to provide a professional service based on fairness and utmost good faith with the shared philosophy: “We will deliver on the promise we make to every customer, ensuring they understand and feel confident in how we will handle their claim.”
- TLISL claims are managed through the FINEOS claims management system. This claims management system for TLISL policies has been directly transferred to TAL Life as part of the integration program. No changes will be made to TAL Life’s or TLISL’s claims management systems as a result of the Proposed Transfer.
- The complaints management system and handling process is aligned between TAL Life and TLISL, with the same legal support, escalation, definitions and monitoring in place. TAL Life and TLIS management have stated that there are no material differences in the Product Disclosure Statements in terms of claims handling.
- An indication of relative claims management philosophy and claims acceptance can be seen by comparing decline rates between TLISL and TAL Life, in that higher decline rates may indicate a more onerous claims management philosophy from the Policy Owner perspective. From APRA’s December 2023 Life Insurance Claims and Dispute Statistics, I observed that decline rates and average dispute durations for TAL Life and TLISL claims were relatively similar over the period (noting some large differences due to credibility issues within the data).

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the claims handling philosophy.

6.2.4 Underwriting Philosophy

I observe the following with respect to underwriting:

- Given that TLISL products are closed to new business, the underwriting process will be limited to increases in sum insured for existing policies. Management has stated that Policy Owners who have this option will continue to have it and will be assessed against TLISL's underwriting standards.
- Management has noted that there are no planned changes to TLISL's underwriting standards driven by the Part 9 transfer, and it will continue to review and alter standards as appropriate. There is a longer-term expectation that there will be harmonisation of standards between TLISL and TAL Life, which I understand would occur regardless of the Proposed Transfer.
- Management has noted that the TLISL underwriting team currently operates separate to the TAL Life team. There are plans to train TAL Life underwriters to perform TLISL underwriting in order to reduce key person risk in TLISL underwriting team, which will also provide better certainty of ongoing underwriting services to Policy Owners as the TLISL business shrinks. Appropriate training and certification will be required and there will be no material changes to the current underwriting approaches for TAL Life as a result of the Proposed Transfer.
- Overall, the observations above lead to a view that the underwriting philosophy, processes, and functions for existing TLISL customers will not be materially adversely affected because of the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the underwriting philosophy.

6.2.5 Customer Service Levels

I observe the following with respect to customer service levels:

- There will be no material changes to customer service levels for TAL Life and TLISL customers as a consequence of the Proposed Transfer.
- Wait times across the contact centres are very similar. The average call wait time for the period from October 2023 to March 2024 for the two contact centres are as follows:
  - TAL Life Retail Customer and Advisor Service - 46 seconds; and
  - TLISL Customer and Advisor Service - 52 seconds.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the customer service levels.

6.2.6 Policy Administration

I observe the following with respect to policy administration:

- No changes will be made to TAL Life's or TLISL's existing administration systems as a result of the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the policy administration.

6.2.7 Conclusion

Given they above, I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners.

6.3 Benefit security

In forming my view in relation to Benefit Security, I assessed the security of the TLISL Transferring Policy Owners' benefits based on the risk management framework, financial strength and capital position before and after the transfer, and the implications of the reinsurance strategy.

6.3.1 Risk Management

I observe the following with respect to risk management:

- TLISL and TAL Life currently adhere to the TDA Risk Management Strategy, which outlines TDA's methods for identifying, monitoring, and managing significant risks.
- TLISL's and TAL Life's RAS, Recovery Plans were aligned and ICAAP are already harmonised.

I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to risk management.

6.3.2 Financial Strength and Capital Position

Section 5.4 outlines the impact of the Proposed Transfer on financial strength and capital position. From this, I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to financial strength and capital position, as TAL Life is expected to continue to meet minimum regulatory requirements and remain operating in line with TDA's Target Capital policy following the Proposed Transfer.

6.3.3 Profitability of the Portfolios

I observe the following with respect to the profitability of the portfolios:

- The underlying profitability of the business is another source of financial support for the business.
- Based on the information provided by TLISL and TAL Life, both companies have relatively stable underlying operating profits.
- Based on the shared ICAAP between TAL Life and TLISL, I observed that the longer term projections of TAL Life financial results after the Proposed Transfer continue to show profitability in future years. While this is based on a consolidated view and not specifically with a post-transfer viewpoint, management does not expect the combination to change this outcome and I agree with that position.

I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to the profitability of the portfolios.

6.3.4 Reinsurance Strategy

I observe the following with respect to the reinsurance strategy:

- There are no changes proposed to TLISL's Reinsurance Strategy as a consequence of the Proposed Transfer.
- If the Part 9 Transfer is confirmed by the Court, the existing TLISL reinsurance treaties will be automatically novated to TAL Life in consequence of the scheme being confirmed.
- Management has confirmed TLISL will notify all its reinsurers that their reinsurance treaties will be transferred to TAL Life under the scheme.

I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to the Reinsurance Strategy.

6.3.5 Expenses

I observe the following with respect to expenses:

- The transfer is likely to ultimately result in unit cost savings due to economies of scale. This expense saving, together with greater diversification of risk within each statutory fund and

therefore more stable experience within each fund, would ensure that benefit security is not weakened and potentially flow to improved pricing for Policy Owners in future.
- All the costs associated with the transfer will be borne by TDA. Therefore, these costs will not affect TLISL Transferring Policy Owners' benefit security.

I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to expenses.

6.3.6 Investment Strategy

I observe the following with respect to the investment strategy:

- There will be no material changes to the investment strategy of the assets backing the existing non-participating and non-investment linked TLISL business or any of the shareholders' funds as part of the Proposed Transfer.
- There are no existing plans to change the current investment fund manager for TLISL.

I conclude that the Proposed Transfer will not adversely affect the security of TLISL Policy Owners' benefit security with respect to the investment strategy.

6.3.7 Conclusion

In forming my opinions on the security of the Policy Owners' benefits, I have considered the impact of the Scheme based on the financial information set out in the Actuarial Reports. The financial information is based on the position as at 31 March 2024, assuming that the Scheme was implemented at that date. Based on this information, I observe that as at 31 March 2024, both companies hold surplus assets at a level above the Target Capital and are projected to remain in this position for the next 3 years. The Appointed Actuaries of TLISL and TAL Life are not aware, nor am I, of any events that either have occurred or are expected to occur prior to the transfer date that would make this outlook invalid.

Overall, the TLISL Policy Owners will become part of a larger and more diverse company that is open to new business. The transfer is likely to result in unit cost savings due to economies of scale. The cost of integration of the TLISL business has been and continues to be funded via TDA, thereby, not impacting the Policy Owners of TLISL or TAL Life. Any expense savings achieved, together with greater diversification of risk within the fund, would ensure that benefit security is not weakened.

6.4 Conclusion

Given the above, I conclude that:

- The Proposed Transfer will not adversely affect the contractual benefits or other rights of TLISL Transferring Policy Owners.
- The Proposed Transfer will not adversely affect the reasonable benefit expectations of TLISL Transferring Policy Owners.
- The Proposed Transfer will not adversely affect the security of TLISL Transferring Policy Owners' benefits.

7. Impact of the Proposal on TAL Life Policy Owners

TAL Life contains a mixture of policies with participating and non-participating benefits. Participating policies are entitled to share in the profits or performance of TAL Life. Hence, in this section I have also considered participating Policy Owners' contractual benefits and reasonable expectations with respect to the provision of bonuses.

7.1 Impact on Contractual Benefits and Rights

Under the Scheme, there are no proposed changes to policy premium rates or fee rates, benefits, terms and conditions for TAL Life business. Therefore, I conclude that the scheme will have no adverse impact on the contractual benefits and other rights of the TAL Life Policy Owners.

7.2 Reasonable Expectations

Policy owner reasonable expectations in relation to risk insurance business include the payment of claims as and when due, that the ongoing management of the policy results in outcomes consistent with their understanding in areas such as pricing and claims management, and that they will receive a certain level of client service when needed. I assessed the impact on reasonable expectations based on:

- Participating Policy Bonuses
- Product Strategy
- Pricing Strategy
- Claims Handling Philosophy
- Underwriting Philosophy
- Customer Service
- Policy Administration

7.2.1 Management of Participating Policies

I observe the following with respect to the management of participating policies and treatment of the Policy Owners of those policies:

- Participating policies are entitled to share in the profits or performance of TAL Life related to the participating portfolio. The share in profits and performance is mechanically achieved through the provision of future bonuses.
- Participating policy owners would have an expectation that the Proposed Transfer will not materially affect the provision of future bonuses. The provision of future bonuses is dependent on the performance of the TAL Life, which is dependent on asset returns, claims experience, change in the liability for future claims, and the allocation of expenses to the participating portion of the book.
- With respect to asset returns, I note that TAL Life's participating book's assets will continue to be ringfenced and post-transfer therefore also ringfenced from the Transferring Business assets. As a result, asset returns will not be impacted by the Proposed Transfer.
- With respect to the liability for future claims, TAL Life's experience investigations will continue to be conducted separately for the participating book and so the liability for future claims will not be impacted by the Proposed Transfer.
- With respect to expense allocations, TAL Life will continue to operate under the Board approved TDA Principles and Practices of Financial Management ("PPFM") for the Par business. TAL Life's finance team allocates expenses directly to the Par business cost centre in line with activities performed, and the final expense allocation is reviewed annually by the Appointed Actuary to ensure expense allocations are appropriate and reasonable for the Par business. This process will not change following the Proposed Transfer so the level of expenses allocated to the Par business is not expected to materially change due to the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to the management of participating policies.

7.2.2 Product Strategy

I observe the following with respect to product strategy:

- There are no changes proposed to the TAL Life product strategy and no changes proposed to the TAL Life products as a consequence of the proposed Transfer.
- Similar to TLISL, TAL Life's product philosophy is that product improvements which do not result in premiums increases will automatically be passed to Policy Owners.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to the product strategy.

7.2.3 Pricing Strategy

I observe the following with respect to pricing strategy:

- There are no changes proposed to the pricing strategy of TAL Life policies.
- TLISL and TAL Life are both entities owned by TDA and so their approaches to setting premium rates follow a consistent philosophy. That is, TLISL and TAL Life both consider claims experience, customer impacts, relative competitor positioning and the expected return on capital for the portfolio when setting premium rates.
- Under TAL Life, premium rate changes are made with consideration to the experience of individual product groups. Therefore, the TLISL policies and their respective premium rates will continue to be analysed separately until such time the TLISL business becomes too small to justify separate analysis and management.
- The profitability of the TAL Life book will continue to be monitored and any pricing changes will be in response to evidence of poor experience, and as such repricing appropriately to strengthen the security of the future benefits as well as ensuring that future benefit expectations can be met, together with ensuring competitive position is maintained to support retention of the policies.
- In relation to pricing, it is noted that TAL Life, as did TLISL, operates in a competitive market and this provides an overarching pressure for TAL Life to continue to offer competitive pricing in order to retain policies in force.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to the pricing strategy.

7.2.4 Claims Handling Philosophy

I observe the following with respect to claims handling:

- There are no changes proposed to claims handling philosophy as a consequence of the Proposed Transfer.
- The current approach to assessing claims will not be affected as a result of the Proposed Transfer.
- No changes will be made to TAL Life's or TLISL's claims management systems as a result of the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to the claims handling philosophy.

7.2.5 Underwriting Philosophy

I observe the following with respect to underwriting:

- There will be no material changes to the current underwriting approaches for TAL Life as a result of the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to the underwriting philosophy.

7.2.6 Customer Service Levels

I observe the following with respect to customer service levels:

- There are no changes proposed to the customer service levels.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TAL Life Policy Owners with respect to customer service levels.

7.2.7 Policy Administration

I observe the following with respect to policy administration:

- There will be no changes to the systems that administer the TAL Life products as a result of the Proposed Transfer.

I conclude that Policy Owner reasonable benefit expectations are expected to be met for current TLISL Life Policy Owners with respect to the policy administration.

7.2.8 Conclusion

Overall, the Proposed Transfer will not adversely affect the reasonable benefit expectation of TAL Life Policy Owners in any material respect.

7.3 Benefit Security

In forming my view in relation to benefit security, I assessed the security of the TAL Life Policy Owners' benefits based on the risk management strategy, financial strength and capital position before and after the transfer, and the implications of the reinsurance strategy.

7.3.1 Risk Management

I observe the following with respect to the risk management:

- There are no changes proposed to TAL Life's Risk Management Framework as a consequence of the Proposed Transfer.

I conclude that the Proposed Transfer will not adversely affect the security of TAL Life Policy Owners' benefit security with respect to the Risk Management Strategy.

7.3.2 Financial Strength and Capital Position

Section 5.4 outlines the impact of the Proposed Transfer on financial strength and capital position. From this, I conclude that the Proposed Transfer will not adversely affect the security of TAL Life's Policy Owners' benefit security with respect to financial strength and capital position, as TAL Life is expected to continue to meet minimum regulatory requirements and remain operating in line with TDA's Target Capital policy following the Proposed Transfer.

7.3.3 Profitability of the Portfolios

I observe the following with respect to the profitability of the portfolios:

- The underlying profitability of the business is another source of financial support for the business.
- Based on the information provided by TLISL and TAL Life, both companies have relatively stable underlying operating profits.
- Based on the shared ICAAP between TAL Life and TLISL, I understand from TAL Life management that the longer term projections of TAL Life financial results after the Proposed Transfer continue to show profitability in future years. While this is based on a consolidated view and not specifically

with a post-transfer viewpoint, management does not expect the combination to change this outcome and I agree with that position.

I conclude that the Proposed Transfer will not adversely affect the security of TAL Life Policy Owners' benefit security with respect to the profitability of the portfolios.

7.3.4 Reinsurance Strategy

I observe the following with respect to the reinsurance strategy:

- The integration of TLISL SF1 and SF2 reinsurance arrangements into TAL Life SF1 and SF2 will not have any impact on existing TAL Life reinsurance arrangements.
- There are no changes proposed to TAL Life's Reinsurance Strategy as a consequence of the Proposed Transfer.

I conclude that the Proposed Transfer will not adversely affect the security of TAL Life Policy Owners' benefit security with respect to the Reinsurance Strategy.

7.3.5 Expenses

I observe the following with respect to expenses:

- The transfer is likely to ultimately result in unit cost savings due to economies of scale. This expense saving, together with greater diversification of risk within the fund and a more stable fund, would ensure that benefit security is not weakened and potentially flow to improved pricing for Policy Owners in future.
- All the costs associated with the transfer will be borne by TDA. Therefore, these costs will not affect TAL Life's Policy Owners' benefit security.
- There will be no impacts to allocated expenses for TAL Life's participating policies as a result of the Proposed Transfer.

I conclude that the Proposed Transfer will not adversely affect the security of TAL Life Policy Owners' benefit security with respect to expenses.

7.3.6 Investment Strategy

I observe the following with respect to the investment strategy:

- There will be no material changes to the investment strategy of the assets backing the existing TAL Life business or any of the shareholders' funds as part of the Proposed Transfer.
- There are no existing plans to change the current investment fund manager for TAL Life as a result of the Proposed Transfer.

I conclude that the Proposed Transfer will not adversely affect the security of TAL Life Policy Owners' benefit security with respect to the investment strategy.

7.3.7 Conclusion

In forming my opinions on the security of the Policy Owners' benefits, I have considered the impact of the Scheme based on the financial information set out in the Actuarial Reports. The financial information is based on the position as at 31 March 2024, assuming that the Scheme is implemented at that date. Based on this information, I observe that as at 31 March 2024, both companies hold surplus assets at a level above the Target Capital and are projected to remain in this position for the next 3 years. The Appointed Actuaries of TLISL and TAL Life are not aware, nor am I, of any events that either have occurred or are expected to occur prior to the transfer date that would make this outlook invalid.

Overall, the TAL Life Policy Owners will become part of a larger and more diverse company that is open to new business. The transfer is likely to result in unit cost savings due to economies of scale. The cost of acquisition of TLISL business is funded by TDA. Any expense savings achieved, together with greater diversification of risk within the fund, would ensure that benefit security is not weakened.

7.4 Conclusion

Given the above, I conclude that:

- The Proposed Transfer will not adversely affect the contractual benefits or other rights of TAL Life Policy Owners.
- The Proposed Transfer will not adversely affect the reasonable benefit expectations of TAL Life Policy Owners.
- The Proposed Transfer will not adversely affect the security of TAL Life Policy Owners’ benefits.

8. Reliances and Limitations

This report has been prepared at the request of TLISL and TAL Life in accordance with the terms of our engagement letter dated 20 March 2024.

The Report is solely for the use of the parties for the stated purpose. No other use of, nor reference to, our report should be made without prior written consent from Deloitte, nor should the whole or part of our report be disclosed to any other person other than as noted in this Report.

We consent to the report being made available for public inspection in relation to the Scheme and being provided to owners of policies referable to TLISL' statutory funds and owners of policies referable to the TAL Life's statutory funds, APRA and the Federal Court of Australia as part of the proposed Scheme of Transfer application, pursuant to Section 191(2)(a) of the Life Insurance Act 1995.

Third parties who use this Report acknowledge that they are not a party to the engagement letter dated 20 March 2024. It may not be relied upon by any other party for any purpose whatsoever. Neither I nor Deloitte, its Partners and staff owe or accept any duty to any other party and shall not be liable for any loss, damage or expense of whatever nature which is caused by any other party's reliance on representations in this Report.

Our Report should be considered as a whole. Members of Deloitte staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

We have relied on the accuracy and completeness of information (qualitative, quantitative, written and verbal) provided to us for the preparation of the Report, and have not audited nor otherwise verified it. Accordingly, we do not accept any responsibility for any errors that result from reliance thereon.

The assessments made in this preliminary report are based on financial information as at 31 March 2024. We therefore place reliance that our opinions within the report are made as if the Proposed Transfer had occurred on 31 March 2024. We expect to issue a supplementary update to this report to provide an updated opinion based on financial (and any other) information as at 30 September 2024.

We reserve the right to review and alter the conclusions reached in this Report, should information that is relevant to our conclusions come to our attention after the date of this Report.

We have made all the inquiries that we believe are desirable and appropriate and no matters of significance that we regard as relevant have, to our knowledge, been withheld from the Court.

9. Appendix

9.1 Glossary

Defined terms used in this Report:

Table 10 Glossary

Abbreviation / Term	Meaning
ALM	Asset Liability Management
APRA	Australian Prudential Regulation Authority
ARC	Asset Risk Charge
Business	The Life insurance business conducted through TLISL 's Statutory Funds
Capital Base	Capital available, as defined in LPS 110, to meet capital requirements
Companies	TAL Life and TLISL
Court	The Federal Court of Australia
FUM	Funds Under Management
IBNR	Incurred But Not Reported
IRC	Insurance Risk Charge
Life Risk Insurance Liabilities	All liabilities of TAL Life or TLISL (whether arising or accruing before or after the Proposed Transfer) to the extent they relate to the Life insurance business (within the meaning of the Life Insurance Act 1995) of TAL Life or TLISL, including the Insurance Contract Liabilities
LPS	Life Prudential Standard issued by the Australian Prudential Regulation Authority
NB	New Business
Net Insurance Contract Liabilities	Liabilities arising under or in respect of insurance policies, including liabilities to make benefit payments, net of reinsurance
ORC	Operational Risk Charge
PCA	Prescribed Capital Amount, the prescribed element of the Regulatory Capital requirements, as defined by LPS 110
PDS	Product Disclosure Statement
Proposed Transfer	The proposed Part 9 transfer of the TLISL Business to TAL Life

PV	Present Value
Regulatory Capital	The regulatory capital amounts defined by APRA for Australian insurers under Prudential Standards
Report	Deloitte's Independent Actuarial Report
RMF	Risk Management Framework
RPG	Related Product Group
Scheme	The Scheme of Transfer under Part 9 of the Life Insurance Act 1995 (Cth) discussed in this Report
SF[X]	Statutory Fund No. [X]
SHF	The Shareholders' Fund
Target Surplus	The amount of assets a company retains within its Statutory Funds and/or Shareholders' Fund above its Regulatory Capital requirements, to meet its preferred total capital target level
TPD	Total and Permanent Disability
TAL Policy Owners	Owners of policies issued by TAL Life referrable (including the members of any trust of which a Policy Owner is a trustee and members of any group insurance scheme of which the Policy Owner holds the policy).
TLISL	TAL Life Insurance Services Limited (previously known as Westpac Life)
TLISL Policies	All Life policies (within the meaning of the Act) of TLISL that are in force (including, for clarity, Life policies which may have expired but under which benefits remain payable) or in respect of which a person has a guaranteed renewal right as at the Transfer Date
TAL Report	TLISL and TAL Life joint Actuarial Report
TLISL Transferring Policy Owners	Owners of policies issued by TLISL

9.2 Information Relied Upon

I have relied on the accuracy and completeness of information provided to me by TAL Life and TLISL, both in writing and orally, without independently verifying it. In particular, I have relied on the following:

Table 11 Information Relied Upon

Area	Filename	Description	Date Received
Information regarding the proposed transfer	Scheme Document (HSF DRAFT 12.06.24)	Documentation of the scheme of transfer, including reasons for the proposed transfer	12/06/2024
Internal AA/Actuarial Report	TLIS and TAL Life - Part 9 AA report v240611	Joint internal Actuarial report on the transfer as at 31 March 2024	24/06/2024
Information regarding TLISL	Financial Condition Report - TLIS - Part 9	Financial Condition Report	11/06/2024
	7(b) - ICAAP Annual Report FY23 - June 2024 Post Board 10(b)(ii) - ICAAP Annual Report FY22 - March 2023 vf	ICAAP Summary Statement and Report	28/03/2024
	CIC_Annual_Reinsurance Report 202303_TLIS_Final	Reinsurance arrangements and strategy	28/03/2024
Information regarding TAL Life	Financial Condition Report - TLIS - Part 9	Financial Condition Report	11/06/2024
	7(b) - ICAAP Annual Report FY23 - June 2024 Post Board 10(b)(ii) - ICAAP Annual Report FY22 - March 2023 vf	ICAAP Summary Statement and Report	28/03/2024
	CIC_Annual_Reinsurance Report 202303_TAL_Final	Reinsurance arrangements and strategy	28/03/2024

9.3 Regulatory Capital Requirements

Regulatory Capital requirements (the Prescribed Capital Amount or "PCA") are established by APRA and described in a series of Prudential Standards. The PCA requirements are targeted so that the insurer will be able to withstand a 1 in 200-year loss event and still remain solvent (i.e. the remaining assets would be sufficient to cover the Insurance Contract Liabilities and other liabilities of the fund at the end of the year). This is a requirement in addition to the assets required to be held against Balance Sheet liabilities. APRA may further specify supervisory adjustments on top of the PCA to arrive at the Prescribed Capital Requirement ("PCR"). The PCA is comprised of underlying risk charge components:

- the Insurance Risk Charge; plus
- the Combined Stress Scenario Adjustment; plus
- the Asset Risk Charge; plus
- the Asset Concentration Risk Charge; plus
- the Operational Risk Charge; less
- the Aggregation Benefit.

APRA also expects Life insurers to hold capital in addition to the PCR, which is known as Target Surplus. Target Surplus aims to minimise the probability of the PCR being breached. The total of PCR and Target Surplus is known as Target Capital. Target Surplus policy is defined by the Board of the Life Insurer and is a key component of the Internal Capital Adequacy Assessment Process ("ICAAP") which governs how capital is held against key risks arising from a Life Company's activities.

In order to meet these capital requirements, the Capital Base of the Life Insurer must be sufficient to cover (at least) the PCR, while companies aim to ensure it is sufficient to cover their Target Surplus too. The Capital Base is based on the accounting net assets within each fund, less regulatory adjustments ("Regulatory Adjustments to Net Assets"). The regulatory adjustments primarily consist of removing deferred tax assets in excess of deferred tax liabilities, and moving from an AASB 17 Balance Sheet to a Regulatory Capital view of the Balance Sheet, i.e. replacing the AASB 17 Net Insurance Contract Liabilities with Adjusted Policy Liabilities.