Milliman Report

Milliman

Report of the Head of Actuarial Function of Harcourt Life Assurance dac

On the proposed Scheme and Business Transfer Agreement to transfer the business of

Augura Life Ireland dac;
Harcourt Life Assurance dac
Union Heritage Life Assurance Company dac

to

Harcourt Life Ireland dac

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Prepared for:
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This report is written in my capacity as Head of Actuarial Function – Note that this is a draft report and may change based on requirements from the Independent Actuary or the Central Bank of Ireland

31 October 2017

TABLE OF CONTENTS

1 INTRODUCTION

Instructions & Purpose of the Report

1.1 The purpose of this report is to review the proposed transfer of the entire business of Harcourt Life Assurance dac ("HLA" or "the Company"), Augura Life Ireland dac ("ALI") and Union Heritage Life Assurance Company dac ("UHL") to Harcourt Life Ireland dac[1] ("HLI"). I have prepared this report in my capacity as Head of Actuarial Function ("HoAF") of HLA.

1.2 The transfer must be approved by the High Court in Ireland in accordance with the provisions of Section 13 of the Assurance Companies Act 1909 (as amended), Section 36 of the Insurance Act 1989 (as amended).

1.3 In this report I have set out my assessment of the likely effects of the proposed transfer on the long-term policyholders of HLA. I have assessed whether the security and benefit expectations of HLA's policyholders would be materially adversely affected if the proposed transfer takes place. Further reports from their respective HoAFs consider the corresponding impact for policyholders within the HLI[2], ALI and UHL entities.

1.4 The terms covering the proposed transfer are set out in the following key documents:

- Petition to the High Court
- Scheme document
- Policyholder circular, including a letter from the companies outlining the reasons for the transfer

1.5 In the remainder of this report, I refer to these documents collectively as the "Scheme". It is anticipated that the Scheme will be presented to the Irish High Court in November 2017 with a proposed effective date in or around 31 March 2018. HLI, ALI and UHL are wholly owned by HLA. All companies are within the Life Company Consolidation Group Ireland Limited ("LCCGI") group of companies.

Professional Disclosures

1.6 I am a Fellow Member of Society of Actuaries in Ireland, having qualified in 1988. I have performed the Head of Actuarial Function role of HLA since 1 January 2016. Prior to the introduction of Solvency II, I acted as Appointed Actuary of HLA for many years. I am also Head of Actuarial Function (PCF 48) of HLI and will also prepare a report in my capacity as Head of Actuarial Function of that entity.

1.7 I am an employee of Milliman and I have no insurance policies with HLA, HLI, ALI or UHL. I have no personal investments in the LCCGI group of companies. Other consultants in Milliman have carried out consultancy work for other companies in LCCGI.

1.8 This report has been prepared in accordance with ASP-PA2 (version 1.0 effective 1 July 2017) issued by the Society of Actuaries in Ireland.

Review of other reports

1.9 In the course of preparing this report, I have been in regular contact with the HoAFs of ALI and UHL. I have considered the information provided in his report on the Scheme to confirm consistency of approach and content with my own.

1.10 In addition, in preparing this report, I have been in regular contact with the Independent Actuary, Rosemary Commons, a Fellow of the Society of Actuaries in Ireland who works for Willis Towers Watson, an international professional services company with offices in Dublin.

Reliances & Limitations

1.11 In carrying out our work and producing this report, I relied on data and other information provided by HLA. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

[1] Scottish Mutual International dac is expected to be renamed Harcourt Life Ireland dac on November 3rd 2017. I have used the new name and the HLI abbreviation throughout this report.

[2] Note that I am currently the HoAF for HLI

1.12 I performed a limited review of the data used directly in my analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of my assignment.

1.13 In carrying out our work and producing this report, reliance has been placed upon, but not limited to, the following information:

- The Head of Actuarial Function reports for ALI, HLI and UHL.
- Financial statements for HLA, HLI, ALI and UHL at end December 2016 together with Qualitative Reporting Templates at end March 2017 and end June 2017.
- Projected solvency position and asset holdings for HLI showing the post-Scheme position. These projections have been taken from the HLI HoAF report.
- Expense projections for HLA.
- Details of the products and business of HLI, ALI and UHL.
- Asset details for HLI, ALI and UHL including details of assets that are proposed to be retained in those companies after the Scheme is complete.
- Details of a Master Services Agreement between HLI and Harcourt Life Services Limited ("HLSL") which is proposed to come into effect on completion of the Scheme, and a Master Services Agreement between HLA and HLSL that is proposed before the Scheme is implemented.
- The draft Independent Actuary's report
- The ORSA for Harcourt Life Ireland presented to the board in October 2017.
- A note to the Board meetings of HLI, HLA, UHL and ALI on October 18 2017 outlining the purpose of the Scheme and seeking approval for certain actions.
- CBI notification document relating to the proposed Scheme.
- Papers relating to expense projections for HLSL including details of proposed capital injection to HLSL.
- Details of reinsurance treaties for the entities involved in the Scheme
- The draft Scheme.

1.14 This report was based on data available to us at, or prior to, 31 October 2017, and takes no account of developments after that date.

1.15 This report has been prepared for use by various interested parties as follows:

- The High Court having jurisdiction over the proposed transfer
- The Directors of HLA
- Policyholders of HLA
- The Heads of Actuarial Function of ALI, HLI and UHL
- The Central Bank of Ireland
- Professional advisors appointed by any of the above in connection with the proposed transfer, including the Independent Actuary.

1.16 This report may not be published without my written consent, with the exception of making the report available for inspection by or circulation to policyholders as required by legislation or in order to meet any other specified legal requirements.

1.17 A summary of this report may not be made without my written consent and, in particular, a summary of this report should not be distributed to policyholders without my prior approval.

1.18 This report has been prepared by me as Head of Actuarial Function of HLA under the terms and conditions of the letter of engagement dated 3 December 2015, our Statement of Work dated 25 May 2017 and within the context of the assessment of the terms of the proposed Scheme. No liability will be accepted by Milliman, or me, for any application of this report to a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of this report (or any summary thereof). Judgments as to the conclusions contained in this report should be made only after studying the report in its entirety. Furthermore, conclusions reached by review of a section or sections on an isolated basis may be incorrect.

1.19 The report is intended to be used by a person with a certain level of expertise in the areas addressed and for the stated purposes only. Any reader of this report must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should be advised by their own actuaries or other qualified professionals competent in the subject matter of this report, so as to properly interpret the material.

1.20 Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. The assumptions I have used have, in my view, been made on the basis of reasonable hypotheses. It is certain, however, that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Such variations in experience could have a significant effect on the results and conclusions of this report. No warranty is given that the assumptions made in this report will be reflected in actual future experience.

1.21 The consultants who worked on this assignment are life insurance actuaries. As such, they are familiar with statutory accounting and GAAP accounting, but are by no means experts in law, taxation, or accounting. Our advice is not, nor is it intended to be, a substitute for qualified legal, tax, or accounting advice.

1.22 No reliance should be placed on draft versions of this report.

Report Structure

1.23 The contents of this report are as follows:

- In section 2, I set out the background to the Scheme.
- In section 3, I set out background information on HLA.
- In section 4, I set out background information on the transferring companies.
- In section 5, I summarise the proposed transfer.
- In section 6, I demonstrate the impact of the proposed Scheme on HLA policyholders.
- In section 7, I summarise my conclusions.

2 BACKGROUND

Introduction

2.1 Life Company Consolidation Group ("LCCG") is a Guernsey based financial services group that has acquired a small number of life insurance companies.

2.2 In March 2015, LCCG acquired HLA, formally known as the IBRC Assurance Company, which was a closed life assurance business. The Company commenced trading as part of the Anglo Irish Bank Group in January 2001, writing wealth management business. It offered a range of unit linked investment and pension products. Its products consisted mainly of personal and collective portfolio bond products. These portfolio bonds included investments in property, bond, equity, and cash assets though focused extensively on acquisition and unitisation of properties and property portfolios aimed at high net worth clients. Many of these property investments contained elements of gearing. The last significant collective fund was launched in 2007 and the Company was closed to new business and put into run-off from 2011. Its business plan envisaged the sale of remaining property assets by 2017. Its 2014 Resolution Plan envisaged the orderly sale of the remaining property assets. The sale of properties is expected to complete during 2018 and, in the absence of the Scheme, HLA expects to run off its existing business in a manner consistent with the original plan.

2.3 In November 2016, HLA acquired ALI, formerly known as The Combined Life Assurance Company of Europe. The company is an insurance undertaking, incorporated in Ireland and authorised to write Class I and Class III insurance business. It was originally established in 1984 selling traditional non-profit whole of life assurance, unit linked life and pension business to customers in Ireland. The company ceased writing new business in 2004 and operated as a closed book of business for many years. The company was purchased by NPG Wealth Management group (now known as the Onelife Group) in September 2009. Following the acquisition, the company re-opened to new business in 2011 selling unit linked and portfolio bonds into Sweden and Norway. In 2014 a block of unit linked and portfolio bond business was acquired through a portfolio transfer from PEL Altraplan (Gibraltar) PCC Limited, trading as VestaLife, a fellow subsidiary of the Onelife Group. The former VestaLife business experienced significant lapses post transfer and although the company was actively trying to retain business this trend continued. Towards the end of 2015 the company ceased its attempts to recommence writing new business. Following a strategic review of options by the Company and its parent the Company was sold to HLA.

2.4 Effective 9 March 2017, UHL was acquired by HLA. UHL is licensed to write life assurance in the Republic of Ireland and is regulated by the CBI. UHL was incorporated on 24 January 2011 and received its authorisation from the CBI on 17 October 2011. Prior to 2017, UHL was a subsidiary of American Income Life Insurance Company, which is part of the Torchmark Corporation group in the United States of America. UHL commenced writing policies in August 2012, primarily writing protection or risk business policies. In February 2015, UHL discontinued activities to market and sell insurance policies.

2.5 HLA acquired Scottish Mutual International Limited in December 2015 from Phoenix Life Limited ("PLL"). Scottish Mutual international Limited was renamed Scottish Mutual international dac in 2016 and in November 2017 was expected to be renamed Harcourt Life Ireland dac. The company began trading in December 1995. It initially sold international products geared towards international corporate, private (high net worth) individuals and trustee clients. It subsequently expanded into the Irish domestic market with a range of term assurance, pension and savings products. Both unit linked and with-profits products were offered. The company closed both the international and domestic with-profits products to new business in 2003. In January 2004, this closure was extended across the whole book of business.

2.6 LCCGI is a closed fund consolidator and forms part of the LCCG purpose of being an insurance holding company to provide secure and stable run-off solutions for medium size blocks of life insurance policies in Ireland, the UK, and selected northern European countries. The model is predicated on providing attractive long-term cash returns for investors along with sound and fair policyholder management practices.

2.7 The intention is to create in Ireland a closed book consolidation business, (i.e. HLI after the Scheme is complete), together with an open book business specialising in writing overseas life assurance bonds business.

2.8 HLA acquired the entire share capital of Aviva Life International in July 2016. Aviva Life International then changed its name to Harcourt Life International dac. At the end of June 2017, Harcourt Life International dac acquired the overseas bonds business of AXA Life Europe, re-opened to the writing of new business and was renamed Utmost Ireland dac. This created the open book overseas bonds business. Ownership of Utmost Ireland dac was transferred from HLA to LCCGI in June 2017.

2.9 The proposed Scheme, that is the subject of this report, aims to bring together the closed book businesses of the LCCGI group.

2.10 The proposed Scheme will transfer the ALI, HLA and UHL business into HLI. Following the Scheme, HLI will become the closed book consolidation business within the LCCGI group.

2.11 The costs of the Scheme will be met by Harcourt Life Services Ltd, a subsidiary of LCCGI that provides services to the companies that are the subject of this Scheme. Sufficient assets will be transferred from ALI, UHL and HLA to ensure that following the proposed Scheme, HLI has sufficient assets to meet its capital policy and internal capital objectives. None of the costs of the Scheme will be passed on to current or transferring HLI policyholders.

3 BACKGROUND INFORMATION ON HLA

Profile of Insurance Portfolio

3.1 HLA, formerly IBRC Assurance Company, was acquired by LCCG in March 2015, at which time it changed its name to Harcourt Life Assurance Ltd (and subsequently to Harcourt Life Assurance dac). HLA is a closed book of life insurance business. At the time of the acquisition the business plan changed the principal focus from winding down and run-off of HLA to becoming a closed life fund consolidator.

3.2 HLA commenced trading as part of the Anglo Irish Bank Group in January 2001, writing wealth management business. It offered a range of unit linked investment and pension products. Its products focused extensively on the acquisition and unitisation of properties and property portfolios aimed at high net worth clients. The last significant collective property fund was launched in 2007. The property funds were highly-geared, amplifying the effects of the Irish property market crash. Consequently, the Company was closed to new business and entered into run-off from 2011. Its 2014 Resolution Plan envisaged the orderly sale of the remaining property assets. The sale of properties is expected to complete during 2018 and, in the absence of the Scheme, the Company expects to run off its existing business in a manner consistent with the original plan.

3.3 HLA acquired the entire share capital of HLI in December 2015 and Aviva Life International in July 2016. Aviva Life International then changed its name to Harcourt Life International dac. HLA acquired ALI in November 2016, Altraplan Bermuda Ltd ("AB") in December 2016 and in March 2017, HLA acquired the entire share capital of UHL from American Income Life Insurance Company.

3.4 Altraplan is a small unit linked business selling to high net worth investors from Bermuda. In this report we don't investigate the risks inherent in Altraplan but rather treat it as an equity investment in light of its small size and the nature of its business.

3.5 At the end of March 2017[3], HLA had the following mix of policies in-force:

[3] There has been no material change to the business since end March

Insurance Class	Type within Insurance Class	Product	Description	Policies In Force	Funds under Management €ms	Best Estimate Liability (1) €ms	Risk Margin (2) €ms	Total Gross Liabilities (1)+(2) €ms
Class III	Life assurance	Additional Voluntary Contribution Plan	Individual pension, recurring single premium, unit-linked plan	1	0.0	0	0.0	0.0
	Life assurance	Approved Minimum Retirement Fund	Individual pension, single premium, unit-linked plan	16	0.7	0.8	0.0	0.8
	Life assurance	Approved Retirement Fund	Individual pension, single premium, unit-linked plan	57	3.5	3.8	0.0	3.9
	Life assurance	Investment Bond	Whole of life, single premium investment, unit-linked contract	634	42.2	46.5	0.5	47.0
	Life assurance	Executive Retirement Plan	Individual pension, recurring single premium, unit-linked plan	42	33.5	34.5	0.4	35.0
	Life assurance	Personal Pension Plan	Individual pension, recurring single premium, unit-linked plan	85	6.3	6.8	0.1	6.9
	Life assurance	Buy-out Bond	Individual pension, single premium, unit-linked plan	9	0.5	0.5	0.0	0.5
				844	**86.7**	**92.9**	1.1	**94.0**
Class VII	Group pension funds	Investment Only Business (Trustee Investment Plan)	Group occupational pension, unit-linked plan	80	5.7	6.3	0.1	6.3
				80	**5.7**	**6.3**	0.1	**6.3**
Total				***924***	***92.4***	***99.2***	***1.2***	***100.3***

Table 3.2.1

The above policy count represents the number of live “with-value” policies that will transfer as part of the Scheme. In addition, 362 “zero-value” policies will also transfer as part of the Scheme, the total of which will be reflected in the Scheme documentation to be prepared.

3.6 While there are a number of products listed they each operate in broadly the same way, other than having different legal structures. The main groupings of policies could be considered to be:

- Policies which are invested primarily in cash, equity or managed funds. These are generally either policies that were previously in property (see below) or products which have been invested in these assets over time. The charge to HLA is typically 0.25% of the assets per annum.

- Policies which are invested in geared property funds. The property assets were purchased by 2008 at the latest with an existing expected holding period of 5-7 years. Due to the property crash many properties were held for longer. Over the last two years HLA has disposed of most properties and is currently in the process of disposing of the remaining properties. When properties are sold, the assets are transferred to a cash fund and made available for policyholders to withdraw or to transfer to another policy as appropriate. There is normally a fund based charge based on the higher of the premium paid and the current fund value.

- Unique policies where the assets were initially directed by the policyholder. There are a small number of these policies remaining. Charging structures are unique to the policy. These policies hold a mix of property and other assets.

3.7 HLA does not offer any options or guarantees on any of its policies. HLA does not provide additional benefits payable on death.

3.8 HLA has no reinsurance arrangements.

3.9 At the time of this report, HLA outsources its oversight requirements in Dublin to Harcourt Life Services Limited ("HLSL"). Unit pricing, policy administration services, financial reporting and policy communication services are all provided by HLSL. These arrangements will continue post-Scheme transfer. Additionally, it outsources its Actuarial and Internal Audit functions to Milliman and Mazars respectively.

Capital Position

3.10 Table 3.2.1 below sets out the capital position, under the European Union (Insurance and Reinsurance) Regulations 2015 (the 2015 Regulations) Standard Formula basis ("SII SF"), of HLA as reported to the Central Bank of Ireland in the relevant Quantitative Reporting Templates.

	31/12/2016 €m	31/03/2017 €m
Own Funds	101.2	95.7
Solvency Capital Requirement	23.2	25.1
Excess	78.0	70.5
Solvency Coverage Ratio	436%	381%

Table 3.2.1

3.11 Certain post 31/3/2017 events have been assumed in this report's assessment of HLA's solvency position as follows:

- The Board of HLA is expected to approve a revised Master Services Agreement with HLSL that will result in, broadly, a simple fee of €300 per policy per annum.

- Adjustment is made for the in-specie dividend of Utmost Ireland during Q2 2017 to LCCGI. This reduced both the Own Funds and the SCR for HLA.

- Allowance is made for a dividend payment from HLI to HLA.

- HLA is assumed to make capital injections into both ALI and UHL in line with decisions made at the October 2017 board meeting.

The table below shows the pro-forma position at end Q1 2017 after making appropriate adjustment for each of the items listed above:

	31/03/2017 €m
Own Funds	56.0
Solvency Capital Requirement	15.1
Excess	40.9
Solvency Coverage Ratio	371%

Table 3.3.1

Capital Policy

3.12 HLA has adopted a capital policy whereby it aims to always cover at least 133% of its Solvency Capital Requirement ("SCR"). Furthermore, the directors adopted a policy such that any dividends paid would not result in HLA having a solvency capital ratio of less than 150%. In practice, I would expect dividends to be paid to bring the solvency ratio down to 150%, to the extent that is consistent with liquidity and other constraints.

3.13 Table 3.3.1 shows that at the end of March 2017 on a pro-forma basis, the solvency ratio for HLA was comfortably above the capital policy ratio of 133%. [4]

Risk Profile

3.14 The following table sets out the key risks as measured under the SII Standard Formula. The SCR components are calculated at 31/3/2017 after reflecting the adjustments outlined in paragraph 3.11 above.

SCR Component	Solvency Capital
Market Risk	
- Interest Rates	0.0
- Equity Market	6.2
- Property	0.2
- Credit Spread	5.7
- Concentration	0.0
- Currency	1.7
- Less Diversification	-2.0
Total Market Risk	**11.8**
Life Insurance Risks	
- Mortality	0.0
- Expense	1.0
- Lapse	3.0
- Catastrophe Risk	0.0
- Less Diversification	-0.4
Total Life Insurance Risk	**3.6**
Counterparty Default Risk	1.2
Total Before Diversification	16.6
Diversification Benefit	-3.0
Total Basic SCR	**13.6**
Operational Risk	1.5
Total Solvency Capital Requirement	**15.1**

Table 3.4.1

3.15 In the regulatory capital requirements, the investments in subsidiary companies are regarded as equity investments and are subject to a 22% capital charge. This contributes almost all of the equity risk SCR as shown in the table above.

3.16 In the consolidated group view all the EU based entities, i.e. UHL, ALI, HLI and HLA are combined as though they were a single entity. The group view SCR is therefore an aggregation of the individual risk exposures of the EU domiciled subsidiaries. The risk exposures of UHL, ALI and HLI are covered in detail in the relevant Head of Actuarial Function reports. Consequently, the rest of this section discusses the risks specific to the business within HLA, excluding the contribution from its subsidiaries.

3.17 Market risk is the risk of adverse financial impacts resulting, directly or indirectly, from fluctuations in the level of deposits, bond prices, interest rates, foreign currency exchange rates, credit spreads, equity and property prices. The HLA transferring business is made up of unit linked investment and pension products, investing in property, bond, equity and cash assets. The Company is exposed to various market risks as a result.

[4] It is important to note that the SCR shown in the tables in this report is the SCR as reported in the QRTs provided to the Central Bank. As the parent of a number of subsidiaries the company also calculates a "Group SCR". This considers the risks across all companies as if all assets were held in HLA. Where the SCR on this group basis is higher than the SCR as reported, the company will normally base its capital policy on the higher SCR.

3.18 The shareholder assets of HLA consist of a mix of European government bond investments, bank deposits, collective investment undertakings in the Oaktree ESL fund and subsidiary investment Altraplan Bermuda, as well as small property investments. The government holdings are short term in nature and are all in AA and AAA holdings. The collective investment undertakings in the Oaktree ESL fund are substantial and amount to €21.5m of total shareholder funds.

3.19 Bank deposits represent approximately €5.9m of shareholder funds. These are held in Euro, Sterling and Dollar accounts across two banks.

3.20 The shareholders' funds include properties that are security for non-recourse loans. The process of selling these properties has recently completed (since March 2017) and the sale proceeds will be fully off-set by repayment of outstanding amounts under these loans. In other words, the sale of these properties does not result in any significant surplus assets for the shareholders' funds.

3.21 Interest rate risk exists for all assets and liabilities where the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility. The interest rate risk charge is zero due to the very short nature of both assets and liabilities and the unusual nature of the yield curve with negative short term rates.

3.22 Equity risk arises from the level of prices for equity investments. For HLA, this exposure mainly comes from the valuation of the subsidiary investments in Altraplan, UHL, ALI and HLI, as well as direct equity investments through the Company's product offering. As a results of the subsidiary investments, the equity risk element is the largest component of the market risk SCR for HLA.

3.23 Credit spread risk relates to the risk of loss arising from changes in the value of market securities driven by changes in the credit standing of counterparties. The spread risk component of the market risk SCR stems from the direct investment in the Oaktree ESL fund. This risk could be mitigated through divestment of the assets in this fund. However the Board considers that the Company is currently over capitalised and these assets are being held to obtain a higher return on excess assets.

3.24 HLA's currency risk predominantly arises from non-Euro denominated subsidiary holdings, as the valuation of AB is in US Dollar. There are also smaller exposures on other assets, such as shareholder bank deposits that have a UK Sterling currency exposure.

3.25 The Company is exposed to a very small mortality risk due to the unitised and investment nature of its products which are not linked to the death of a policyholder as an insured event. Similarly, the products insured are not linked to the life of a policyholder or accrue disability benefits. As a results the mortality risk component of the SCR is zero.

3.26 Expense risk arises from adverse variation in the expenses incurred in managing a closed book of business. HLA's costs include expenses it incurs directly and service charges paid to HLSL.

3.27 The lapse risk captures the risk that there is an unexpected change (higher or lower) in the rate of run off of the business. For HLA, the key risk is that there is a decrease in lapse rates as the Company is expected to wind down in line with the resolution plan submitted to the CBI in March 2014. Operating expenses are higher than income earned from policies, so a reduction in lapses generally leads to a negative result for the Company.

3.28 The counterparty default risk for HLA arises from the risk of a failure of a counterparty (such as a bank or outsource party) resulting in the loss of funds to the Company. The Company mitigates these risks by dividing shareholder investments, including those of its subsidiary companies, over a number of sovereign lenders, banks and collective investment funds.

3.29 HLA is exposed to operational risks and losses which can arise from inadequate or failed processes, or systems or from external events. HLA's subsidiaries review their own operational risk exposures and these are covered in the HoAF reports for HLI, ALI and UHL. HLA's own operational risks relate primarily to litigation in relation to past business activities. However, in recent year's HLA has successfully defended all litigation against it. HLA's solvency capital position provides in full for the expected cost of legal expenses associated with defending outstanding and future cases. HLA's past experience with respect to litigation, which covers all classes of potential litigation against it, indicate that the risk of failing to defend future claims, if these were to arise, is not material. I have been provided with analysis by the Company demonstrating how it has determined that the risks are not material.

Projected Capital Position

	31/12/2017 €m	31/12/2018 €m	31/12/2019 €m	31/12/2020 €m	31/12/2021 €m
Own Funds	55.7	56.9	57.8	58.7	59.6
Solvency Capital Requirement	14.3	13.1	13.0	13.1	13.2
Excess	41.4	43.8	44.8	45.6	46.4
Solvency Coverage Ratio	390%	433%	445%	448%	451%

3.30 The pattern of improving solvency capital ratio results from:

- Assumed investment return (primarily from the Oaktree ESL fund) leading to gradually increasing Own Funds, and
- A reduction in the SCR – this reduction is primarily because the expense component of the SCR reduces as higher expenses are incurred in early years.

3.31 In practice, I would expect dividends to be paid to bring the solvency ratio down to 150% (as set out under Capital Policy above), although it should be noted that there may be liquidity constraints on dividend payments[5]. Consequently, although the projected position gives comfort that the solvency position is expected to improve, policyholder security should be evaluated at the capital policy level only.

Economic Capital Position

3.32 The Solvency II regulations which govern the solvency capital calculations of HLA require the Technical Provisions to be calculated on the assumption that the Company is open to new business. This means that the Technical Provisions do not allow for an ever increasing expense per policy over time.

3.33 In reality HLA is closed to new business and expects to remain closed. Therefore, in the absence of the proposed Scheme, the number of policies can be expected to fall steadily while direct costs (other than those included in the MSA) can be expected to stay relatively stable.

3.34 To get a true picture of the capital that would be required to fulfil the current policies in HLA, I have calculated a revised Economic level of Technical Provisions. These Economic Technical Provisions reflect the falling number of policies per annum and the expected expense levels to fulfil these policies until 2025. The results are shown in the table below.

With Technical Provisions calculated on an Economic Basis	31/03/2017 €m
Own Funds	50.5
Solvency Capital Requirement	16.1
Excess	34.4
Solvency Coverage Ratio	314%

3.35 The table shows that the solvency coverage ratio falls somewhat from the position shown in paragraph 3.11 above. The solvency coverage is still high, though of course the Board could pay a dividend with the excess capital.

[5] Approximately €27m of the Own Funds at 31/3/2017 in the pro-forma position are represented by the value of subsidiaries and are therefore not easily distributed without making an in-specie transfer of the company as a dividend.

4 BACKGROUND INFORMATION OF TRANSFERRING COMPANIES

Profile of Insurance Portfolios

Harcourt Life Ireland dac

4.1 LCCG acquired HLI, via their Irish subsidiary HLA, in December 2015 from Phoenix Life Limited ("PLL"). The company began trading as Scottish Mutual International in December 1995, and was renamed HLI in 2017. It initially sold international products geared towards corporate, private (high net worth) individuals and trustee clients. It subsequently expanded into the Irish Domestic Market with a range of term assurance, pension and savings products.

4.2 The company closed both their international and domestic with-profits products to new business in 2003. In January 2004, this closure was extended across the whole book of business. As part of the decision to close to new business, the company entered into an MSA with Pearl Group Management Services (Ireland) Limited ("PGMSI"). PGMSI is a service provision company within Phoenix group and manages the relationship between HLI and its external suppliers on a day to day basis in accordance with the MSA.

4.3 HLI has a wide range of savings and pensions products with various charging structures. These are set out in more detail in the HLI Head of Actuarial Function report with items of most significance reported here.

4.4 HLI's Technical Provisions are approximately 51% unit linked and 49% unitised with-profits. Its small block of term assurance accounts for only 0.1% of the Technical Provisions.

4.5 HLI has the following guarantees on its unitised with-profits products:

- A Market Value Adjustment (MVA) free guarantee on the HLI With-Profits Investment Bond. Almost all these liabilities are reassured to PLL.
- Premium related guarantees on the Guaranteed With-Profits Bond policies within the international business. The guarantees will be fully run off by April 2018.
- MVA free guarantees on death.
- MVA free guarantees at maturity for the domestic pension business.
- For capital redemption business, there is a guaranteed maturity benefit of at least twice the original investment, less withdrawals, on the 80th anniversary of the commencement of these policies.

4.6 HLI has in place with Phoenix Life Ltd ("PLL") reinsurance arrangements for the with-profits and unit linked business of HLI. These are supported by a floating charge on the assets of PLL. The floating charge has the effect of ranking HLI with-profits policyholders alongside other PLL with-profits policyholders. HLI has a small number of term assurance policies, which are subject to a quota share reinsurance arrangement with retention limits with Gen Re.

4.7 Within its policy conditions, HLI reserves the right to modify policy charges in certain circumstances. This power would not be expected to be exercised save for in exceptional circumstances, such as where the financial soundness of the company could otherwise be under threat or where there was a substantial increase in the cost base of the company.

4.8 At the time of this report, HLI outsources many of its requirements for operational services to HLSL. Additionally, it outsources its Actuarial and Internal Audit functions to Milliman and Mazars respectively. Policy administration services are also provided through the transitional arrangements with Pearl Group Management Services (Ireland) Limited, by DST Financial Services Ireland Limited ("DST"), a third party supplier. These arrangements will be reviewed during 2017.

Augura Life Ireland dac

4.9 ALI was originally incorporated in the Republic of Ireland in 1984 as an insurance undertaking, and authorised to write Class I and Class II insurance business. It began trading under the name Combined Life Assurance Company of Europe. In September 2009, it was purchased by NPG Wealth Management Group, now the OneLife Group. Its current owner, HLA, acquired ALI in November 2016.

4.10 ALI has had two periods of writing business. Up until 2004, ALI wrote unit linked life and pensions business and non-linked non-profit whole of life policies, all of which were sold in Ireland. From 2004, it ceased writing new policies until 2011, when, under new ownership, it commenced writing new business, selling unit linked bonds in Sweden and

Norway. In 2014, ALI received by way of insurance business transfer a block of bonds from PEL Altraplan (Gibraltar) PCC Ltd, then a sister company in the NPG Wealth Management Group incorporated in Gibraltar.

4.11 Although, ALI has not formally notified a run-off plan to the CBI, top up new business volumes continue to be very low and overall, with high lapse rates, the funds under management continue to decline.

4.12 None of the existing ALI policies contain investment guarantees. There is a small number of funds offered within the PSB product where there is a guarantee to return 80% of the premium to policyholders at maturity, usually 5 years. The guarantees mirror the performance of a basket of equities. These guarantees, whether whole or partial guarantees, are provided by a range of fund managers i.e. the suppliers of the PSB product, and not by ALI.

4.13 A small number of non-linked whole of life policies remain in the Little Giant Life ("LGL") product. These policies have a guaranteed death benefit based on the premiums paid and the policyholder's age at commencement. On accidental death, the sum assured is doubled.

4.14 Under the Perfect Combination Plan (Combined Life Assurance Company of Europe or "CLACE") Unitised Life product, benefits are payable on surrender or death. This product was sold in modules (base, additional protection, regular savings and investment modules). On death, each module would pay a benefit. This would be the greater of the sum assured amount versus the bid value of the units for the base, additional protection and regular savings (sold pre- April 1991) modules and 101% of bid value of units for the regular savings and investment modules (both sold post April 1991). The investment module sold pre-April 1991 pays the greater of the single premium investment versus the bid value of the units. The surrender value payable is the bid value of the units.

4.15 Under the Personal Portfolio Bond ("PPB") and Privileged Structure Bond ("PSB") products, the benefit payable on death is 101% of the surrender value ("PPB") and 101% of the bid value ("PSB") of the units. Similarly, the Adiameris product pays 101% of the surrender value upon the death of the policyholder. This percentage reduces to 100% when the policyholder reaches age 85 and over.

4.16 The level of reinsurance used by ALI is not material. The following reinsurance arrangements were in place at 31 March 2017: 1) Reinsurance treaty with Munich Re covering the PPB business. 2) Reinsurance treaty with Swiss Re covering the CLACE business. The remaining products are not reinsured due to lack of materiality. Exposure to reinsurers is measured and monitored as appropriate and strict limits apply to the credit ratings of reinsurance counterparties where material exposures exist.

4.17 The governance and oversight functions of ALI's business are carried out in Dublin by Harcourt Life Services Limited under the direction of the Board, and these arrangements will continue post-Scheme. The Scheme will have no effect on these arrangements. ALI has a servicing arrangement with One Life, which is due to end in November 2017. Negotiations are currently underway to extend this servicing arrangement to the end of March 2018. ALI currently has a number of Custodians for policyholders' assets – State Street, Trac Services AS, Banque Thaler SA, Banque de Luxembourg, UBS (Luxembourg) SA. It is anticipated that these arrangements will be transferred by the Scheme.

Union Heritage Life Assurance Company dac

4.18 UHL is licensed to write life assurance in the Republic of Ireland and is regulated by the CBI. UHL received its authorisation from the CBI on 17 October 2011. Prior to 2017, UHL was a subsidiary of American Income Life Insurance Company, which is part of the Torchmark Corporation group in the United States of America. Effective 9 March 2017, UHL was acquired by HLA.

4.19 UHL commenced writing policies in August 2012, primarily writing protection or risk business policies. In February 2015, UHL discontinued activities to market and sell insurance policies and its activities are now limited to the administration of policies in-force, until all rights and obligations under the inforce policies are extinguished or expire based on the terms of the agreements with policyholders.

4.20 Prior to acquisition by HLA, a run-off plan for UHL was submitted to the CBI. Consequently, exemption from Solvency II requirements was obtained from the CBI on the basis that the business will be run-off before the end of 2019. In a change from the run-off plan, LCCGI intend to allow the UHL inforce policies to continue until their natural expiry, i.e. to contractual term or claim payment. UHL has applied to have its non-share capital recognised as Tier I capital for Solvency II purposes. It will begin reporting under Solvency II on receipt of the confirmation.

4.21 For Term business, policyholders have the option to renew their policy terms at the end of the original cover term or they can convert their cover to a whole life plan. Renewal and conversion options can be selected resulting in increased regular premium rates dependent on the policyholder's age at the date of renewal or conversion. Conversion options are only available up to pre-specified ages and can be taken up without any medical evidence.

4.22 Renewal options are also available up to the age of 70 on the health plans covering accidental death and dismemberment. The premium rates are annually reviewable and can be adjusted at UHL's discretion according to changes in certain rating factors.

4.23 All products are non-participating and there are no reinsurance arrangements in place on any of UHL’s products.

Summary

4.24 The following tables summarise the numbers of policies and the unit linked reserves of HLI, along with the two companies (in addition to HLA) that will transfer into HLI at the effective date.

Insurance Class	Type within Insurance Class	Product	Description	Policies In Force 31/03/2017	Funds under Management 31/03/2017 €ms
HLI					
Class VI	Capital Redemption	Investment Bonds	Single premium, whole of life (or 80 year) unitised with-profits assurance plan	11	0.7
	Capital Redemption	Guaranteed With Profit Bond	Single premium, whole of life (or 80 year) unitised with-profits assurance plan, with a guaranteed maturity value on specified anniversaries	143	28.9
	Capital Redemption	Investment Bonds	Single premium, whole of life (or 80 year) unit linked assurance plan	36	2.1
				190	**31.7**
Class III	Life Assurance	Investment Bonds	Single premium, whole of life (or 80 year) unitised with-profits assurance plan	484	47.7
	Life Assurance	Selexis Investment Bond	Single premium whole life unitised with-profits assurance policy	249	20.5
	Life Assurance	Selexis Savings Plan	Regular premium whole life unitised with-profits assurance contract	6	0.2
	Life Assurance	Selexis Investment Mortgage	Regular premium whole life unitised with-profits assurance contract	3	0.3
	Deferred Annuity	Select Retirement Plans	Pensions deferred annuity contract	357	9.9
	Life Assurance	Investment Bonds	Single premium, whole of life (or 80 year) unit linked assurance plan	1,009	105.6
	Life Assurance	Flexible Investment Plan	Regular premium whole of life unit linked assurance plan	64	2.5
	Life Assurance	Selexis Endowment Mortgage	Regular premium whole life unit linked assurance contract	1	0.0
	Deferred Annuity	Select Retirement Plans	Pensions deferred annuity contract	204	6.1
				2,376	**192.8**
Class I	Life Assurance	Guaranteed Self Assurance	Non-linked regular premium protection product	63	0.0
				63	**0.0**
Total HLI				***2,629***	***224.6***

Insurance Class	Type within Insurance Class	Product	Description	Policies In Force 31/03/2017	Funds under Management 31/03/2017 €ms
ALI					
Class III	Life assurance	Perfect Combination Plan (CLACE)	Regular premium, unitised life & pension savings products sold in Ireland through Combined Life Assurance Company	1,007	5.3
	Life assurance	Privileged Structured Bond (PSB)	Single premium, whole of life, unit-linked, life assurance portfolio bond sold through Vesta Life in Sweden	1,065	39.1
	Life assurance	Personal Portfolio Bond (PPB)	Single premium, whole of life, unit-linked, dedicated funds portfolio bond sold through Augura in Sweden and Norway	118	8.5
	Life assurance	Adiameris	Single premium, whole of life, unit linked, dedicated funds portfolio bond sold through Vesta Life in Belgium and Portugal	29	13.9
				2,219	**66.7**
Class I	Life assurance	Little Giant Life (LGL)	Regular premium, whole of life, non-linked, life assurance bond	148	0.0
				148	**0.0**
Total ALI				***2,367***	***66.7***

Insurance Class	Type within Insurance Class	Product	Description	Policies In Force 31/03/2017	Funds under Management 31/03/2017 €ms
UHL					
Class I	Life assurance	Whole of life	Regular premium paying policy providing cover on the insured's death. A cash value is payable on surrender.	112	0.0
	Life assurance	Term assurance	Regular premiums are payable during the policy term and cover (lump sum or monthly benefits) is provided if the insured dies during the policy term. Conversion options are available.	45	0.0
	Life assurance	Accident policy	Cover is provided for dismemberment or death as a result of an accident.	89	0.0
Total UHL				***246***	***0.0***

4.25 The policies of HLI, HLA, ALI and UHL are all closed to new business. The regular premium products from UHL and HLI continue to accept regular contributions. None of the single premium products from HLI accept top ups from existing policyholders. For HLA, while top ups could occur, there is unlikely to be any material premium income.

4.26 All the transferring policies are single and regular premium policies. None of the policies include onerous investment guarantees or death benefits. In all cases benefits are linked to the performance of unit linked funds or, in the case of ALI, specific externally managed funds.

Charges

Harcourt Life Ireland dac

4.27 Within its policy conditions, HLI reserves the right to modify policy charges in certain circumstances. This power would not be expected to be exercised save for in exceptional circumstances, such as where the financial soundness of the company could otherwise be under threat or where there was a substantial increase in the cost base of the company.

Augura Life Ireland dac

4.28 The charges on the ALI policies mainly consist of:

- Under the Perfect Combination Plan (Combined Life Assurance Company Europe or “CLACE”): a monthly amount based service fee and a reduced premium allocation charge which is dependent on the policyholder’s age at issue or policy duration. There are also protection charges for life cover and waiver of premium, which depend on the unit fund value, as well age and gender of policyholder
- Personal Portfolio Bond (“PPB”) & Privileged Structured Bond (“PSB”): a percentage of fund value monthly administration fee where the percentage applicable depends on the size of the fund or the premium size. As well as a percentage of fund value annual service charge (regular commission). A mortality charge is also applied in respect of death benefits provided. On the Privilege Structured bond, the company reserves the right to modify or increase the charges but no more than once every two years
- Adiameris: an annual administrative management charge up to €1,200 (or currency equivalent) plus a maximum 1.5% of policy value. Asset management and custodian bank charges are also levied where applicable. Charges expressed as amount based are subject to automatic indexing based on the Gibraltar Index of Retail Prices. The company reserves the right to introduce, at any time, new charges, in response to changes to legislation or applicable rules (including tax regime) or external factors beyond its control
- Little Giant Life (“LGL”): There are no explicit charges levied on this product. The premiums payable under the policies include costs for all benefits, charges, and expenses.

Union Heritage Life Assurance Company dac

4.29 For the UHL policies, the company reserves the right to change future premium rates. The premium payable under the policy includes costs of all protection benefits, and all charges, expenses, intermediary remuneration and sales remuneration. The company may cancel or change policies if any information given on application is incorrect or incomplete. The policies can also be cancelled or amended by UHL as a result of changes required under Irish Legislation. All premiums paid by Irish residents are subject to 1% annual tax levy.

Other Features

4.30 HLI has the following guarantees on its unitised with profit products:

- A Market Value Adjustment (MVA) free guarantee on the HLI With-Profits Investment Bond. Almost all these liabilities are reassured to PLL.
- Premium related guarantees on the Guaranteed With-Profits Bond policies within the international business. The guarantees will be fully run off by April 2018.
- MVA free guarantees on death.
- MVA free guarantees at maturity for the domestic pension business.

- For capital redemption business, there is a guaranteed maturity benefit of at least twice the original investment, less withdrawals, on the 80th anniversary of the commencement of these policies.

4.31 None of the existing HLA, ALI and UHL policies contain any investment return guarantees. A small number of non-linked whole of life ALI policies remain in the LGL product. These policies have a guaranteed death benefit based on the premiums paid and the policyholder's age at commencement. On accidental death, the sum assured is doubled.

4.32 Benefits available under ALI's CLACE policies are payable on surrender or death. This product was sold in modules (base, additional protection, regular savings and investment modules). On death, the greater of the sum assured amount on the base module versus the bid value of the units on the base module is paid, plus the value of the investment on the investment module. The surrender value payable is the bid value of the units.

4.33 HLSL provide many of the management and operational services for the various companies owned by HLA, including HLA. The provision of these services will not be altered by the Scheme and will continue to be provided by HLSL post transfer, where these arrangements already exist.

4.34 The combining of ALI, HLA and UHL, as well as HLI, into a single closed book business, as distinct from a single insurance company, results in a number of changes to administration arrangements for unit pricing and unit fund management. However, these changes are not as a result of the Scheme and have no implications for the reasonable expectations of policyholders. They are a result of commercial decisions required to create an efficient closed book business. Similarly, the Scheme is a step in the process to create an efficient closed book business. Therefore, the Scheme does not have a direct impact on these arrangements.

4.35 ALI (and HLI) have products that invest in open architecture funds. There are no issues to note at present in relation to these type of funds. Existing arrangements for open architecture funds are expected to be transferred as part of the Scheme without affecting products or custodians.

4.36 Policyholder cash balances for portfolio bond products from the relevant entities are held to facilitate the deduction of charges from these products. The Scheme will not affect this process, and it will continue to operate in line with existing rules.

4.37 The Scheme will not alter any of the existing policy benefits which policyholders are entitled to. Furthermore, the Scheme will not affect any policy charges where the issuing company has discretion. Moreover, the combination of UHL, ALI and HLA into HLI is expected to lead to expense savings, reducing the pressure to increase future discretionary charges.

Risk Profile

4.38 The table below shows the breakdown of the Solvency Capital Requirement for HLI, ALI and UHL. The calculations for each entity are at 31/3/2017, adjusted where appropriate for known events after that date. The adjustments (in addition to those listed in in Section 3 above for HLA) are:

- Allowance for capital injections that are planned from HLA to ALI and UHL. The balance sheets of all three entities have been revised accordingly.
- Allowance for the revised Master Services Agreements that have been proposed between each entity and Harcourt Life Services Limited.
- Adjustments were made to the methodology for determining expense assumptions for the purposes of calculating Technical Provisions. These adjustments were made in order to have a consistent methodology across all entities.
- In the case of UHL, figures were not reported on a Solvency II basis at end Q1 2017. However all calculations have been performed on a Solvency II basis for this purpose.

	Pre Scheme €m		
Components	**HLI**	**ALI**	**UHL**
Market Risk			
- Interest Rate	0.0	0.1	0.1
- Equity	2.3	0.3	0.0
- Property	0.0	0.0	0.0
- Credit Spread	0.5	0.6	0.0
- Concentration	0.0	0.0	0.0
- Currency	1.0	0.3	0.0
- Less Diversification Benefit	-0.7	-0.4	0.0
Total Market Risk	**3.2**	**1.0**	**0.1**
Life Insurance Risks			
- Mortality	0.2	0.0	0.0
- Life Expenses	1.3	0.7	0.4
- Lapse	3.2	0.3	0.2
- Catastrophe	0.0	0.0	0.0
- Less Diversification Benefit	-0.7	-0.1	-0.1
Total Life Insurance Risk	**4.0**	**0.9**	**0.5**
Health Underwriting Risk	**0.0**	**0.0**	**0.2**
Counterparty Default Risk	**1.9**	**0.3**	**0.3**
Total Before Diversification	9.1	2.2	1.1
Diversification Benefit	-2.6	-0.6	-0.3
Total Basic SCR	**6.5**	**1.6**	**0.8**
Operational Risk	**0.7**	**0.3**	**0.0**
Total Solvency Capital Requirement	**7.2**	**1.9**	**0.8**

Harcourt Life Ireland dac

4.39 HLI invests shareholder assets primarily in lower risk asset classes, such as cash and sovereign bonds. In March 2017, the HLI Board approved a shareholder asset investment proposal to invest €2m of shareholder funds in the Oaktree European Senior Loan ("ESL") Fund. This investment was funded by the sale of existing sovereign bonds, held by the company.

4.40 The HLI business consists primarily of unit linked policies where the income to HLI is represented by percentage charges made on the value of the unit funds. This means that the income to HLI is exposed to the movements in the value of these funds. Policyholder unit funds are invested in a diverse range of equity, property and bonds meaning that there is little exposure to any one investment. However, the individual funds are in general subject to the same underlying economic factors and consequently HLI's income is exposed to market risks.

4.41 A proportion of HLI's business is written in the UK. As a result, any income from this business is in pounds sterling. HLI is an Irish company situated within the Eurozone, with a material portion of its expenses in addition to its capital requirements denominated in Euros. There is therefore a risk that the income falls relative to expenses and capital requirements due to currency movements. This is known as currency risk and makes up a material proportion of the market risk capital component.

4.42 The investment of €2m in the Oaktree European Senior Loan fund leads to the spread risk shown.

4.43 Before allowing for diversification effects, market risk, including equity, currency and concentration risk, contributed €3.2m to HLI's capital requirements.

4.44 HLI incurs expenses in administering the policies through to claim. Policy administration and customer management services are carried out by DST. This relationship is currently managed by PGMSI. The third-party administration costs payable to DST are contractual and subject to very little variance. The cost of change with DST however can be relatively expensive and this continues to be an area of focus for management.

4.45 The expense, surrender and mortality risks are represented by a contribution to HLI's pre-diversification capital requirements of €4.0m under the heading life insurance risk.

4.46 In the absence of the proposed Scheme, expense risk will be the greatest challenge for HLI as it aims to administer an ever decreasing portfolio of business with a relatively fixed cost base. This issue is considered in paragraph 3.32 and subsequent paragraphs below.

4.47 Counterparty default risk arises through the normal course of business through amounts due to HLI from banks (cash on deposit), reinsurers and other debtors. These items contribute to the counterparty default risk of €1.9m.

4.48 In addition to the risks mentioned above there are operational risks associated with administering the business through run-off. Examples of operational risks include failure of people, systems and processes leading to expenditure in excess of amounts budgeted. The SII SF basis give an operational risk component of €0.7m.

Augura Life Ireland dac

4.49 ALI invests shareholder assets primarily in lower risk assets, such as cash and fixed interest securities, other than approximately €2m of shareholder funds which have been invested in the Oaktree European Senior Loan Fund. ALI writes unit linked business with products designed such that no onerous guarantees are provided, and hence the shareholders' exposure to market equity risk on this business is limited to the extent that income arising from policy management charges is based on the value of assets in the fund.

4.50 ALI is exposed to earning fee income in non-Euro currencies where some business was sold in territories where the Euro is not the local currency. There is a risk in relation to changes in the credit spreads of fixed interest counterparties (whether corporate or sovereign) will impact the value of those assets. There is counterparty default risk from bank deposits held across various banks, and debtors to ALI.

4.51 ALI utilises reinsurance to manage its mortality risk exposure.

4.52 ALI accepts that in the short to medium term, it will be significantly exposed to lapse risk as the business is in run off. There will inevitably be an exposure to lapse risk through reduced projected fee income as Funds Under Management ("FUM") reduce. As FUM reduces, ALI is less likely to be exposed to adverse market movements (equity, interest and currency).

4.53 Similarly, the expense risk is a significant risk for ALI as it is a closed book of business in run-off and it has a significant fixed expense base. The expense per policy can be expected to become larger and more volatile over time.

4.54 There is operational risk related to the decoupling of ALI business from OneLife SA including the transfer of policies between administration systems. However this change is related to the transfer of ownership of ALI and is not caused by the Scheme. Whilst other operational risks such as strategic, regulatory, and legal and reputational are present and considered, these are not felt to be material to the overall profile of the company.

Union Heritage Life Assurance Company dac

4.55 UHL has not been subject to Solvency II do date. Therefore it has not been required to calculate an SCR in the same way as the other entities. For the purposes of this report an SCR has been calculated so that the figures produced are consistent with the other entities.

4.56 Market risk is negligible for UHL as the majority of the assets are invested in cash (66%) and government bonds (31%). There is a small investment (€0.1 million) in corporate bonds with a counterparty credit rating of AA-.

4.57 Changes in the interest rate impacts on the discounting applied to the reserves and gives rise to interest rate risk. Cash does not attract an interest rate charge and the government bonds will expire in October 2017 resulting in little to no impact on asset values following a reduction to interest rates.

4.58 UHL does not have any equities or property on its balance sheet, hence, has no associated risk. There is also no currency risk as assets and liabilities are matched in the local currency.

4.59 UHL's Government and Corporate bonds are AAA and AA- rated respectively and these attract a low capital charge with respect to credit risk. Spread risk is low as a result of the favourable credit ratings of the bonds concerned. The government bonds will expire in October 2017, further reducing the charges on this asset class.

4.60 All of UHL's cash is deposited with a single entity introducing counterparty risk.

4.61 Mortality risk is relatively low and will reduce further over time as the book and risks associated with it runs off. The expense ratio will become more significant as the number of policies over which the expenses can be spread will reduce. Following the Scheme, some economies of scale are expected to emerge which will reduce the expense risk.

4.62 UHL is exposed to Health shocks (i.e. disability components) but similar to the mortality experience, this is low due to the small size of the book and the relatively low benefits offered.

4.63 The lapse component is the biggest risk for UHL and has the largest capital charge as a result. The recent ownership changes and uncertainty could lead to increased lapses.

4.64 Operational risk is a concern associated with the appropriate administration of the business in run-off, particularly with respect to the additional complexities on the accident business and the outsourcing arrangements not currently handled under HLI, HLA and HLI.

5 THE PROPOSED TRANSFER

5.1 Subject to Court approval, it is envisaged that the Scheme will take effect at 23:59 on 31 March 2018.

Policy Transfer

5.2 The proposal is to transfer all of the business of HLA, along with all of the business of UHL and ALI to HLI. The Scheme provides that:

- All the HLA, ALI and UHL policies will transfer to HLI and the liabilities in respect of these policies will become liabilities of HLI,
- HLI will become entitled to all rights, discretions, authorities, benefits and powers of HLA, ALI, and UHL in respect of each transferring policy,
- HLA policyholders will be entitled to the same rights with HLI as were available to them with HLA,
- All assets backing the Technical Provisions of the HLA, ALI, and UHL policies will transfer to HLI,
- All assets of the ALI and UHL shareholder funds will transfer to HLI shareholders fund, except assets which are required to remain in ALI and UHL to enable them to continue to meet regulatory requirements, and
- Sufficient shareholders' assets of HLA will transfer to ensure the HLI has sufficient assets to meet its Capital Policy. The transferring assets will include HLA's ownership of Altraplan Bermuda.

Costs of the Schemes

5.3 The costs of the Scheme will be met by Harcourt Life Services Ltd, a subsidiary of LCCGI that provides services to the companies that are the subject of this Scheme.

Servicing Arrangements

5.4 The servicing arrangements for HLA are long established – administered in house by HLSL. The existing MSA between HLA and HLSL will transfer under the Scheme so that it is effectively novated from HLA to HLI. Revised pricing will apply to this MSA as approved at the October 2017 board meeting.

5.5 There is an existing MSA between ALI and HLSL. There is also a Transitional Services Agreement ("TSA"), in place between ALI and OneLife Company SA ("OLC") in Luxembourg, which is to be extended until March 2018. By end 2017, it is expected that an MSA will be in place between HLSL and Utmost Administration ltd ("UAL") for UAL to provide services in respect of ALI policies. This MSA with HLSL will replace the MSA with OLC. The Scheme will transfer ALI's agreement with HLSL so that it is effectively novated from ALI to HLI. Pricing for the MSA between ALI and HLSL was approved at the board meeting in October 2017.

5.6 A TSA exists between HLI and PGMSI, with the policy administration of the HLI book outsourced by PGMSI to DST. The TSA is due to end later in 2017. PGMSI provides a Governance and Oversight role. It is intended that a new contract will be put in place between HLSL (on behalf of HLI) and DST when the existing TSA ends. HLSL will assume the direct oversight role in relation to the outsourced HLI contract with DST under the new contract. This arrangement will remain unchanged by the Scheme.

5.7 By end October 2017, an MSA will be in place between UHL and HLSL. The Scheme will transfer this so that it is effectively novated from UHL to HLI.

5.8 The underlying servicing operations for ALI as well as HLI, HLA and UHL will be unaffected, as the same people, processes and platforms will continue to be used for the insurance businesses. Details of an MSA between each of these entities and HLSL were approved at board meetings of each of ALI, HLI, HLA, UHL and HLSL in October 2017. It is expected that the revisions to the MSAs will come into force before the end of 2017.

Reinsurance Treaties

5.9 There are no Reinsurance arrangements in place for HLA and UHL.

5.10 HLI currently has Reinsurance arrangements in place with PLL for a subset of the with-profits and unit linked business, and with Gen Re for the term assurance business.

5.11 ALI currently has Reinsurance arrangements in place with Swiss Re for the CLACE product and Munich Re covering the PPB product. Both arrangements are very small.

5.12 These arrangements will be transferred by the Scheme or, in the case of HLI's arrangements, be unaffected by the Scheme.

Taxation

5.13 The Scheme will not alter policies and does not result in the cancelation or the issue of new policies to policyholders. As such I understand that the Scheme gives rise to no tax impact on policyholders. I understand that the tax authorities in all relevant countries will be notified of the intention to carry out the proposed transfer under the Scheme. I have seen tax advice prepared for the companies involved in the Scheme which indicates that no tax issues will arise for policyholders as a result of the Scheme.

Legal

5.14 Legislation requires that policyholders are notified of the Scheme. I understand that all policyholders of HLA, HLI, ALI and UHL will be notified of the Scheme by way of a direct mailing and advertising in national newspapers.

5.15 HLI is currently authorised to write Class I, III and VI insurance business. HLA is also authorised to write Class I and III, as well as Class VII insurance business. HLI, as the receiving entity, will be required to seek an extension of its classes of business from the CBI to include Class VII. I understand that the process of extension has been initiated. HLI has the proper authorisations to write the classes of insurance business from the remaining transferring entities.

With-Profits Funds

5.16 The Scheme allows HLI to close or merge the HLI with-profits funds if the fund's combined liabilities fall below €50m. The Scheme sets out a high degree of protection for policyholders in this event.

5.17 The existing policy terms and conditions give the Company the authority to close a with-profits fund if this will benefit the policyholders.

5.18 As the with-profits fund reduce in size and there are increasingly less policyholders over which to share the peaks and troughs of investment smoothing, it becomes increasingly more difficult to establish bonuses that are fair to all generations of with-profits policyholders.

5.19 The Scheme enables the Board of HLI to close or merge the with-profits fund if it reduces below the threshold size. The Scheme provides adequate protection for policyholders by requiring an Independent Actuary to provide an Opinion at the time of closure to the effect that any closure would not have a material adverse impact on the security and benefit expectations of the then holders of with-profits policies.

Policyholder Communication

5.20 I understand that this report and the reports of the Independent Actuary and the Heads of Actuarial Function for ALI, HLI and UHL will be made available to all policyholders via a dedicated Section 13 transfer website. I understand that there will be advertising in the relevant jurisdictions in the EU within which policies have been concluded. I am, therefore, comfortable with the proposed communications plan.

6 IMPACT OF THE PROPOSED SCHEME ON THE POLICYHOLDERS OF HLA

Policyholder Security

6.1 Table 6.1.1 below shows the pro-forma solvency position of HLA on a pre-Scheme basis, as well as the HLI position if the proposed transfer had taken place at 31 March 2017. Appropriate adjustments have been made for known events that have occurred since 31 March 2017 or that are expected to happen shortly such as execution of MSAs etc.

€m at 31/3/2017	HLA Pre – Scheme	HLI Post-Scheme	Impact of Scheme
Total Assets (A)	158.7	430.1	271.4
Best Estimate Liability	-99.2	-393.7	-294.5
Risk Margin	-1.1	-3.7	-2.6
Other Liabilities	-2.4	-11.3	-9.0
Total Liabilities (B)	-102.7	-408.8	-306.1
Own Funds (A-B)	56.0	21.2	-34.7
Solvency Capital Requirement	15.1	14.0	-1.1
Excess of Own Funds above SCR	40.9	7.2	-33.7
Solvency Coverage Ratio	371%	151%	

Table 6.1.1
Rounding effects may cause raw totals, as presented, not to sum exactly

6.2 The post-Scheme figures are based on the following assumptions:

- An MSA is introduced with HLSL (as approved by the board in October 2017) which applies to all Post-Scheme business with a charge of €300 per policy per annum. Additional fees will be paid to reflect external fees payable to third party providers for current HLI business and ALI business.
- The assets and liabilities transferred are as outlined in paragraph 5.2 above.
- The Technical Provisions of HLA post transfer reflect the MSA expenses and a level of expense per policy calculated as the anticipated direct expenses in 2019 divided by the number of expected policies in 2019.
- Other assumptions are consistent with those used for the pre-Scheme calculations for each of the entities including those outlined in paragraph 3.11 above.

6.3 The Scheme has a material impact on the size of HLA. The new larger HLI will have assets which are substantially higher than those in HLA and substantially higher numbers of policies.

6.4 There is a reduction in the Own Funds with the amount held in HLI lower than current Own Funds held in HLA. This will arise because:

- The current assets of HLA include HLI, ALI and UHL. This leads to Own Funds that are high relative to the SCR, though these are quite illiquid. Once the transfer is complete all of the business of HLI, ALI, UHL, and HLA will be in the same entity;
- It is assumed that HLA will retain a substantial amount of its assets after the Scheme is complete. The amount being transferred will be sufficient to allow HLI to meet its capital policy. Excess assets currently held in HLA will be retained in the Company post transfer.

6.5 There is a modest reduction in the SCR after completion of the Scheme, despite the addition of the HLI, ALI and UHL blocks of business to the current HLA block. The reduction occurs largely because a significant portion of the HLA SCR comes from the investment of its excess assets in the Oaktree ESL fund. Since these assets will not transfer to HLI, the relevant component of the SCR will disappear.

Risk Profile

6.6 The following table 6.1.2 sets out the risk profile for HLA pre- and post-Scheme as measured by the SCR:

SCR Component	HLA Pre-Scheme €m	HLI Post-Scheme €m
Market Risk		
- Interest Rates	0.0	0.2
- Equity Market	6.2	4.3
- Property	0.2	0.2
- Credit Spread	5.7	1.1
- Concentration	0.0	0.0
- Currency	1.7	3.0
- Less Diversification	-2.0	-2.1
Total Market Risk	**11.8**	**6.8**
Life Insurance Risks		
- Mortality	0.0	0.3
- Expense	1.0	2.9
- Lapse	3.0	3.9
- Catastrophe Risk	0.0	0.0
- Less Diversification	-0.4	-1.2
Total Life Insurance Risk	**3.6**	**6.0**
Health Insurance Risk	0.0	0.1
Counterparty Default Risk	1.2	3.2
Total Before Diversification	16.6	16.1
Diversification Benefit	-3.0	-4.5
Total Basic SCR	**13.6**	**11.6**
Operational Risk	1.5	2.5
Total Solvency Capital Requirement	**15.1**	**14.0**

Table 6.1.2
Rounding effects may cause raw totals, as presented, not to sum exactly

6.7 The main impacts worth drawing out are:

- The reduction in the spread risk to reflect the retention of the Oaktree ESL fund assets in HLA.
- The reduction in equity risk reflecting the fact that HLI, ALI and UHL will no longer be held as subsidiaries of HLA.
- The increase in other elements of the SCR in line with the increased scale of the business post-Scheme.

Projected Solvency

6.8 The following table, 6.1.3 sets out the projected solvency position of HLA pre-Scheme and HLI post-Scheme. The projection is based on financial information available at the date of this report and, for the post-Scheme figures, assumes that the Scheme came into effect on 31/3/2017. No dividends are included in either projection.

€m	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
HLA Pre-Scheme					
Own Funds	55.7	56.9	57.8	58.7	59.6
SCR	14.3	13.1	13.0	13.1	13.2
Solvency Coverage Ratio	390%	433%	445%	448%	451%
€m	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
HLI Post-Scheme					
Own Funds	20.5	20.7	20.8	20.9	20.9
SCR	12.1	9.8	8.8	8.1	7.5
Solvency Coverage Ratio	169%	211%	237%	258%	277%

Table 6.1.3
Rounding effects may cause raw totals, as presented, not to sum exactly

6.9 Some additional assumptions are required to project solvency in addition to those outlined in paragraph 6.2 above:

- The number of policies is expected to decline in line with the assumptions for mortality, lapse and maturity made in calculating the Technical Provisions.
- Unit funds are expected to grow at the risk free rate used to calculate the Technical Provisions for Solvency II.
- Investment returns for cash and government bonds are assumed to be in line with the risk free rate. Assets invested in the Oaktree European Senior Loan are assumed to earn 3% per annum above the risk free rate.
- Anticipated expenses in each year have been provided by the Company.
- Currency exchange rates are assumed to remain at current levels.

6.10 The progression of solvency coverage ratios pre- and post- Scheme both demonstrate an improving solvency position. The post-Scheme HLI position shows that Own Funds are expected to remain relatively stable while the SCR will decline in line with the business.

6.11 The solvency coverage of HLI immediately post transfer is 151% compared with 371% for HLA on a comparable basis. However it is worth noting that:

- A substantial part of the Own Funds of HLA is comprised of its investments in HLI, ALI, UHL and AB. These assets are not liquid. Were a solvency issue to arise in HLA it would be difficult to monetise these assets to make them available to meet policyholder benefits.
- The capital policy of HLA requires solvency coverage of 150%. It is open to the Board of HLA to reduce its capital to a level that is close to 150%, which would be similar to the HLI level and to the capital policy of HLA.
- HLA has held excess capital to fund acquisitions and with the expectation that the business of other entities would be transferred into HLA. The Scheme now removes this requirement and it is unlikely that HLA would continue to hold excess capital in the absence of the Scheme. It is possible that some of the excess capital in HLA could be distributed before scheme completion.

6.12 Over the longer term we can assume that the coverage in both companies would move towards the 150% level so that the protection is similar in both.

Stress Tests

6.13 The ORSA prepared by the Chief Risk Officer of HLI includes a number of stress tests performed on the post-Scheme balance sheet of HLI. These stress tests are summarised in the HoAF report prepared by the Head of Actuarial Function for HLI. The report shows the projected solvency position under eight different stresses covering the various risk exposures of the company. The report shows that the capitalisation of HLI and its proposed capital policy are adequate to protect the policyholders in each of these stresses.

Policyholder Reasonable Expectations

6.14 The Scheme will have no effect on the servicing arrangements for HLA policyholders. Consequently, the policyholders will continue to receive the same standard of service before and after the Scheme.

6.15 The Scheme has no impact on the rights and obligations of HLA policyholders and is not expected to have any tax consequences for them.

6.16 By merging the business with the business from HLI and ALI there is the possibility of additional investment options for the HLA policyholders. While no changes to investment options are planned at present, the Company will have the option of adding investment options to HLA policyholders that do not currently exist.

7 CONCLUSIONS

7.1 Having considered the impact of the proposed Scheme on HLA policyholders it is my opinion that:

- the Scheme will have no material adverse impact on the current and projected security of the benefits of HLA policyholders;
- the fair treatment and reasonable expectations of HLA policyholders will not be materially adversely affected by the Scheme; and,
- the Scheme will have no material adverse impact on the servicing arrangements for HLA policyholders.

Dermot Corry

Fellow of the Society of Actuaries in Ireland

Date

Appendix 2: Glossary

AB - Altraplan Bermuda Ltd, a subsidiary of Harcourt Life Assurance dac based in Bermuda

ALI - Augura Life Ireland dac

Diversification benefit: The reduction in the aggregate of individual SCRs caused by taking on a range of different risks. This reduction comes about because it is unlikely that all the bad outcomes will occur at the same time.

HoAF – Head of Actuarial Function

HLA - Harcourt Life Assurance dac

HLI - Harcourt Life Ireland dac

LCCGI – Life Company Consolidation Group Ireland Limited – the parent company of Harcourt Life Assurance dac

Own Funds: The value of an insurance undertaking's assets that are in excess of the amounts required to meet its policyholder's benefit payments and its ongoing expenses.

Solvency Capital Requirement ("SCR"): The amount of capital that an insurance undertakings is required to hold to ensure that it can meet its obligations to policyholders over the following 12 months with a 99.5% probability. This includes setting aside sufficient assets to meet policyholder obligations that extend beyond these 12 months.

The Scheme – the proposed transfer of the entire business of Harcourt Life Assurance dac, Augura Life Ireland dac and Union Heritage Life Assurance Company dac to Harcourt Life Ireland dac.

UHL - Union Heritage Life Assurance Company dac