Report of the Head of Actuarial Function of Harcourt Life Ireland 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:
The Board of Harcourt Life Ireland dac

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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

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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"), Augura Life Ireland dac ("ALI") and Union Heritage Life Assurance Company dac ("UHL") to Harcourt Life Ireland dac[1] ("HLI" or "the Company"). I have prepared this report in my capacity as Head of Actuarial Function ("HoAF") of HLI.

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 HLI. I have assessed whether the security and benefit expectations of HLI'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 HLA[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 theLCCG 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 HLI since 1 January 2016. I am also Head of Actuarial Function (PCF 48) of HLA 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 HLI, ALI, HLA 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 HLI. 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 HLA

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, HLA and UHL.
- Financial statements for HLI, ALI, HLA and UHL at end December 2016 together with Qualitative Reporting Templates at end March 2017 and end June 2017.
- Projected solvency positions for ALI, HLA and UHL showing post-Scheme positions of those companies. These projections have been performed by the relevant HoAFs under my direction. I have relied on their calculations and have not attempted to reproduce those calculations.
- Expense projections for HLI both before and after the Scheme.
- Details of the products and business of HLA, ALI and UHL.
- Asset details for HLA, 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 Scheme that is proposed for HLI 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 18th 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, October 31 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 HLI
- Policyholders of HLI
- The Heads of Actuarial Function of ALI, HLA 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 HLI under the terms and conditions of the letter of engagement dated 3 December 2015, our Statement of Work dated June 26 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 HLI.
- 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 HLI 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 is 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 HLI policyholders.

3 BACKGROUND INFORMATION ON HLI

Profile of Insurance Portfolio

3.1 HLI 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.

3.2 Over the years HLI has changed ownership in various transactions. The key events are as follows:

	Banco Santander acquires HLI through Abbey National plc	Resolution plc acquires HLI	Pearl Group acquires Resolution plc	Pearl Group changes its name to Phoenix Group Holdings	HLI's parent (HLI International Holdings) transfers its interest in HLI to PLL (a subsidiary of Phoenix Group Holdings)	PLL sells HLI to HLA
Timeline	Nov 2004	Sept 2006	May 2008	Mar 2010	Apr 2014	Dec 2015

3.3 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. As part of the strategic decision to close to new business, the Company entered into a Management Services Agreement (MSA) with Pearl Group Management Services (Ireland) Limited ("PGMSI"). PGMSI is a service provision company within Phoenix's group and manages the relationships between HLI and its external suppliers on a day to day basis in accordance with the MSA.

3.4 At the end of March 2017[3], HLI 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 VI	Capital Redemption	Investment Bonds	Single premium, whole of life (or 80 year) unitised with profits assurance plan	11	0.7	0.6	0.0	0.6
	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	29.5	0.1	29.6
	Capital Redemption	Investment Bonds	Single premium, whole of life (or 80 year) unit linked assurance plan	36	2.1	0.3	0.0	0.3
				190	**31.7**	**30.4**	**0.1**	**30.5**
Class III	Life Assurance	Investment Bonds	Single premium, whole of life (or 80 year) unitised with profits assurance plan	484	47.7	47.3	0.2	47.4
	Life Assurance	Selexis Investment Bond	Single premium whole life unitised with profits assurance policy	249	20.5	20.4	0.0	20.5
	Life Assurance	Selexis Savings Plan	Regular premium whole life unitised with profits assurance contract	6	0.2	0.2	0.0	0.2
	Life Assurance	Selexis Investment Mortgage	Regular premium whole life unitised with profits assurance contract	3	0.3	0.3	0.0	0.3
	Deferred Annuity	Select Retirement Plans	Pensions deferred annuity contract	357	9.9	10.2	0.0	10.2
	Life Assurance	Investment Bonds	Single premium, whole of life (or 80 year) unit linked assurance plan	1,009	105.6	102.2	2.1	104.3
	Life Assurance	Flexible Investment Plan	Regular premium whole of life unit linked assurance plan	64	2.5	2.5	0.0	2.6
	Life Assurance	Selexis Endowment Mortgage	Regular premium whole life unit linked assurance contract	1	0.0	0.0	0.0	0.0
	Deferred Annuity	Select Retirement Plans	Pensions deferred annuity contract	204	6.1	6.2	0.0	6.2
				2,376	**192.8**	**189.3**	**2.3**	**191.6**
Class I	Life Assurance	Guaranteed Self Assurance	Non-linked regular premium protection product	63	0.0	0.3	0.0	0.3
				63	**0.0**	**0.3**	**0.0**	**0.3**
Total				2,629	224.6	219.9	2.5	222.4

Table 3.1.1

3.5 The technical provisions are approximately 51% unit linked and 49% unitised with profits. The small block of term assurance business (guaranteed self assurance) accounts for only 0.1% of the technical provisions.

3.6 More detail on each of these products is given below.

- The Investment Bonds are whole of life assurance products. Both unit linked and unitised with profits versions of this product were sold. The principal benefit is the return on death of 101% of the greater of the surrender value of the plan and the original investment for ages at death lower than 75. For death at ages 75 or over, the return on death is simply 100.1% of the surrender value of the plan.
- The Selexis Investment Bond is a single premium whole of life unitised with profits policy. The benefit on death is 101% of the bid value of the units attaching to the policy. If the contract is invested in the With Profit Fund throughout then a guarantee is given that if the policy is encashed, fully or partially, at the tenth anniversary, the amount payable will be a minimum of 110% of the premium (or part thereof). Note that these guarantees are no longer applicable as all of the policies on HLI's books are in force for more than ten years.
- The Guaranteed With Profit Bond is a single premium, whole of life (or 80 year) unitised with profits assurance plan, with a guaranteed maturity value on specified anniversaries. The key feature of this product is the surrender value guarantee on the 15th policy anniversary. The surrender value at this policy anniversary is the larger of the unit value and 140% of the original premium. It is important to note that at 31 March 2017 there were 143 (€29m unit value) of these policies in force. The majority of these policies were sold in 2001 and 2002 meaning the bulk of the guarantees will no longer be active by end 2017. The remainder of the guarantees will expire by end of Q2 2018.
- The Selexis Savings Plan is a regular premium whole life assurance contract. This is a unitised with profits product. The premium term varies between 10 and 30 years. The benefit on death is 101% of the bid value of the units attaching to the policy. The surrender value is the bid value of the units attaching.
- The Selexis Investment Mortgage is a regular premium whole life assurance contract. This is a unitised with profits product. The premium term varies between 10 and 30 years. The benefit on death is the greater of 101% of the bid value of the units attaching to the policy and the guaranteed minimum death benefit under the policy.
- The Select Retirement Plans are deferred annuity contracts. The contract accepts regular and/or single premiums and can be a unit linked or unitised with profits policy. Benefits are linked to the value of Internal Linked Funds and/or to the Pension With Profits Funds. Under the late values version of this product there is a 5% maturity bonus paid on death or retirement provided at least ten years of regular contributions have been paid.
- The Flexible Investment Plan is a regular premium whole of life unit linked assurance plan. The principal benefit is the return on death of at least 101% of the surrender value of the plan. The policyholder may opt for additional protection benefits - including extra life assurance, critical illness and payment protection. If any of these options are exercised, they are charged for on a risk premium basis by monthly cancellation of units. A loyalty bonus of 0.5% of the value of units in force at that time will be added to the contract on the eleventh and subsequent policy anniversaries.
- The Guaranteed Self Assurance is a regular premium contract available for terms of between 5 and 30 years that provides life assurance and critical illness cover along with optional permanent total disability, waiver of premium, hospital cash, surgical cash and accident income benefits. It is available on a single life, joint life or dual cover basis. No benefit is payable on lapse or survival to the end of the term.

3.7 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.

3.8 With profit products are generally "in the money" so that the current account values of the policies are higher than the guarantees. The Solvency Capital for equity risk shown in paragraph 3.13 below reflects the risks to the Company of a major shock to equity markets and the consequent increase in the value of guarantees (note that the equity risk capital also reflects the impact on HLI of the reduced income that would be expected on unit linked and with profit funds after an equity fall).

3.9 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.

3.10 Due to the reinsurance arrangements, the risks are reduced. However it exposes the Company to counterparty credit risk. The reinsurance arrangements for the With-Profits funds and Unit Linked business 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 and therefore enhances benefit security for HLI policyholders. The Scheme will have no impact on the floating charge arrangements. HLI has a small number of Term Assurance policies which are subject to a quota share reinsurance arrangement with retention limits with Gen Re.

3.11 As part of the strategic decision to close to new business the Company entered a MSA with PGMSI. PGMSI is a service provision company within Phoenix's group and manages the relationships between HLI and its external suppliers on a day to day basis in accordance with the MSA. Under the terms of the arrangements between HLA and PLL for the acquisition of HLI, it was agreed that a 12-month service transitional plan be put in place from the date of acquisition to transfer four service packages to Harcourt Life Services Limited ("HLSL"), a subsidiary of LCCGI. HLSL will provide the services currently provided to HLI by PGMSI, including but not limited to policy administration services, investment administration services, actuarial services, and financial and accounting services.

3.12 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 PGMSI, by DST Financial Services Ireland Limited ("DST"), a third party supplier. These arrangements will be reviewed during 2017.

Capital Position

3.13 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 HLI as reported to the Central Bank of Ireland in the relevant Quantitative Reporting Templates.

	31/12/2016 €m	31/03/2017 €m
Own Funds	20.3	13.1
Solvency Capital Requirement	7.3	8.1
Excess	13.1	5.0
Solvency Coverage Ratio	280%	163%

Table 3.2.1

3.14 The board of HLI approved a dividend payment of €8m to its parent in early 2017. This dividend payment had not been made at end Quarter 1, 2017. However the Own Funds as reported were after deducing this foreseeable dividend. A number of other amendments are appropriate to arrive at a more appropriate measure of the capital position before the introduction of the Scheme:

- The board is expected to approve a revised Master Services Agreement with HLSL with a cost per policy of €300 per annum in addition to the payment to DST. This will increase the costs of business of HLI and should be reflected in the Technical Provisions of HLI.
- There were unusually high reinsurance balances due to HLI at end Q1 2017. A revised process has been implemented since that time which has substantially reduced the balances. This resulted in a reduction in the SCR.
- The technical provisions at end Q1 2017 in relation to guarantees were somewhat prudent, due to simplifications in the model. Model improvements since then have reduced the relevant technical provisions.
- HLI made some changes to its investment policy which lead to a change to its SCR.

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	10.5
Solvency Capital Requirement	7.2
Excess	3.3
Solvency Coverage Ratio	145%

Table 3.3.1

Capital Policy

3.15 HLI 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 HLI having a solvency capital ratio of less than 150%. The Company considers that this capital policy continues to be appropriate after completion of the Scheme.

3.16 Table 3.3.1 shows that at the end of March 2017 on a pro-forma basis, the solvency ratio for HLI was comfortably above the capital policy ratio of 133% and slightly below the level where additional dividends might be considered.

Risk Profile

3.17 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 3.14 above.

SCR Component	Solvency Capital
Market Risk	
- Interest Rates	0.0
- Equity Market	2.3
- Property	-
- Credit Spread	0.5
- Concentration	-
- Currency	1.0
- Less Diversification	-0.7
Total Market Risk	3.2
Life Insurance Risks	
- Mortality	0.2
- Expense	1.3
- Lapse	3.2
- Catastrophe Risk	0.0
- Less Diversification	-0.7
Total Life Insurance Risk	4.0
Counterparty Default Risk	1.9
Total Before Diversification	9.11
Diversification Benefit	-2.6
Total Basic SCR	6.5
Operational Risk	0.7
Total Solvency Capital Requirement	**7.2**

Table 3.4.1

3.18 The Company 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.

3.19 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.

3.20 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.

3.21 The investment of €2m in the Oaktree European Senior Loan fund leads to the Spread Risk shown.

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

3.23 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.

3.24 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.

3.25 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 3.30 and subsequent paragraphs below.

3.26 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.

3.27 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.

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	10.6	10.7	10.7	10.8	10.8
Solvency Capital Requirement	6.3	5.3	4.8	4.3	3.9
Excess	4.4	5.4	6.0	6.5	6.9
Solvency Coverage Ratio	170%	200%	225%	252%	280%

3.28 The pattern of improving solvency capital ratio results from the gradual run-off of the in-force HLI policies. As the policies run-off the capital requirement in respect of those policies falls away and hence the solvency ratio improves.

3.29 In practice, I would expect dividends to be paid to bring the solvency ratio down to 150% (as set out under Capital Policy above). 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

3.30 The Solvency II regulations which govern the solvency capital calculations of HLI 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.

3.31 In reality HLI 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.

3.32 To get a true picture of the capital that would be required to fulfil the current policies in HLI, 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 2026. The results are shown in the table below.

With Technical Provisions calculated on an Economic Basis	31/03/2017 €m
Own Funds	8.9
Solvency Capital Requirement	7.5
Excess	1.4
Solvency Coverage Ratio	119%

3.33 The table shows that HLI would be in a position to meet the requirements for the existing policyholders for at least 10 years with the existing level of capital. However it also shows that the level of capital would fall over time to below the level in the capital policy. This implies that the Company will be able to meet its obligations to policyholders but will have very little buffer over the longer term.

4 BACKGROUND INFORMATION OF TRANSFERRING COMPANIES

Profile of Insurance Portfolios

Augura Life Ireland dac

4.1 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.

4.2 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.

4.3 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.

4.4 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.

4.5 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.

4.6 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.

4.7 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.

4.8 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.

4.9 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 transfer. 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.

Harcourt Life Assurance dac

4.10 HLA, formerly IBRC Assurance Company, was acquired by LCCGI 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.

4.11 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.

4.12 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.

4.13 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 low risk nature.

4.14 In June 2017 HLA disposed of Harcourt Life International by transferring it to LCCGI.

4.15 HLA does not offer any options or guarantees on any of its policies. None of the policies contain investment return guarantees. HLA does not provide additional benefits payable on death and has no reinsurance arrangements. The oversight of HLA's business is carried out in Dublin by Harcourt Life Services Limited.

Union Heritage Life Assurance Company dac

4.16 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.

4.17 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.

4.18 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.

4.19 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.

4.20 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.

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

Summary

4.22 The following tables summarise the numbers of policies and the unit linked reserves of the business of each of the three companies that will transfer into HLI at the Effective Time.

Insurance Class	Type within Insurance Class	Product	Description	Policies In Force 31/03/2017	Funds under Management 31/03/2017 €ms
HLA					
Class III	Life assurance	Additional Voluntary Contribution Plan	Individual pension, recurring single premium, unit-linked plan	1	0.0
	Life assurance	Approved Minimum Retirement Fund	Individual pension, single premium, unit-linked plan	16	0.7
	Life assurance	Approved Retirement Fund	Individual pension, single premium, unit-linked plan	57	3.5
	Life assurance	Investment Bond	Whole of life, single premium investment, unit-linked contract	634	42.2
	Life assurance	Executive Retirement Plan	Individual pension, recurring single premium, unit-linked plan	42	33.5
	Life assurance	Personal Pension Plan	Individual pension, recurring single premium, unit-linked plan	85	6.3
	Life assurance	Buy-out Bond	Individual pension, single premium, unit-linked plan	9	0.5
				844	**86.7**
Class VII	Group pension funds	Investment Only Business (Trustee Investment Plan)	Group occupational pension, unit-linked plan	80	5.7
				80	**5.7**
Total HLA				***924***	***92.4***

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.

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 fund's portfolio bond sold through Augura in Sweden and Norway	118	8.5
	Life assurance	Adiameris	Single premium, whole of life, unit linked, dedicated fund's 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***

4.23 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.

4.24 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

Augura Life Ireland dac

4.25 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 the policyholder.
- Personal Portfolio Bond ("PPB") & Privileged Structure 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

Harcourt Life Assurance dac

4.26 The charges on the HLA policies mainly consist of:

- Fund management and fund administration charges deducted from each fund on a regular basis
- Transaction charges where a fee for service based charging applies
- Contribution related charges i.e. a reduction is applied to members' contributions prior to investment.

4.27 Fixed charges are increased every January be reference to the Consumer Price Index. Within its policy conditions, HLA reserves the right to change the fees or charges levied at any time. Policyholders are notified in advance of changes prior to being implemented.

Union Heritage Life Assurance Company dac

4.28 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

4.29 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.

4.30 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.

4.31 HLA is exposed to legal risks with regards to existing legal actions that may conclude with one or more findings against the company or that there may be future actions brought against the business. The company has closed a considerable number of outstanding, and primarily moribund, actions, during the reporting period.

4.32 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.

4.33 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.

4.34 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.

4.35 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.

4.36 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

4.37 The table below shows the breakdown of the Solvency Capital Requirement for each of the three Transferor entities. 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 HLI) are:

- Allowance for capital injections that are planned from HLA to ALI and UHL, in accordance with the board decisions in October 2017. 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	**ALI**	**HLA**	**UHL**
Market risk			
- Interest Rate	0.1	0.0	0.1
- Equity	0.3	6.2	0.0
- Property	0.0	0.2	0.0
- Credit Spread	0.6	5.7	0.0
- Concentration	0.0	0.0	0.0
- Currency	0.3	1.7	0.0
- Less diversification benefit	-0.4	-2.0	0.0
Total Market Risk	**1.0**	**11.8**	**0.1**
Life insurance risks			
- Mortality	0.0	0.0	0.0
- Life expenses	0.7	1.0	0.4
- Lapse	0.3	3.0	0.2
- Catastrophe	0.0	0.0	0.0
- Less diversification benefit	-0.1	-0.4	-0.1
Total Life Insurance Risk	**0.9**	**3.6**	**0.5**
Health underwriting risk	**0.0**	**0.0**	**0.2**
Counterparty Default risk	**0.3**	**1.2**	**0.3**
Total before diversification	2.2	16.6	1.1
Diversification benefit	-0.6	-3.0	-0.3
Total Basic SCR	**1.6**	**13.6**	**0.8**
Operational risk	**0.3**	**1.5**	**0.0**
Total Solvency Capital Requirement	**1.9**	**15.1**	**0.8**

Augura Life Ireland dac

4.38 ALI invests shareholder assets primarily in lower risk assets, such as cash and fixed interest securities. Approximately €2m of shareholder funds 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.

4.39 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.

4.40 ALI utilises reinsurance to manage its mortality risk exposure.

4.41 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).

4.42 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.

4.43 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.

Harcourt Life Assurance dac

4.44 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 investment in subsidiaries. The largest proportion of HLA's shareholder assets are held in the subsidiary investments of HLI, ALI, Altraplan Bermuda and UHL.

4.45 The HLA transferring business is made up of unit-linked investment and pension products, investing in property, bond, equity and cash assets. HLA is exposed to various market risks as a result.

4.46 HLA exposure to equity risk mainly comes from the valuation of the subsidiary investments in HLI, ALI, AB and UHL, as well as direct equity investments through the company's product offering. Credit spread risk is the largest component of the market risk SCR for HLA, resulting from direct investment in the Oaktree ESL fund.

4.47 HLA's currency risk arises from non-Euro denominated shareholder bank deposits and subsidiary holdings that have a significant UK Sterling currency exposure, as well as US Dollar exposure from the valuation of the AB subsidiary in US Dollar.

4.48 HLA's expense risk arises from the costs it incurs directly and service charges paid to HLSL.

4.49 For HLA, decreases in surrender rates result in a worsening solvency position due to the ongoing costs of maintaining this business in run off.

4.50 HLA is exposed to counterparty risk and mitigates these risks by dividing shareholder investments, including those of its subsidiary companies, over a number of sovereign lenders, banks and collective investment funds.

4.51 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 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 is not material.

Union Heritage Life Assurance Company dac

4.52 UHL has not been subject to Solvency II to 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.

4.53 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-.

4.54 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.

4.55 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.

4.56 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.

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

4.58 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.

4.59 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.

4.60 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.

4.61 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 ALI.

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 ALI, HLA and UHL to HLI. The Scheme provides that:

- All the ALI, HLA 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 ALI, HLA and UHL in respect of each transferring policy,
- All policyholders will be entitled to the same rights with HLI as were available to them with ALI, HLA and UHL,
- All assets backing the technical provisions of the ALI, HLA 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 shareholder's assets of HLA will transfer to ensure the HLI has sufficient assets to meet its Capital Policy, as set out in section 3. 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 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.

5.5 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.

5.6 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.

5.7 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 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.

5.10 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.

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

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

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 Company 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 HLI, HLA, ALI and UHL policyholders 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, HLA and UHL will be made available to all policyholders via 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 HLI

Policyholder Security

6.1 Table 6.1.1 below shows the pro-forma solvency position of HLI 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 dividend payments, execution of MSAs etc.

€m at 31/3/2017	Pre – Scheme	Post-Scheme	Impact of Scheme
Total Assets (A)	241.2	430.1	188.8
Best Estimate Liability	-223.0	-393.7	-170.8
Risk Margin	-2.1	-3.7	-1.6
Other Liabilities	-5.7	-11.3	-5.6
Total Liabilities (B)	-230.8	-408.8	-178.1
Own Funds (A-B)	10.5	21.2	10.8
Solvency Capital Requirement	7.2	14.0	6.8
Excess of Own Funds above SCR	3.3	7.2	4.0
Solvency Coverage Ratio	145%	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 which applies to all post-Scheme business with a charge of €300 per policy per annum (as approved by the board in October 2017). Additional fees will be paid to reflect external fees payable to third party providers for current SMI business and ALI business.
- The assets and liabilities transferred are as outlined in paragraph 5.2 above.
- The Technical Provisions of HLI 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.

6.3 The Scheme has a material impact on the size of HLI, almost doubling its assets, liabilities and solvency capital requirement. This has the benefit of increasing HLI's scale enabling it to spread its fixed costs over a larger book of business. Furthermore, the increased scale brings a more diverse portfolio of risks to HLI. Excess capital improves by more than €3.0m which enables HLI to withstand bigger shocks to its financial position. The proposed Scheme has no material impact on solvency coverage ratio and the Scheme is expected to leave HLI with sufficient assets to meet its capital policy.

Risk Profile

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

SCR Component	Pre-Scheme €m	Post-Scheme €m
Market Risk		
- Interest Rates	0.0	0.2
- Property	-	0.2
- Equity Market	2.3	4.3
- Credit Spread	0.5	1.1
- Concentration	-	0.0
- Currency	1.0	3.0
- Less Diversification	-0.7	-2.1
Total Market Risk	3.2	6.8
Life Insurance Risks		
- Mortality	0.2	0.3
- Expense	1.3	2.9
- Lapse	3.2	4.0
- Catastrophe Risk	0.0	0.0
- Less Diversification	-0.7	-1.2
Total Life Insurance Risk	4.0	6.0
Health Insurance Risk	0.0	0.1
Counterparty Default Risk	1.9	3.2
Total Before Diversification	9.11	16.1
Diversification Benefit	-2.55	-4.5
Total Basic SCR	6.5	11.6
Operational Risk	0.7	2.5
Loss absorbing capacity of deferred taxes		-0.1
Total Solvency Capital Requirement	**7.2**	**14.0**

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

6.5 The main impacts worth drawing out are:

- The acquisition of Altraplan as part of the proposed Scheme increases the Currency and Equity Risk and hence total market risk as a proportion of the SCR. These are proxies for the risks that might arise from a look through to the value of Altraplan. The company is small and relatively low risk.
- The lapse risk is driven by the prospect of a Mass Lapse. While this is significant for the current HLI business it is not significant for all lines of business.
- Expense risk increases marginally as a % of the total SCR. This reflects the overall expected expense level of the business.
- The Operational Risk is directly related to volumes of business and particularly expense levels. There is a notable increase in total expenses in 2017 post merger which leads to the increase.

6.6 However, these differences are not material and overall the balance of risks faced by HLI between the various classes is largely unaffected by the Scheme.

Economic Capital Position – post-Scheme

6.7 The Solvency II regulations which govern the solvency capital calculations of HLI 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.

6.8 In reality HLI is closed to new business and expects to remain closed. Therefore, even after the implementation of the 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.

6.9 To get a true picture of the capital that would be required to fulfil the policies in HLI after completion of the Scheme, 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 2026. The results are shown in the table below.

	31/03/2017 €m
Technical Provisions calculated in accordance with Solvency II	397.5
Technical Provisions calculated on an Economic Basis	401.5
Increase in Technical Provisions	4.0

6.10 The table shows that the Technical Provisions would increase by €4.0m if an economic basis were used to determine these liabilities. This is considerably lower than the post-Scheme Own Funds of €21.2. This implies that the Company will be able to meet its obligations to policyholders even if there are no reductions in expenses or future business transfers.

Projected Solvency

6.11 The following table, 6.1.3 sets out the projected solvency position of HLI pre- and 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
Pre-Scheme					
Own Funds	10.6	10.7	10.7	10.8	10.8
SCR	6.3	5.3	4.8	4.3	3.9
Solvency Coverage Ratio	170%	200%	225%	252%	280%
€m	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
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

6.12 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.

6.13 The progression of solvency ratios pre- and post-Scheme are not materially different. As mentioned above the absolute size of surplus assets available to HLI increases as a result of the Scheme which makes it more robust to adverse events, notwithstanding the increase in the SCR.

6.14 The solvency ratio improves as the business runs down and the associated capital requirements reduce. While this presents an improving position, the capital policy set out above suggests that surplus assets above the 150% ratio will be paid as dividends. Therefore it is likely that the solvency ratio will be approximately 150% in all future years, irrespective of whether the Scheme goes ahead or not. However the improving solvency position (pre-dividends) demonstrates that the dynamics of the Company naturally lead to an improving position.

Stress Tests

6.15 To assess the adequacy of the proposed capital level for HLI post Scheme, the Company is in the process of completing an ORSA. This involved the recalculation of the capital position for each of the next 5 years following a range of stresses. All stresses were applied to the post-Scheme projections. These stresses were:

- A 10% permanent increase in the expense base of the Company, including the costs under the Master Services Agreement.
- An assumption of a major one off immediate increase in the MSA fee from €300 per policy to €420 per policy per annum.
- A 33% permanent increase in the lapse rate for all policies.
- A 33% permanent reduction in the lapse rate.
- The asset values of those assets in the Oaktree ESL fund fall by 18% and all assets in that fund are downgraded by one notch – e.g. from BBB to BB.
- An immediate 30% fall in equity markets.
- A 20% depreciation in the Sterling and the Dollar against the Euro.
- There is an immediate loss of 10% of all cash holdings as a result of a counterparty default

6.16 These stresses were chosen to represent the most significant risks facing the Company post Scheme. They were also chosen to represent at least a 1 in 25 year event to reflect the Company's desire to maintain capital at that level.

6.17 For each stress, the tables below show the Own Funds, SCR and Solvency Coverage Ratio for each of the next 5 years.

6.18 Table 6.1.4 below shows the Own Funds for each stress:

	Own Funds €m					
Stress	**31/03/2017**	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
Base Case	21.2	20.5	20.7	20.8	20.9	20.9
Expense +10%	18.4	17.5	17.8	18.1	18.0	17.9
MSA of €420	16.9	16.3	16.6	16.7	16.7	16.6
Lapse +33%	22.8	21.9	22.1	22.2	22.1	22.0
Lapse – 33%	18.4	17.7	18.1	18.3	18.5	18.6
Oaktree stress	20.5	19.7	19.9	20.1	20.1	20.1
Equity – 30%	18.8	18.3	18.5	18.6	18.7	18.6
Sterling/Dollar –20%	18.0	17.4	17.6	17.7	17.7	17.6
10% cash default	17.9	17.1	17.3	17.5	17.6	17.6

Table 6.1.4 Own Funds adjusted for each Stress

6.19 The table demonstrates that the most significant changes to the Own Funds are:

- An immediate fall in Own Funds of approximately €4.3m when there is a substantial increase in the cost of administration under the master services agreement. This arises due to the increase in the Company's technical provisions caused by the change in the expense base.

6.20 The other stresses lead to relatively minor impacts on Own Funds (reductions ranging from €0.7m to €3.4m). The stress with an increase in lapses actually leads to an increase in Own Funds. A stress with a reduction in lapses is also shown.

6.21 While each stress has an immediate impact on the Own Funds, the pattern after this immediate impact is very similar to the base case.

6.22 Table 6.1.5 below shows the SCR for each stress:

	SCR €m					
Stress	**31/03/2017**	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
Base Case	14.0	12.1	9.8	8.8	8.1	7.5
Expense +10%	14.5	12.4	10.0	8.9	8.2	7.6
MSA of €420	14.3	12.3	10.0	8.9	8.2	7.6
Lapse +33%	13.1	10.9	8.5	7.6	7.0	6.5
Lapse – 33%	15.8	14.1	11.9	10.8	10.1	9.5
Oaktree stress	14.0	12.0	9.7	8.7	8.0	7.4
Equity – 30%	13.8	12.0	9.7	8.7	8.1	7.5
Sterling/Dollar –20%	12.7	10.9	8.8	7.8	7.2	6.7
10% cash default	13.9	12.0	9.7	8.7	8.0	7.5

Table 6.1.5 SCR adjusted for each Stress

6.23 The table demonstrates that the most significant changes to the SCR are:

- An increase of €1.8m in the SCR when there is a substantial fall in lapses. Lower lapses generally magnify the impact of the various elements of the SCR leading to an overall increase.
- A fall of €1.3m in SCR when there is a 20% fall in Sterling and the Dollar. This reduction arises because asset values are lower and because there is a fall in the present value of future profits after the currency change.

6.24 The other stresses lead to relatively minor impacts on SCR with some small increases and some small reductions.

6.25 Once again the pattern of the SCR post stress is broadly unchanged.

6.26 Table 6.1.6 below shows the Solvency Coverage Ratio for each stress (before consideration of dividends which would be likely to bring solvency coverage back towards 150% where it is above this level):

	Solvency Coverage Ratio %					
Stress	**31/03/2017**	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
Base Case	151%	169%	211%	237%	258%	277%
Expense +10%	127%	141%	178%	203%	218%	234%
MSA of €420	118%	132%	166%	187%	203%	218%
Lapse +33%	174%	201%	260%	292%	317%	339%
Lapse – 33%	116%	126%	152%	169%	183%	196%
Oaktree stress	147%	164%	205%	231%	251%	270%
Equity – 30%	136%	153%	190%	213%	231%	248%
Sterling/Dollar –20%	142%	160%	200%	225%	245%	262%
10% cash default	128%	142%	178%	201%	218%	235%

Table 6.1.6 Solvency Coverage Ratio adjusted for each Stress

6.27 The table demonstrates that the most significant changes to the Solvency Coverage Ratio are:

- A 35% immediate fall in the Solvency Coverage Ratio as a result of the stress where lapses fall by 33%. This arises from the fall in Own Funds and rise in SCR in this scenario.
- A 33% immediate fall in the Solvency Coverage Ratio as a result of the stress where the MSA fee increases to €420 per policy.

- A 24% immediate fall in the Solvency Coverage Ratio for a 10% permanent increase in expenses.
- A 23% immediate fall in the Solvency Coverage Ratio where there is a counterparty default leading to a loss of 10% of cash holdings.

6.28 Importantly in all cases the capital level remains above 100% and so the Company continues to have enough capital to cover the Technical Provisions and also to meet the capital requirements set out in legislation.

6.29 The projections indicate that the capital policy of HLI is adequate and therefore that policyholders will be adequately protected after the completion of the Scheme.

Policyholder Reasonable Expectations

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

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

6.32 In creating a larger book of business, the Scheme acts to reduce pressure on discretionary policy charges. This is in the interests of policyholders.

6.33 The Scheme enables the Board to close or merge the with-profits fund if its liabilities fall below €50m. 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.

7 CONCLUSIONS

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

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