UNION HERITAGE LIFE ASSURANCE COMPANY DAC

Proposed Transfer of the Life Insurance Business of Harcourt Life Assurance dac, Augura Life Ireland dac, and Union Heritage Life Assurance Company dac to Scottish Mutual International dac

Head of Actuarial Function Report

Prepared by

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1 Introduction

I have been asked as Head of Actuarial Function of Union Heritage Life Assurance Company dac ("UHL") to comment on the Scheme of Transfer by which it is proposed to transfer the entire business of UHL to Scottish Mutual International dac ("SMI").

In addition to transferring the UHL business, this Scheme of Transfer will simultaneously transfer the business of Augura Life Ireland dac ("ALI") and Harcourt Life Assurance dac ("HLA") to SMI.

The High Court is required to sanction any proposal to transfer the long-term business of an authorised insurance company. A report from an Independent Actuary must be presented to the High Court as part of the Scheme of Transfer.

It has become general practice for the Independent Actuary report to be accompanied by reports from the Head of Actuarial Function. For this Scheme of Transfer, the Head of Actuarial Function reports cover both, the transferring entities - ALI, UHL and HLA - and the receiving entity SMI.

In this report, the term "Scheme" is used to refer to the Scheme of Transfer, which is the legal document outlining the terms for the proposed transfer.

This report considers the impact on the holders of UHL policies of the proposed Scheme. Further reports consider the impacts for the policyholders of ALI, HLA and SMI.

In considering the effects of the Scheme on UHL policyholders, this report pays particular regard to the security of their benefits, their fair treatment and their reasonable expectations.

The documents and other information that I have relied upon in preparing this report are set out in the Appendix 1. This report is based on information available to me at, or prior to, 7 August 2017.

I am a Fellow Member of the Institute and Faculty of Actuaries in the UK and the Society of Actuaries in Ireland having qualified in 2003. I have been the Head of Actuarial Function (PCF 48) and CRO (PCF 14) of UHL since 15th March 2017.

I am an employee of Harcourt Life Services ltd, a company within the same insurance group, LCCG Ireland ltd as UHL. I have no UHL insurance policies nor personal investments in the LCCG group or any company within it.

Having considered the impact of the proposed Scheme, it is my opinion that it will have no material impact on the security or benefit expectations of the UHL policyholders.

2 Background to the Scheme

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

In March 2015, LCCG acquired HLA, formally known as the IBRC Assurance Company ("IBRCAC"), 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 the remaining property assets by 2018. The sale of the properties is expected to complete in 2018 and, in the absence of the Scheme, HLA expects to run off its existing business in a manner consistent with the original plan.

In December 2015, HLA acquired the entire share capital of SMI from Phoenix Life Limited ("PLL"). SMI began trading in December 1995 and its international products are geared towards international corporate, private (high net worth) individuals and trustee clients. 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.

In July 2016, HLA acquired Harcourt Life International dac (initially known as Norwich Union International Ltd, and later rebranded Aviva Life International Ltd in 2009). Harcourt Life International dac was part of a separate Section 13 portfolio transfer in June 2017 and was renamed Utmost Ireland dac (UI At the end of June 2017 HLA transferred, by way of in-specie transfer, the entire issued share capital of UI to its parent LCCG I.

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.

In December 2016, HLA acquired Altraplan Bermuda ("AB"). This book of business, which is a Bermudan based insurer regulated by the Bermudan Monetary Authority, will not be part of the Scheme transfer and will sit directly under the SMI post Scheme as indicated in the chart below.

Union Heritage Life Assurance Company dac ("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. Effective 9 March 2017, UHL was acquired by HLA. 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.

In January 2016, Harcourt Life Services Limited ("HLSL") was established to provide management services to HLA Group companies in Ireland. All HLA, and subsequently in December 2016, ALI staff were transferred to HLSL in order to provide services to the life insurance companies within the LCCG Ireland group.

LCCG I 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.

The intention is to create in Ireland a closed book consolidation business, SMI, together with an open book business specialising in writing overseas life assurance bonds business. At the end of June 2017, Harcourt Life International dac, another company within the LCCG I group, acquired the overseas bonds business of AXA Life Europe, re-opened to the writing of new business and was renamed Utmost Ireland dac ("UI"). This created the open book overseas bonds business. The proposed Scheme, that is the subject of this report, aims to bring together the closed book businesses of the LCCG I group.

The proposed Scheme will transfer the ALI, HLA and UHL business into SMI. Following the Scheme, SMI will become the closed book consolidation business within the LCCG I group. It is proposed that SMI will be renamed Harcourt Life Ireland dac ("HLI") later in 2017.

The costs of the Scheme will be met by Harcourt Life Services Ltd, a subsidiary of LCCG I 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, SMI has sufficient assets to meet its capital policy and internal capital objectives. None of the costs of the Scheme will be passed on to UHL policyholders.

The chart below illustrates the final post Scheme position of the companies under LCCG Ireland.

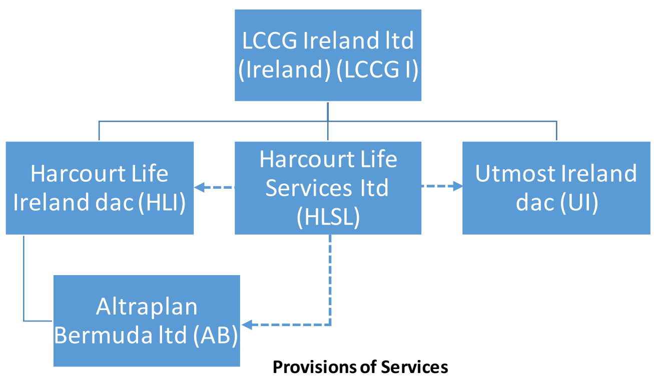

Table 2.1

3 Information on UHL

3.1 Profile of Insurance Portfolio

UHL commenced writing policies in August 2012. UHL has primarily written individual term, whole life and accident insurance 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, which includes collecting premiums and the resolution and payment of claims until all rights and obligations under the in-force policies are extinguished or expire based on the terms of the agreements with policyholders.

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. However, LCCG I intend to allow the UHL in-force policies to continue until their natural expiry, i.e. to contractual term or claim payment (rather than proceed with plan submitted by the previous owners to the CBI). UHL has applied to have its non-share capital recognised as Tier I capital for Solvency II purposes. It will begin reporting under S II on receipt of the confirmation.

The figures shown below have been determined on Solvency II and on the basis that the policies continue to their natural expiry.

At the end of 31 March 2017, UHL had the following mix of policies in-force:

Insurance Class	Product	Description	Policies In Force	Best Estimate Liability (1) €ms	Risk Margin (2) €ms	Total Gross Liabilities (1)+(2) €ms
Class I	Whole Life	Regular premium paying policy providing cover on the insured's death. A cash value is payable on surrender	112.0	-	-	-
	Term	Regular premiums are payable during the policy term and cover (lump sum or monthly benefits) is provided if the insured dies during the policy temr. Conversion options are available.	45.0	-	-	-
	Accident	Cover is provided for dismemberment or death as a result of an accident.	89.0	-	-	-
			246.0	**2.1**	**0.8**	**2.9**
Total			**246.0**	**2.1**	**0.8**	**2.9**

Table 3.1.1

Note:Some of the Whole Life and Term business includes an Accidental Death Benefit.

Accidental Death cover varies by cause of death. Double the sum assured is paid where death is as a result of a car accident and five times the sum assured is paid where death is due to an accident if the policyholder is a passenger on a “common carrier”.

For Term Assurance 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.

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.

All products are non-participating and there are no reinsurance arrangements in place on any of UHL's products. Of the 112 whole life policies, the 2 largest have a sum assured of approximately €200,000 which includes Accidental Death cover. Any claim arising out of these policies is not expected to jeopardise UHL's solvency position or its ability to meet its policyholder obligations.

3.2 Capital Position

UHL had been exempted from determining their capital requirements under the European Union (Insurance and Reinsurance) Regulations 2015 (the 2015 Regulations) Standard Formula basis ("SII SF"). This exemption was given on the basis that UHL's in-force policies would fall within the parameters of the "Run-Off Plan" as submitted to the CBI by Torchmark Corporation group.

As a result of the exemption given to UHL by the CBI, the required solvency margin was calculated in accordance with the European Communities (Life Assurance) Framework Regulations 1994 ("Solvency I") which is subject to a minimum amount of €3.7 million known as the Minimum Guarantee Fund (or "MGF").

At the date of this report discussions are underway with the CBI in relation to UHL reverting to the Solvency II basis of regulation. UHL is expected to revert to the Solvency II basis prior to the Scheme coming into effect, and will remain as such if the Scheme does not come into effect. Consequently, throughout this report UHL is assumed to be subject to the Solvency II capital requirements.

UHL's capital includes an €11m capital contribution made by its former parent Torchmark. Confirmations in relation to the status of this capital have been received from Torchmark. In Ireland capital contributions do not ordinarily automatically qualify as Tier 1 solvency II capital. To qualify as Tier 1 capital approval must be obtained from the CBI. The process of gaining approval is currently underway. I see no reason as to why this capital cannot be regarded as Tier 1 it being fully loss absorbing and free from encumbrances. Therefore, throughout this report I have assumed that this €11m capital contribution is Tier 1 capital for the purposes of Solvency II. In any case, full approval is expected to be granted for Tier 1 status before the Scheme comes into effect in March 2018.

The table below sets out the capital position under the Solvency I and estimated Solvency II bases:

€m at 31/03/2017	Solvency I	Solvency II
Own Funds	4.62	3.12
Solvency Margin/Solvency Capital Requirement (SCR)	0.06	0.78
Minimum Capital Requirement (MCR)	3.70	3.70
Excess over SCR	4.55	2.34
Excess over MCR	0.92	-0.58
Solvency Coverage Ratio SCR(%)	7121%	401%
Solvency Coverage Ratio MCR(%)	125%	84%

Table 3.2.1(a)

The table shows that for UHL the Solvency II regime is more onerous than Solvency I and that had it been subject to Solvency II at the end of March 2017 is likely to have had insufficient assets to meet the minimum floor of €3.7m at that time.

The end March figures presented above are based on an estimate of the expense base that would have applied to UHL at that time. We now have a clearer picture in relation to how the servicing arrangements, and therefore associated service fees, will vary once UHL is fully integrated into the LCCG I group. Following approval of a new MSA arrangement effective from 1/1/2018 by the UHL and HLSL Board committees at the October 2017 meetings, UHL will pay HLSL a fee of €300 per annum per policy, increasing annually in line with inflation, for provision of the full range of services UHL requires.

As a result of the approval of the revised services arrangements, UHL will suffer an increase in servicing costs. The move to Solvency II basis and the revised servicing arrangements result in UHL requiring a capital contribution to enable it to continue to meet its capital policy commitments (see section 3.3 below). The HLA Board formally approved a capital contribution of c €1.9m to UHL at the October 2017 meeting, the payment will be made in advance of the 2017 year end. Allowing for:

- the updated servicing fee arrangements as outlined above,
- the approved capital contribution (c €1.9m), and
- assuming that the Solvency II requirements applied to UHL at the end of March 2017.

results in the following estimate for the restated end March 2017 position:

	31/03/2017 €m
Own Funds	5.00
Solvency Capital Requirement (SCR)	0.78
Minimum Capital Requirement (MCR)	3.70
Excess over SCR	4.22
Excess over MCR	1.30
Solvency Coverage Ratio SCR(%)	641%
Solvency Coverage Ratio MCR(%)	135%

Table 3.2.1(b)

3.3 Capital Policy

UHL's calculated Solvency Coverage Requirement ("SCR") is much lower than the Minimum Capital Requirement ("MCR") which has an absolute floor of €3.7 million for life insurance business. Furthermore, since the business is in run-off the SCR will never exceed the MCR. LCCG I made a commitment to the CBI, on acquiring UHL, that it would until such time as a Section 13 Scheme takes effect, maintain Own Funds of at least 135% of the MCR. This is discussed further in Section 6.1.

At present this commitment to the CBI represents the Capital Policy for UHL and it appropriate for the period up to the planned Scheme becomes effective and the business transfers to SMI. However, if UHL does not transfer to SMI then the UHL Board will need to establish a Capital Policy appropriate for these new circumstances.

3.4 Risk Profile

The following table sets out the key risks as at 31 March 2017 measured under the Solvency II framework:

SCR Component	Solvency Capital
Market Risk	
- Interest Rates	0.1
- Equity Market	0.0
- Property	0.0
- Credit Spread	0.0
- Concentration	0.0
- Currency	0.0
- Less Diversification	0.0
Total Market Risk	0.1
Life Insurance Risks	
- Mortality	0.0
- Expense	0.4
- Lapse	0.2
- Catastrophe Risk	0.0
- Less Diversification	-0.1
Total Life Insurance Risk	0.5
Health Insurance Risk	0.2
Counterparty Default Risk	0.3
Total Before Diversification	1.1
Diversification Benefit	-0.3
Total Basic SCR	0.8
Operational Risk	0.0
Total Solvency Capital Requirement	**0.78**

Table 3.4
The above figures are post revised MSA & capital injection

Market risk is the risk of adverse financial impacts resulting, directly or indirectly, from fluctuations in interest rates, foreign currency exchange rates, equity and property prices.

The market risk module is negligible for UHL as the majority of the assets are invested in cash (66%) and Government bonds AAA rated (31%). There is a small investment (€0.1 million) in corporate bonds with a counterparty credit rating of AA-. Each component is discussed below.

The interest rate risk component attracts a charge on the reserves held for the protection business underwritten by UHL. Changes in the interest rate impacted on the discounting applied to the reserves. As cash does not attract an interest rate charge and the government bonds currently held will expire in October 2017 there was a small impact of €0.08 million on asset values following a reduction to interest rates.

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 with the local currency.

The Government and Corporate bonds are AAA and AA- rated respectively and these do not attract capital charges with respect to credit risk, hence, the spread risk is very low as a result of the favourable credit ratings of the bonds concerned. The Sovereign government bonds will expire in October 2017, further reducing the charges on this asset class.

At the moment, UHL's cash is deposited with a single banking partner. UHL plans to divide the cash deposits across a number of banks.

The counterparty default risk with respect to receivables is the most significant portion of the SCR at €0.27 million.

The Life Module is the biggest contributor to the capital requirements under Solvency II.

The mortality risk is relatively low and will reduce further over time as the book and risks associated with the business runs off.

Currently, the expense component is €0.39 million and this is expected to increase in pre-scheme projections. UHL is a closed book of business with fixed expenses forming a significant portion of its total expense base. Following the completion of the Section 13 portfolio transfer, some economies of scale are expected to emerge which should reduce the expense risk exposure for UHL.

The lapse component is the second largest component under the Life Module for UHL. The recent ownership changes and uncertainty could lead to increased lapse risk on the business. Lapse risk is monitored on a monthly basis by HLSL management.

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 SMI, HLA and HLI, however, the capital implication is relatively insignificant due to the small size of the UHL business.

UHL is exposed to Health shocks and the capital charge associated with this risk is higher than for mortality component. The average outstanding term is short and the benefits offered are relatively low so the capital charge should continue to reduce over time.

3.5 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	5.0	5.0	5.1	5.1	5.1
Solvency Capital Requirement (SCR)	0.78	0.75	0.72	0.70	0.68
Minimum Capital Requirement (MCR)	3.7	3.7	3.7	3.7	3.7
Excess over SCR	4.2	4.3	4.4	4.4	4.4
Excess over MCR	1.3	1.3	1.4	1.4	1.4
Solvency Coverage Ratio	641%	670%	700%	729%	756%
Solvency Coverage Ratio	135%	136%	137%	138%	138%

Table 3.5.1
The above figures are post revised MSA & capital injection

The projected capital position is cognisant of the investment policy changes, the increased per policy expenses and increased claims experience as a result of anti-selection on the products offering renewable and conversion options. The projected capital position is based on the assumption that the current book runs-off naturally, with some allowance for renewals and conversions being taken up.

The pattern of a reducing solvency capital requirement (SCR) results from the gradual run-off of the in-force UHL policies while the minimum MCR of €3.7m is maintained. The capital position has been projected to the end of 2021. UHL is expected to continue to meet the capital policy commitments to the CBI with an MCR ratio of 135% on a pre-scheme basis.

4 Information on SMI and Other Transferring Businesses

4.1 Profile of Insurance Portfolio

Harcourt Life Assurance dac

Harcourt Life Assurance dac ("HLA"), formerly IBRC Assurance Company ("IBRCAC"), 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.

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 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 the company expects to run off its existing business in a manner consistent with the original plan.

HLA acquired the entire share capital of SMI 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, AB in December 2016 and in March 2017, HLA acquired the entire share capital of UHL from American Income Life Insurance Company. In June 2017, HLA transferred by way of in-specie dividend, it's entire holding of Harcourt Life International dac to LCCG I.

Altraplan is a small unit linked business selling to high net worth investors from Bermuda. In the post scheme calculations, the risks inherent in Altraplan are not investigated but rather the business is treated as an equity investment in light of its small size and low risk nature.

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 HLSL.

Scottish Mutual International dac

LCCG acquired SMI, via their Irish subsidiary HLA, in December 2015 from PLL. The company began trading in December 1995. 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.

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 SMI and its external suppliers on a day to day basis in accordance with the MSA.

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

SMI's technical provisions are approximately 51% unit linked and 49% unitised with-profits. It's small block of term assurance accounts for only 0.1% of the technical provisions.

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

- A Market Value Adjustment (MVA) free guarantee on the SMI 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.

SMI has in place with PLL reinsurance arrangements for the With-Profits and Unit Linked business of SMI. These are supported by a floating charge on the assets of PLL. The floating charge has the effect of ranking SMI With-Profits policyholders alongside other PLL With-Profits policyholders. SMI has a small number of term assurance policies, which are subject to a quota share reinsurance arrangement with retention limits with Gen Re.

Within its policy conditions, SMI 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.

At the time of this report, SMI 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 International Financial Data Services ("IFDS"), a third party supplier.

Augura Life Ireland dac

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.

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 later in 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 of NPG Wealth Management Group incorporated in Gibraltar.

Although, ALI has not formally agreed a run-off plan with 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.

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.

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.

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.

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.

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.

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.

Summary

The following table summarises the numbers of policies and the unit linked reserves of SMI and the business that will transfer into SMI as at 31 March 2017.

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
	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
SMI					
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
	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
				63	**0**
Total SMI				***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 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
				148	**0**
Total ALI				***2,367***	***66.7***

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

All of the transferring policies are single and regular premium policies. None of the policies include onerous investment guarantees or death benefits. The With-Profits product from SMI offers a surrender value guarantee on its 15th policy anniversary. The remaining policies with these guarantees will reach their guarantee date by mid 2018. 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 Assurance dac

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.

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.

Scottish Mutual International dac

Within its policy conditions, SMI 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

The charges on the ALI policies mainly consist of:

- Under the Perfect Combination Plan 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.
- PPB & 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 PSB, 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
- LGL: There are no explicit charges levied on this product. The premiums payable under the policies include costs for all benefits, charges, and expenses

Other Features

None of the existing HLA, ALI and UHL policies contain any investment return guarantees.

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.

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.

The combining of ALI, HLA and UHL, as well as SMI, 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.

SMI (and ALI) 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.
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.

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 SMI is expected to lead to expense savings, reducing the pressure to increase future discretionary charges.

4.2 Risk Profile of Insurance Portfolio

The table below shows the breakdown of the Solvency Capital Requirement for SMI, HLA and ALI. 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 UHL) 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.

SCR Components	HLA	Pre Scheme €m SMI	UHL
Market Risk			
- Interest Rates	0.3	2.5	0.1
- Equity Market	6.3	2.3	0.3
- Property	0.2	0.0	0.0
- Credit Spread	5.7	0.5	0.6
- Currency	1.7	1.0	0.3
- Less Diversification	-2.0	-0.7	-0.4
Total Market Risk	**11.9**	**3.2**	**1.0**
Life Insurance Risks			
- Mortality	0.0	0.2	0.0
- Expense	1.0	1.3	0.7
- Lapse	3.0	3.2	0.3
- Catastrophe	0.0	0.0	0.0
- Less Diversification	-0.4	-0.7	-0.1
Total Life Insurance Risk	**3.6**	**4.0**	**0.9**
Health Underwriting Risk	**0.0**	**0.0**	**0.0**
Counterparty Default Risk	**1.2**	**1.9**	**0.3**
Total Before Diversification	16.7	9.1	2.2
Diversification Benefit	-3.0	-2.6	-0.6
Total Basic SCR	**13.7**	6.5	**1.6**
Operational Risk	1.5	0.7	0.3
Total Solvency Capital Requirement	**15.2**	**7.2**	**1.9**

Table 4.3.1

Harcourt Life Assurance dac

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 SMI, ALI, UHL and AB.

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.

HLA exposure to equity risk mainly comes from the valuation of the subsidiary investments in SMI, 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.

As mentioned already, the Oaktree ESL fund investment gives rise to both equity and credit spread risks. However, none of the HLA shareholder investments in the Oaktree ESL fund are expected to be transferred by the Scheme.

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.

HLA's expense risk arises from the costs it incurs directly (for example regulatory fees and audit fees) and service charges paid to HLSL.

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

HLA is exposed to counterparty and concentration 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.

HLA's subsidiaries review their own operational risk exposures and these are covered in the HoAF reports for SMI, ALI and UHL. HLA's own operational risks relate primarily to litigation in relation to past business activities. However, in recent years HLA has successfully defended all litigation against it. HLA's solvency capital position provides in full for the expected cost 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, and this continues to diminish over time.

Scottish Mutual International dac

SMI invests shareholder assets primarily in lower risk asset classes, such as cash and sovereign bonds. In March 2017, the SMI 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.

The SMI business consists primarily of Unit Linked policies where the income to SMI is represented by percentage charges made on the value of the unit funds. This means that the income to SMI 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 SMI's income is exposed to market risks.

A proportion of SMI's business is written in the UK. As a result, any income from this business is in pounds sterling. SMI 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.

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

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

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

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

In the absence of the proposed Scheme, Expense Risk will be the greatest challenge for SMI as it aims to administer an ever decreasing portfolio of business with a relatively fixed cost base. This issue is considered in SMI HoAF Report in more detail.

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

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

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.

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.

ALI utilises reinsurance to manage its mortality risk exposure.

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).

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.

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.

5 Proposed Transfer

Subject to High Court approval, CBI satisfaction and relevant European Regulator consent, it is envisaged that the Scheme will take effect at 23:59 on 31 March 2018.

5.1 Policy Transfer

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

- All the UHL, ALI and HLA policies will transfer to SMI and the liabilities in respect of these policies will become liabilities of SMI,
- SMI will become entitled to all rights, discretions, authorities, benefits and powers, and be subject to all obligations and liabilities of UHL, ALI and HLA in respect of each transferring policy,
- All policyholders will be entitled to the same rights and obligations with SMI as were available and enforceable to them with UHL, ALI and HLA
- All assets backing the liabilities of the UHL, ALI and HLA policies will transfer to SMI, without any change to the underlying assets, investment strategy, approach to Unit pricing, policy charges or to the investment criteria; and
- All assets of the UHL and ALI shareholder funds will transfer to SMI shareholders fund, except assets which are required to remain in UHL and ALI to enable them to continue to meet regulatory requirements, and
- Sufficient shareholder's assets of HLA will transfer to ensure the SMI has sufficient assets to meet its Capital Policy, as set out in the report by the Head of Actuarial Function of SMI.

5.2 Cost of Schemes

All the costs and expenses relating to the preparation of the Scheme and application for sanction of the Scheme will be met by HLSL, a subsidiary of LCCG I that provides services to the companies that are the subject of this Scheme.

5.3 Servicing Arrangements

Union Heritage Life Assurance Company dac

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 SMI.

Harcourt Life Assurance dac

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 SMI.

Scottish Mutual International dac

A TSA exists between SMI and PGMSI, with the policy administration of the SMI book outsourced to IFDS. 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 SMI) and IFDS when the existing TSA ends. HLSL will assume the Governance and Oversight of the outsourced SMI business with IFDS under the new contract. This arrangement will remain unchanged by the Scheme.

Augura Life Ireland dac

There is an existing MSA between ALI and HLSL. The ALI and HLSL Board's have agreed on 18th October 2017, a revised fee and terms to apply from 1/1/18 and these have been incorporated in the financials in this report. There is also a TSA in place between ALI and OneLife due to end in November 2017. This is expected to be extended until March 2018, the negotiations of which are currently underway. By end 2017, it is expected that an MSA will be in place between HLSL and UAL for UAL to provide services in respect of ALI policies. The Scheme will transfer ALI's agreements with HLSL so that it is effectively novated from ALI to SMI.

New MSA pricing structure

Under the revised MSA between HLSL and ALI, HLA, SMI and UHL a new simple, single per policy expense charge has been agreed between the Boards. This charge is applicable regardless of the life company by which the policy was written, giving the life companies some certainty over their expense base in the medium term. This new pricing structure is effective from 01/01/2018 and the agreements will be novated by the Scheme.

The underlying servicing operations for ALI as well as SMI, HLA and UHL will be unaffected, as the same people, processes and platforms will continue to be used for the insurance businesses.

5.4 Reinsurance Treaties

SMI currently has Reinsurance arrangements in place with PLL for the With-Profits and Unit linked business, and with Gen Re for the Term assurance business. Both arrangements are immaterial.

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.

These arrangements will be transferred by the Scheme and in the case of SMI's arrangements, be unaffected by the Scheme.

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

5.5 Taxation

The Scheme will not alter policies and does not result in the cancellation or the issue of new policies to policyholders. As such the Scheme gives rise to no tax impact on policyholders. The tax authorities in Ireland, the UK and other relevant EEA countries will be notified of the intention to carry out the proposed transfer under the Scheme.

5.6 Legal

Legislation requires that policyholders are notified of the Scheme. All policyholders of SMI, UHL, together with the other transferring parties (ALI and HLA) will be notified of the Scheme by way of direct mailing and advertising in national newspapers.

SMI 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. SMI, as the receiving entity, will be required to seek an extension of its classes of business from the CBI to include Class VII. The process of extension has been initiated with the CBI. SMI has the proper authorisations to write the classes of insurance business received from the remaining transferring entities.

Both SMI and ALI have multiple Freedom of Services (“FOS”) across the EEA, most of which are not utilised.

5.7 Policyholder Communication

I understand that this report and the reports of the Independent Actuary and the Heads of Actuarial Function for SMI, HLA and ALI 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 Transfer on Policyholders of UHL

6.1 Policyholder Security

Table 6.1.1 below shows the pro-forma solvency position of SMI if the proposed transfer had taken effect at 31 March 2017. The table shows the position of UHL at that date. Both sets of figures take account of material events after that date (up to the date of this report).

€m at 31/3/2017	UHL Pre - Scheme	SMI Post-Scheme
Total Assets (A)	7.9	430.1
Best Estimate Liability	-2.1	-393.7
Risk Margin	-0.8	-3.7
Other Liabilities	0.0	-11.3
Total Liabilities (B)	-2.9	-408.8
Own Funds (A-B)	5.0	21.2
SCR	0.8	14.0
MCR*	3.7	6.3
Excess over SCR	4.2	7.2
Excess over MCR	1.3	14.0
Solvency Coverage Ratio - SCR%	641%	151%
Solvency Coverage Ratio - MCR%	135%	337%

Table 6.1.1
NB rounding effects may cause row totals as presented, not to sum exactly.
**Post scheme SMI MCR has been calculated as the maximum of 45% of the SCR and the MCR floor of €3.7m. The actual MCR figure has not been calculated but will be less than €6.3m (i.e. 45% of SCR).*

The Solvency II regulations provide the CBI, for the protection of policyholders, with two intervention points. The interventions occur when either Own Funds are insufficient to cover the SCR, i.e. coverage ratio SCR% is less than 100%, or insufficient to cover the MCR, i.e. coverage ratio MCR% is less than 100%.

The above table demonstrates that when measured on SCR% the solvency coverage reduces from 645% to 151%. However, when measured on MCR% the solvency coverage improves from 136% to 337%. Moreover, the amount of excess assets to cover losses over and above those provided for in the Technical Provisions increases from €4.2m to €7.2m on an SCR basis and from €1.30 to €14.0m on an MCR basis. The lower of these two bases represents the biting point for regulatory intervention. The above shows that the biting ratio moves from 135% of MCR to 151% of SCR as a result of the Scheme. This is explored further in the following paragraphs.

The two Regulatory intervention points mentioned above are often referred to as the soft and hard intervention points. Soft intervention is less serious than hard intervention. Both are designed to protect policyholders.

Ordinarily, soft intervention occurs before hard intervention. Soft intervention results in measures designed to further reduce the risk of a hard intervention.

Since the pre-Scheme MCR coverage (amount and ratio) are significantly lower than the SCR equivalents the risk of a hard intervention by the regulator are much greater than a soft intervention. Therefore, pre-Scheme the MCR coverage, at 135% or €1.3m, is the more important ratio to consider as it the most likely to be breached in adverse circumstances. The effect of the Scheme is to restore the situation to the more normal position, and that anticipated by the regulations, whereby the risk of soft intervention is greater than the risk of hard intervention. Post-Scheme the risk of soft intervention is represented by an SCR coverage ratio of 151% or amount of €7.2m.

The regulations are designed to protect policyholders. However, it is not clear what the outcome of a hard intervention by the regulator would be. The Scheme has the effect of reducing this uncertainty by increasing the MCR solvency coverage.

6.2 Risk Profile

Table 6.2.1 below shows the risk profile of UHL and the aggregate business of SMI including UHL post Scheme as at 31 March 2017:

SCR Component	UHL Pre Scheme	SMI Post Scheme
Market Risk		
- Interest Rates	0.1	0.2
- Equity Market	0.0	4.3
- Property	0.0	0.2
- Credit Spread	0.0	1.1
- Concentration	0.0	0.0
- Currency	0.0	3.0
- Less Diversification	0.0	-2.1
Total Market Risk	0.1	6.8
Life Insurance Risks		
- Mortality	0.0	0.3
- Expense	0.4	2.9
- Lapse	0.2	3.9
- Catastrophe Risk	0.0	0.0
- Less Diversification	-0.1	-1.2
Total Life Insurance Risk	0.5	6.0
Health Insurance Risk	0.2	0.1
Counterparty Default Risk	0.3	3.2
Total Before Diversification	1.1	16.1
Diversification Benefit	-0.3	-4.5
Total Basic SCR	0.8	11.6
Operational Risk	0.0	2.5
Total Solvency Capital Requirement	**0.78**	**14.0**

Table 6.1.2

NB rounding effects may cause row totals as presented, not to sum exactly.

The Scheme has the effect of exposing UHL policyholders to a much broader range of risks. However, post Scheme SMI faces a well-diversified balance of risks and will be subject to a capital policy that acts to reduce the risk of failing to meet the soft and hard regulatory intervention points mentioned above.

6.3 Projected Solvency

Table 6.3.1 below sets out the projected position of UHL pre and post Scheme. The projection is based on financial information available at the time of this report and for the post-Scheme figures, assumes that the Scheme came into effect on 31 March 2017.

€m	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
UHL Pre-Scheme					
UHL Own Funds	5.0	5.0	5.1	5.1	5.1
UHL SCR	0.78	0.75	0.72	0.70	0.68
UHL MCR	3.7	3.7	3.7	3.7	3.7
Solvency Coverage Ratio SCR%	641%	670%	700%	729%	756%
Solvency Coverage Ratio MCR%	135%	136%	137%	138%	138%
UHL as part of SMI post Scheme	**31/12/2017**	**31/12/2018**	**31/12/2019**	**31/12/2020**	**31/12/2021**
SMI Own Funds	20.5	20.7	20.8	20.9	20.9
SMI SCR	12.1	9.8	8.8	8.1	7.5
SMI MCR	5.4	4.4	4.0	3.7	3.7
Solvency Coverage Ratio SCR%	169%	211%	237%	258%	277%
Solvency Coverage Ratio MCR%	376%	469%	527%	565%	566%

Table 6.1.3
NB rounding effects may cause row totals as presented, not to sum exactly.

The key solvency ratio for UHL pre-Scheme is that based on the MCR floor of €3.7m. The Own Funds remain stable as the Technical Provisions (not shown) are released to meet the expenses. As the books runs down the release of risk margin (not shown) broadly off-sets the increase in per policy expense assumptions. In summary, the solvency ratio remains stable at just above 135% of MCR pre-Scheme.

The table shows that following the Scheme, the risk of failing to meet the hard-regulatory threshold is significantly reduced by the increase in excess Own Funds available to meet the MCR of €3.7m.

The Capital Policy for SMI post Scheme is expected to require a limit on dividend payments so that the resulting capital ratio is no less than 150% of SCR, post any dividend payment. The above projection shows that following the Scheme SMI has sufficient assets to meet its Capital Policy and furthermore a buffer from which to make dividend payments in future years.

6.4 Policyholder Reasonable Expectations

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

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

In creating a larger closed consolidated book of business, the Scheme acts to reduce any necessity to increase discretionary policy charges. This is in the interests of all policyholders of Harcourt Life Ireland dac.

The Scheme will have no impact on claims management and current levels of engagement or service to policyholders.

Policyholders will receive the benefits outlined in the policy documents and Terms & Conditions which will be paid in a timely manner.

7 Conclusions

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

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

Russell Keenan, FSAI

Head of Actuarial Function,

Union Heritage Life Assurance Company dac

12/10/2017

Appendix 1: Reliances and Limitations

Reliances:

Internal assessments of UHL's financial position and risk profile for the purposes of UHL's Own Risk and Solvency Assessment under Solvency II.

That the Scheme documents and Policyholder communication proposals are substantially in the form provided to the CBI on the 13th February 2017.

The reports of the Heads of Actuarial Function of SMI, HLA and ALI.

All factual statements made orally in private meetings by the Head of Actuarial Function for SMI, HLA and ALI.

Limitations:

The sole purpose of this report is to assist the Independent Actuary, Rosemary Commons, to form her opinion of the effects of the Schemes on the various groups of affected policyholders.

This report should not be used or relied upon for any other purpose.

This report is made available to interested policyholders of UHL, SMI, HLA and ALI so that they may review the basis upon which the Independent Actuary has formed her view.

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