



# CNP Europe Life DAC and CNP Santander Insurance Life DAC

**Report of the Independent Actuary**

**November 2018**

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## 1 Introduction

### 1.1 Purpose of the Report

CNP Europe Life DAC ("CEL"), is a designated activity company regulated in Ireland and it is authorised by the Central Bank of Ireland ("CBI") to write Class I, III, IV and VI life insurance business on a freedom of services basis. CEL currently has three lines of business on its books including a portfolio of matured bonds, a portfolio of unit linked portfolio bonds and a portfolio of individual annuity policies. CEL is a wholly owned subsidiary of CNP Assurances S.A. ("CNP"), a French regulated life insurance company authorised by the Autorité de contrôle prudentiel et de résolution ("ACPR") as a life insurance undertaking. Approximately 75% of CNP is indirectly owned by the French State with the remaining 25% of shares floating on the Paris Euronext stock exchange.

CNP Santander Insurance Life DAC ("CNPSIL") is a designated activity company regulated in Ireland and it is authorised by the CBI to write Class I life insurance business on a freedom of services basis. CNPSIL is a joint venture between CNP (51% ordinary shares) and Banco Santander S.A. (49% ordinary shares). The principle activity of the company is the underwriting of life assurance via payment protection insurance products, in association with a loan or other credit product, to customers of Santander Consumer Bank in Europe.

In October 2014 CNP, the owners of CEL, requested that CEL cease writing new business and that it be placed into a run off position. CEL is now closed to new business. As part of the agreed run off plan, CEL intend to portfolio transfer via High Court processes, their inforce business. As at 30 June 2018 CEL had three blocks of inforce business as follows:

- Index linked retail tracker bond products which have all matured. As at 30 June 2018 there were 171 unclaimed policies totalling €2.3m;
- 9 Italian unit linked portfolio bonds with a net asset value of €18.4m; and
- 444 individual annuity policies relating to the Buy-Out of a Shell Pension Scheme, with total liabilities of circa GBP £50m.

It is proposed to transfer the unclaimed index linked retail tracker bond policies from CEL to CNPSIL via a Portfolio Transfer. Under the Portfolio Transfer, it has been proposed that CEL will transfer all the unclaimed index linked retail tracker bonds under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and S.I. No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015. I refer to the proposed transfer as the "Scheme". This Report is in respect of the proposed Portfolio Transfer. The terms covering the proposed transfer are set out in the 'Draft Scheme' that will be presented to the Irish High Court. It is anticipated that directions will be sought in relation to the Scheme of Transfer by 31 December 2018 under Section 13 of the 1909 Act.

This Report is a report prepared by the Independent Actuary in order to aid the Court in its deliberations.

I understand that plans are in place to accelerate the run off and transfer out of CEL of the remaining insurance business and that following the termination of the insurance business of CEL

it is planned that CEL's insurance licence will be handed back to the CBI which will be directly followed by entry into a member's voluntary liquidation.

I understand that CEL expects to surrender the remaining Italian Unit Linked Portfolio Bond business (and provide new products from another CNP group company to ensure policyholders expectations continue to be met) and also transfer the individual annuity policies to another third party insurance company. It is expected that the Italian Unit Linked Portfolio Bond business will be surrendered prior to the Scheme; the individual annuity business is expected to be transferred post the Scheme. This report does not comment further on these arrangements, instead it focuses solely on the proposed transfer of the unclaimed index linked retail tracker bonds from CEL to CNPSIL.

This Report describes the proposed transfer and discusses its possible effects on the relevant policyholder groups, including effects on security and levels of service. The Report is organised into the following sections:

- Section 1: Describes the purpose of this Report and the role of the Independent Actuary;
- Section 2: Executive Summary and Conclusions;
- Section 3: Provides relevant background information on CEL;
- Section 4: Provides relevant background information on CNPSIL;
- Section 5: Commentary on the proposed Scheme;
- Section 6: An assessment of the proposed Scheme on the security of policies and on the fair treatment of policies.

## 1.2 Independent Actuary

I, Brian Morrissey, am a Partner in KPMG Ireland ("KPMG") specialising in life insurance actuarial services. I am a Fellow of the Society of Actuaries in Ireland ("SAI") having qualified as an actuary in 1999. I hold the Head of Actuarial Function role under Solvency II for 5 companies in the Irish market, I'm also an Appointed Actuary in the Isle of Man and an Approved Actuary in Bermuda. My curriculum vita is included in Appendix 3.

I have been appointed by CEL to act as the Independent Actuary in connection with the Scheme. CNPSIL has agreed to my appointment. The terms on which I was formally appointed as the Independent Actuary are set out in an engagement letter dated 16th July 2018 and an extract of my scope is included in Appendix 1.

To the best of my knowledge, I have no conflicts of interest in connection with the parties involved in the proposed Scheme and I consider myself able to act as an Independent Actuary on this transaction.

I have also considered the position of KPMG. I can confirm that I have carried out appropriate internal checks in line with KPMG's internal risk management procedures.

Neither I, nor any member of my team, is a qualified lawyer or tax expert. I have not considered it necessary to seek my own specific legal or tax advice on any element of the Scheme.

The costs and expenses associated with my appointment as Independent Actuary and the production of this Report will be met by CEL. The underlying policyholders are not funding this cost.

In reporting to the Court on the proposed Scheme my overriding duty lies with the Court.

### 1.3 Scope of report

This Report has been prepared in accordance with:

- S.I. No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015, which contains the applicable Irish provisions on transfers of portfolios. Regulation 41 of the 2015 Regulations makes express reference to Section 13 of the Assurance Companies Act 1909 and Section 36 of the Insurance Act 1989. Both sections concern the sanction of transfers by the Court.
- The Actuarial Standard of Practice (“ASP”) issued by the Society of Actuaries in Ireland, ASP LA-6, “Transfer of long-term business of an authorised insurance company – role of the Independent Actuary”.
- The Actuarial Standard of Practice (“ASP”) issued by the Society of Actuaries in Ireland, ASP PA-2, “General Actuarial Practice”.
- The UK Institute and Faculty of Actuaries Actuarial Professional Standard X2 (“ASP X2”) which sets out requirements around the review of actuarial work. This report has been subject to internal KPMG risk management processes and peer review in line with those professional requirements. The peer review was performed by a senior actuary in KPMG’s actuarial practice.

In particular, I owe an overriding duty to the Court to assist the Court and to give the Court independent actuarial evidence on the proposed transfer.

This Report is prepared primarily to assess the likely impact that the Scheme will have on the transferring policyholders of CEL, the remaining policyholders of CEL and the existing policyholders of CNPSIL if it proceeds. It is limited in its scope to the assessment of this Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

The term “Effective Date”, as used in this Report, refers to the date at which, if the Scheme proceeds, CEL’s Index Linked Retail Tracker Bonds will be transferred to CNPSIL. The Effective Date is expected to be before 30 April 2019.

My consideration of the financial effects of the Scheme has been based on the method of reporting required for CEL’s and CNPSIL’s regulatory returns to the regulators (on a Solvency II basis). I am satisfied that consideration of the CBI regulatory returns and solvency calculations is appropriate for the purposes of this Report.

### 1.4 Assurances

Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.

In preparing this Report I have endeavoured to be accurate and complete. I have considered all matters that I regard as relevant to the opinions I have expressed, and I have considered all matters that I believe may be relevant to the policyholders of CEL and CNPSIL in their consideration of the Scheme. All the matters on which I have expressed an opinion lie within my field of experience.

I have received assurances as follows:

- I have circulated this Report to the management of CEL and CNPSIL respectively to ask for commentary on the detail within the Report including confirming all material information has been provided to me and how the Scheme of Transfer will be effected in practice. No issues were noted with the commentary and detail presented in the Report by either set of management. I have also been given full access to CEL and CNPSIL staff as necessary.
- I have provided the Head of Actuarial Function (“HoAF”) of CEL (Ian McMurtry) and the HoAF of CNPSIL (Elena McIlroy De La Rosa) with my Report to ensure they are aware of comments I have made in this Report in relation to actuarial information and their roles as HoAF of the respective companies. No issues have been noted as a result of their review of my Report.

In the course of carrying out my work and preparing this Report I have considered various documents provided to me by CEL, CNPSIL and William Fry (who are CEL’s legal advisers in relation to the proposed Scheme). A summary list of the main documents I have considered is set out in Appendix 2.

All of the data and information which I have requested has been provided to me by CEL, CNPSIL and their advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form by CEL, CNPSIL and their advisers. I have not sought independent verification of data and information provided to me by the Scheme Companies, nor does my work constitute an audit of the financial and other information provided to me. In addition, I have, where possible, reviewed the information provided for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

I have met in person or conducted conference calls with representatives of the Scheme Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted.

I have been made aware of relevant discussions between CEL, CNPSIL and the CBI, and specifically inquired of them whether there were specific issues I should be aware of.

## 1.5 Qualifications and Limitations

This Report must be read in its entirety. Reading individual sections in isolation may be misleading.

A copy of this Report will be made available to the Court, the CBI, the Board of Directors (of CEL and CNPSIL) and the HoAF’s of CEL and CNPSIL. It will also be made available to policyholders free of charge from the following:

- The registered office of CEL (33 Sir John Rogerson’s Quay, Dublin 2);

- The registered office of CNPSIL (3 Park Place, Hatch Street Upper, Dublin 2.); and
- The registered office of William Fry (2 Grand Canal Square, Dublin 2).

This Report has been produced for no other purpose other than to support my opinion as Independent Actuary.

This Report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter dated 16 July 2018. An extract from this contract describing the scope of my work is contained in Appendix 1.

This Report should not be regarded as suitable to be used or relied on by any party wishing to acquire any right to bring action against KPMG in connection with any other use or reliance. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of this Report to any other party.

In my role as Independent Actuary, I have in the normal course of conducting this role, been provided with a significant and appropriate amount of information and data about the Scheme Companies activities and performance. When forming my view as set out in this Report, these disclosures and information have formed a necessary and vital contribution.

This Report is based on information made available to me at or prior to 15 November 2018 and takes no account of developments after that date.

## **1.6 Terminology**

In my discussion of the effects of the proposed Scheme on the Scheme companies concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix 6.

## **1.7 Currency**

I have clearly identified the currency throughout this report. All numbers are in Euro.



## 2 Executive Summary and Conclusions

### 2.1 Executive Summary

#### 2.1.1 Overview

Following a strategic review completed in October 2014, CNP made a decision to close CEL to new business and required CEL to develop and implement a plan to ensure an orderly run off of the business. This run off plan was agreed with CNP, the Board and shared with the CBI. As part of the run off plan of the business it is proposed to transfer the unclaimed index linked retail tracker bonds from CEL to CNPSIL via a Portfolio Transfer. The unclaimed index linked retail tracker bond policyholders are of Italian domicile.

I understand that CEL expects to surrender the remaining Italian Unit Linked Portfolio Bond business (and provide new products from another CNP group company so ensure policyholders expectations continue to be met) prior to the Scheme; and also transfer the individual annuity policies to another third party insurance company post the Scheme. This report does not comment further on these arrangements, instead it focuses solely on the proposed transfer of the unclaimed index linked retail tracker bonds from CEL to CNPSIL.

#### 2.1.2 Approach

My approach to assessing the likely effects of the Scheme on policyholders is to:

- i. Understand the businesses of the companies affected by the Scheme; and
- ii. Understand the effect of the Scheme on the assets, liabilities and regulatory capital of the companies involved.

Having identified the effects of the Scheme on the various companies, I then:

- i. Identify the groups of policyholders directly affected;
- ii. Consider the impact of the Scheme on the security of each group of policyholders;
- iii. Consider the impact of the Scheme on the benefit expectations of each group of policyholders; and
- iv. Consider other aspects of the impact of the Scheme (for example, policyholder service).

In order to consider the effect of the proposed Scheme on each of the companies and groups of policyholders concerned, I have been provided with financial information for each legal entity, including:

- CEL and CNPSIL Solvency II technical provisions and solvency capital requirements as at 31 December 2017 and updated management information at 30 June 2018 based on the Solvency II quarterly regulatory reporting to the CBI. I have also been provided with proforma Solvency II information illustrating the impact of the transfer as if it had occurred as at 31 December 2017 and 30 June 2018.
- The ORSA and business planning data has been fully disclosed to me by CEL and CNPSIL for my analysis. The ORSA and business plan are not in the public domain therefore due to commercial sensitivities, I have not reproduced the detail of this data within this Report.

- In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:
  - The appropriateness of the methods used by the Scheme Companies to calculate the estimate of capital required.
  - Consideration of the range of management actions available to the Scheme companies to manage adverse events on a Solvency II basis.

A list of all significant information provided is set out in Appendix 2.

### 2.1.3 Key assumptions

I understand that:

- CEL is in run-off and plans are in place to accelerate the run off and transfer of the remaining insurance business out of CEL. Following the termination of the insurance business of CEL it is planned that CEL's insurance licence will be handed back to the Central Bank of Ireland which will be directly followed by entry into a member's voluntary liquidation.
- This Scheme is part of that run-off plan. I understand that CEL expects to surrender the remaining Italian Unit Linked Portfolio Bond business pre the Scheme and transfer the individual annuity policies to another third party insurance company post the Scheme.
- CNPSIL intends to continue to underwrite similar business as currently written prior to the Scheme. It remains open to new business.
- CEL will need to make an appropriate payment to CNPSIL to cover the cost of the transfer and of the future administration of the transferring policies.
- There will be no change to policy terms and conditions for the transferring CEL policies, remaining CEL policies or the existing CNPSIL policies as a result of the Scheme.
- The range of discretionary powers currently available to CEL for the transferring policies is reasonably limited and is not expected to change.
- By the effective date CNPSIL will successfully receive a license to write Class III business in Ireland. They currently do not have authorisation to underwrite the business being transferred under the Scheme. I understand the application is in process.
- By the effective date CNPSIL will have opted into the Italian substitute tax regime and will be registered as a tax agent for the Italian tax authorities. I understand the application is in process.

The above assumptions underlie the analysis and conclusions in my Report. If any of these assumptions were to change, my opinion may also change. I have circulated this Report to the management of CEL and CNPSIL respectively to ask for commentary on the detail within the Report including the underlying assumptions. No issues were noted with the commentary and detail presented in the Report by either set of management reflecting the fact that the key assumptions listed above correctly represent the current intentions, and that the information I have been provided accurately reflects these businesses.

## 2.1.4 Findings

The findings of my Report are summarised below.

- I have considered the relative capital strength of CEL and CNPSIL respectively prior and post the transfer and in respect of all groups of policyholders. I have based my analysis on the most recent audited financial information at 31 December 2017 including regulatory returns to the CBI and on 30 June 2018 quarterly regulatory reporting information. The capital and solvency position of CEL and CNPSIL as standalone entities pre and post transfer are set out in the table below.

<b>Table 2.1 Proforma Solvency II financial position (€m)</b>					
	<b>31-Dec-17</b>				
	<b>Pre Transfer</b>			<b>Post Transfer</b>	
	<b>CEL actual</b>	<b>CEL (post Port. Bond surrender)</b>	<b>CNPSIL</b>	<b>CEL</b>	<b>CNPSIL</b>
Own funds available to cover required solvency capital requirement	27.3	27.2	249.7	26.2	250.5
Solvency capital requirement	4.3	4.3	113.6	4.1	113.8
Excess of own funds	23.0	22.9	136.1	22.1	136.7
<b>Solvency capital requirement coverage ratio</b>	<b>633%</b>	<b>631%</b>	<b>220%</b>	<b>634%</b>	<b>220%</b>
	<b>30-Jun-18</b>				
	<b>Pre Transfer</b>			<b>Post Transfer</b>	
	<b>CEL</b>	<b>CEL (post Port. Bond surrender)</b>	<b>CNPSIL</b>	<b>CEL</b>	<b>CNPSIL</b>
Own funds available to cover required solvency capital requirement	26.3	26.1	279.0	25.1	279.8
Solvency capital requirement	4.3	4.3	119.7	4.2	119.9
Excess of own funds	22.0	21.7	159.3	20.9	159.9
<b>Solvency capital requirement coverage ratio</b>	<b>608%</b>	<b>603%</b>	<b>233%</b>	<b>603%</b>	<b>233%</b>

Note: \* It is important to note there are no actuarial or insurance liability remaining in respect of the unclaimed index linked retail tracker bonds, therefore no reserve or technical provision is held in respect of these policies. The matured cash amounts are included in the 'Other Liabilities' line.

The proforma analysis above illustrates the transfer of the matured cash proceeds plus the transaction fee from CEL to CNPSIL (as described in Section 5.1 of this report). At the proforma date there is a strong Solvency II regulatory capital position in CEL and CNPSIL pre and post the Scheme. Considering the impact of the Scheme on the main groups of policyholders separately I note:

- For the remaining CEL policyholders post the transfer, CEL's solvency capital position based on the proforma analysis is expected to remain strong and above risk appetite tolerance levels.
- For the transferring CEL policyholders, they are moving into a company with a lower regulatory solvency capital requirement coverage ratio post transfer, however it is ahead of risk appetite and not out of line with industry levels, and they will be part of a much larger company that has a higher level of available capital resources and own funds.
- The impact of the Scheme to CNPSIL is not material in respect of CNPSIL's existing business and policyholders. At the proforma date, after the transfer, the own funds position and regulatory solvency capital requirement coverage ratio remains materially unchanged.

Therefore based on the financial analysis provided I do not believe that the implementation of the Scheme will have a material adverse effect on the security of the transferring CEL scheme members, remaining CEL policyholders or existing CNPSIL' policyholders.

- Risk profile analysis:
  - If the proposed transfer takes place, the risk profile of CNPSIL is not expected to change as no actuarial or insurance risks are being transferred, only cash assets and associated matured benefit liabilities are transferred. Similarly the risk profile of CEL is not expected to change after the Scheme. CEL will no longer have any exposure to the cash assets and associated matured benefit liabilities of the unclaimed index linked retail tracker bond policies. I have no issues to note.
  - I have been provided with each entity's most recent ORSA. Post the Scheme both CEL and CNPSIL maintain a positive solvency capital coverage ratio (greater than 100%) under even the most adverse scenarios. This again gives comfort over the robustness and financial stability of each entity.
- I do not expect Brexit to be an issue in respect of this Scheme given the transferring policyholders are of Italian domicile and none of the companies involved in the Scheme are UK legal entities.
- I understand that as CEL had opted into the Italian substitute tax regime in respect of the transferring unclaimed index linked retail tracker bond policies. There is a tax asset on CEL's balance sheet in respect of the unclaimed index linked retail tracker bond policies and the unit linked portfolio bond business. Assets excluding the Italian tax asset will be passed over to CNPSIL along with a tax calculation file to enable CNPSIL to appropriately calculate the tax payable to the Italian tax authorities. It is assumed that by the effective date CNPSIL will have opted into the Italian substitute tax regime and will be registered as a tax agent for the Italian tax authorities. It is CEL's understanding that CEL is due a rebate from the Italian tax authorities of all outstanding tax assets in respect of all policies once CEL has no inforce business of any kind

within Italy - the timing of this is unclear. No other tax impacts are expected as a consequence of the Scheme for transferring CEL unclaimed index linked retail tracker bond policies, remaining CEL policyholders and existing CNPSIL policyholders. I have been provided with CEL's tax analysis.

- I have also considered the effects of the Scheme on the fair treatment of both CEL and CNPSIL policyholders including Policyholders Reasonable Expectations ("PRE") focusing on the following aspects:
  - There are limited discretionary powers available to CEL for the transferring policies. I do not expect that the Scheme will cause a change in the range or impact of discretionary powers.
  - As described in Section 5.2.2, while there will be a change in administration provider for the transferring policies given the day to day administration of transferring policies is limited, I do not expect the change of administration provider to be a concern. In my opinion the implementation of the Scheme will not have a material adverse effect on the service levels that transferring index linked retail tracker bond policies, CEL's remaining policyholders or CNPSIL's existing policyholders receive.
  - From a security of proceeds and PRE perspective, the transferring index linked policy holders have a reasonable expectation that their matured benefits are secure and will be paid as they make a claim post transfer and the amount of their benefit will not fall from the date of maturity to the date of the claim payment (i.e. be impacted by negative interest rates). As the risk of default lies with the company rather than the policyholder, post transfer this risk will depend on the financial position of CNPSIL. As the assets are transferring within the same Group I do not expect any impact on the default risk of the cash assets as a result of the Scheme. I do not expect any impact on the investment strategy of the non-transferring CEL policyholders or existing CNPSIL policyholders as a result of this Scheme of Transfer.
  - The transferring policyholders' terms and conditions will remain unchanged as a consequence of the Scheme. There is no impact on CEL's remaining policyholders or on existing CNPSILs policyholders' terms and conditions.
  - No policy expenses or charges are applied to the matured cash funds by CEL and going forward on transfer no charges will be applied by CNPSIL.
  - The costs and expenses associated with implementing the Scheme will be met by CEL alone. The key is that no costs are borne by the CEL and CNPSIL scheme members or policyholders. Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.
  - I am not aware of any disclosures or local legislative requirements which confer any additional reasonable expectations over and above the contractual terms of the policies.

- Given the challenges in communicating with the transferring policyholders over the past number of years, the approach of sending a circular to the last known address is reasonable. I recognise there is a risk that the policyholder may not receive it but I note the efforts made over the past number of years, the status of the policyholder will not change and the policy will continue to remain as part of the group. I note that CEL does not intend to write to policyholders remaining in the company post the Scheme, and CNPSIL does not intend to write to its policyholders. I am satisfied that CEL does not write to remaining policyholders and CNPSIL does not write to its policyholders regarding the Scheme, on the basis that the impact of the transfer to these groups of policyholders is not sufficiently material to warrant the additional expense in doing so.
  - The Scheme makes no reference to complaints and redress, it is my understanding that these practices will remain unchanged as a consequence of the Scheme for all policyholders. I have no issues to note.
- In considering any legal risks, I have relied on the fact that CEL and CNPSIL have followed the advice of their legal advisers and Counsel in finalising the legal agreements in relation to this transaction. I have not obtained separate legal advice for the purposes of my work. Thus, in my opinion, all reasonable steps have been taken to reduce the legal risks arising from the Scheme to a minimum.
  - I understand that there are no material legal proceedings pending or current against CEL or CNPSIL at the date of this Report.
  - I may be required to issue a Supplementary Report containing an update on any developments that may have occurred in the period between the directions hearing and the formal order sanctioning the portfolio transfer to proceed. I understand that this Supplementary Report is intended to be made available on the CEL and CNPSIL websites, prior to the final hearing date. In this Supplementary Report I will review my findings and opinion which will include consideration of the following:
    - Business performance in the period including updated financial information based on the timing of the final court hearing;
    - Relevant developments in the period, for example any communications with policyholders, or choice of bank counterparty, CNPSIL Class III license application update and an update on their registration as a tax agent in respect of the Italian substitute tax regime, progress on the surrender of the Italian Unit Linked Portfolio Bond business and progress on the transfer of the individual annuity policies.

## 2.2 Conclusions

Having considered the impact of the Scheme on both the transferring policyholders of CEL, remaining policyholders of CEL and the existing policyholders of CNPSIL, it is my opinion that:

- The Scheme will not have a material adverse effect on the security of benefits for any of the policyholders involved; and

- The Scheme will not have a material adverse effect on the reasonable benefit expectations of any of the policyholders involved.

My opinion in relation to CEL and CNPSIL policyholders is based on:

- My review of all the pertinent historic and current information provided by CEL and CNPSIL; and
- Discussions with the management of CEL and CNPSIL on what will happen post transfer.

My assessments are made in the context of the current Solvency II regulatory regime.



19 November 2018

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**Brian Morrissey, FSAI**

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Date

*Independent Actuary*

*KPMG in Ireland*

## 3 CNP Europe Life DAC

### 3.1 Structure and background

CEL, is a designated activity company which was incorporated in Ireland on 19 April 1999 under company number 305512 and under the company name Forethought Life International Limited. CEL has since changed name several times, to Fineco Life Limited in 2002, to CNP Capitalia Life Limited in 2006, to CNP Unicredit Life Limited in 2008 and to CNP Europe Life Limited in 2009. CEL is regulated in Ireland and it is authorised by the CBI to write Class I, III, IV and VI life insurance business on a freedom of services basis. CEL is wholly owned by CNP.

In October 2014 CNP, the owners of CEL, requested that CEL cease writing new business and that it be placed into a run off position. CEL is now closed to new business. Since then progress has been made with running off the business via the recapture of a pension scheme. As part of the continued run off of the business it is proposed to transfer the unclaimed portfolio of index linked retail tracker bonds from CEL to CNPSIL via a Portfolio Transfer.

At 30 June 2018 CEL has three lines of business on its books as follows:

- Index linked retail tracker bond products which have all matured. As at 30 June 2018 there were 171 unclaimed policies totalling €2.3m;
- 9 Italian unit linked portfolio bonds with a net asset value of €18.4m; and
- 444 individual annuity policies relating to the Buy-Out of a Shell Pension Scheme, with total liabilities of circa GBP £50m.

### 3.2 Nature of business written

#### Aggregate business

Table 3.1 CEL's long term business				
	30 June 2018		31 December 2017	
	Number of policyholders	Solvency II Best Estimate Liability (€m)	Number of policyholders	Solvency II Best Estimate Liability (€m)
Shell Defined Benefit Pension Scheme BEL	444	59.1	447	56.1
Italian Portfolio Bonds BEL	9	18.4	19	30.5
Other Liabilities		4.1		6.9
Index Linked Retail Tracker Bonds (all matured) <sup>1</sup>	171	0	181	0
<b>Total</b>	<b>624</b>	<b>81.6</b>	<b>647</b>	<b>93.5</b>

<sup>1</sup> All bonds are matured and the policy proceeds are held in cash. There is no actuarial or insurance liability remaining in respect of these policies, therefore no reserve or technical provision is held in respect of these policies.



### **Index Linked Retail Tracker Bonds**

The index linked retail tracker bond products were single premium unit linked contracts with a fixed term, typically 5 or 6 years. The last tranche of this product was written on 23 September 2008. All index linked policies have now matured, with the final maturity occurring on 23 September 2014. The initial premium was invested in a structured bond product (combination of a bond and an option) to which policyholders' benefits were linked. The policyholder was charged a single upfront fee at the inception of the policy. No further charges, either ongoing or on exit, are built into the design of the product. The nature of the charging structure of the portfolio means that CEL will need to make a payment to CNPSIL to cover the cost of the future administration of the transferring policies.

At 30 June 2018 the remaining unclaimed portfolio consists of 171 policyholders with a combined maturity amount of €2.3m. This portfolio of index linked policies remains unclaimed by the policyholders despite the fact the last of tranche of these policies matured four years ago in September 2014. While the portfolio is largely made up of unclaimed matured policies, it also contains a 5 long pending death claims (where the claims procedure has not been fully completed by the beneficiary), 13 frozen policies (policy proceeds held pending the outcome of a court orders or official investigation) and 2 assigned policies (policy benefits to be transferred to a lender as a collateral for a loan). Per Italian Law, unclaimed maturities must remain available to be paid to the policyholder for ten years following the latter of the maturity date or the date of last contact with the client. Following ten years, the unclaimed policy must be passed to the Italian Ministero dell'Economia e delle Finanze (MEF). The contractual obligations could stretch to 23 September 2024 in respect of the latest maturity which occurred on 23 September 2014. All assets of these policies are currently held in a single Euro cash account with Ulster Bank in Dublin which has a current credit rating of BBB.

## **3.3 Risk Profile and management**

### **Overview of risks**

CEL is exposed to a range of risks as follows:

- Counterparty risks (exposures to banks, reinsurers and deposit accounts);
- Market risks such as interest rate risk and exchange rate risk;
- Demographic risks such as longevity, lapse and revision risk;
- Operational risks mainly arising from management and staff e.g. key man risk, process execution (e.g. products, contracts, customer service, service providers, activity steering, communication etc.) delays to the run-off plan, IT dysfunction and compliance risk, fraud; and
- Regulatory/ fiscal risk which can come from increases in taxation, revisions in asset admissibility, changing reserve requirements and changing disclosure requirements.

These risks are overseen and managed by the Board. There are no additional risks specific to the transferring policyholders of the Scheme. The Board reviews all risk and compliance issues affecting CEL. The primary risk to the security of CEL's policyholder benefits is that one or more

of the risks identified give rise to an event which renders CEL insolvent. Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of benefits could be considered remote.

### 3.3.1 Risk Appetite

The Risk Appetite Statement is reviewed annually by CEL's Board of Directors. It identifies the company's key risks and provides a framework for testing these risks. The company's Risk Appetite is defined by requiring that an adequate level of own funds be held for maintaining, over the Business Plan horizon, a minimum solvency ratio of 110% under stressed scenarios. Each year as part of the risk management process CEL implement a series of adverse scenarios, calibrated to a 90% confidence interval, to test the resilience of the level of own funds. As part of these scenarios they also allow for management actions that might be implemented.

The Risk Appetite Statement seeks to connect CEL's strategy and the required level of regulatory capital with the company's risk management framework, which is supported by a suite of risk policies and manuals. These policies and manuals are reviewed and approved by CEL's Board on an annual basis or more frequently if deemed appropriate.

### 3.3.2 Governance

The company has implemented a risk management framework which includes:

- A Risk Appetite Statement;
- A Risk Register;
- A suite of formal risk policies;
- Appointment of a Chief Risk Officer ("CRO"); and
- An internal audit on an annual basis.

As well as the Board of Directors:

- There is an Audit sub-committee of the Board;
- The company's CRO has unfettered access to the Board of Directors. Any decisions which will materially impact CEL's balance sheet, or risk profile requires the approval of the CRO;
- The company's Board is responsible for monitoring and assessing risk. The Board meets a minimum of four times a year and the CRO attends each of these meetings. The Board ensures that the company operates within the confines of its Risk Appetite and that defined Risk Indicators and Tolerances are acceptable, under the advice of the CRO;
- The Board reviews the top 10 risks at each meeting, where these are quantified as (Exposure x Probability of Occurrence over a 1 year time horizon); and
- A Risk Matrix is maintained by the company detailing the operational risks. This is reviewed on an annual basis or more frequently if deemed appropriate and quantified on a "bottom

up” approach. The quantification of the operational risks is cross checked against the SCR held in respect of operational risk.

### **3.4 Operational arrangements**

Core management functions are carried out in-house including the roles of Head of Actuarial Function, Head of Internal Audit and Compliance Officer. The number of employees at 31 December 2017 was 7, employed in the areas of Operations, Administration, Actuarial, Risk, Internal Audit, Finance and Compliance.

However, the company operates primarily on an outsourced business model with a number of key services being provided by third parties.

- Pension related policy and claims administration is outsourced to Capita Employee Benefits Limited;
- Savings related policy administration is outsourced to Irish Progressive Services International Limited;
- The Chief Risk Officer role is outsourced to CNP.

### **3.5 Reinsurance**

CEL has reinsurance agreements in place across the variety of lines of business as follows:

- Italian unit linked portfolio bonds: Reinsurance treaties are in place with General & Cologne Re to reinsure 77.5% of the death benefits arising under the policies;
- Shell defined benefit pension scheme: 100% of all pension liabilities (longevity and investment risk) is reinsured to SVAG Versicherungen A.G. (“SVAG”), a Shell subsidiary.

I do not comment further on the reinsurance arrangements in place as they will not be impacted or change as a result of the Scheme.

### **3.6 Financial Profile**

#### **3.6.1 Background**

The Solvency II regulatory reporting regime has come into effect across Europe from 1 January 2016. Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings. As both CEL and CNPSIL are regulated in Ireland there will be no change in the underlying regulatory reporting regime for any business transferring between CEL and CNPSIL.

Under Solvency II there is a prescribed role known as ‘The Head of Actuarial Function’ which is performed by Ian McMurtry in CEL. This is a Pre-Approved Controlled Function or PCF role under the CBI’s Fitness and Probity Regime. An overview of the Solvency II regime is given in Appendix 5.

### 3.6.2 Technical Provisions

Table 3.2 below summarises CEL's Solvency II technical provisions at 30 June 2018 and 31 December 2017.

All index linked retail tracker bond products are matured and the policy proceeds are held in cash. There is no actuarial or insurance liability remaining in respect of these policies, therefore no reserve or technical provision is held in respect of these policies. The matured cash amounts are included in the 'Other Liabilities' line item in the table below.

Table 3.2 CEL's Technical Provisions (€m)		
	30 June 2018	31 December 2017
Gross Best Estimate Liability		
<i>Shell Defined Benefit Pension Scheme</i>	59.1	56.1
<i>Portfolio Bond</i>	18.4	30.5
<b>Total Gross BEL</b>	<b>77.5</b>	<b>86.5</b>
Risk Margin	0.8	0.8
Deferred Tax	0.7	0.8
Other Liabilities	3.4	6.2
<b>Total Gross Liabilities*</b>	<b>82.4</b>	<b>94.3</b>

Note: \* There is a reinsurance arrangement in place in respect of the Shell defined benefit pension scheme, at 31 December 2017 the reinsurance asset was €50.9m resulting in Total Net Liabilities of €43.4m.

In terms of key judgements used to prepare their Solvency II technical provisions, CEL do not use any transitional measures or volatility adjustment within the yield curve. I am not aware of any other key judgements made.

## 3.7 Solvency Position

### 3.7.1 Solvency II Solvency Capital Requirement

Table 3.3 below sets out the solvency position of CEL under the Solvency II framework at 30 June 2018 and 31 December 2017.

Table 3.3 CEL's Solvency Coverage Ratio (€m)		
	30 June 2018	31 December 2017
Own Funds	26.3	27.3
Solvency Capital Requirement ("SCR")	4.3	4.3
Excess of Own Funds over SCR	21.9	23
Solvency Coverage Ratio*	608%	633%

Note: \* excludes the effects of rounding

As at 30 June 2018, the Solvency II returns to the CBI showed total Own Funds available net of liabilities of CEL were €26.3m, an excess of €21.9m over the solvency capital requirement of

€4.3m. There was a Solvency II solvency coverage ratio of 608%. Historically, CEL has maintained a strong solvency capital position.

All of the Own Funds capital held is Tier 1 unrestricted capital.

### 3.7.2 ORSA

I have considered CEL's most recent ORSA report, dated 14 December 2017 but have not reproduced the detail in this report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on two scenarios:

- The first where it is assumed that the CEL is closed in late 2019/ early 2020 depending on the timing of receiving final tax refunds from the Italian Revenue, and projections are shown over a two year period up to year end 2019;
- Under the second scenario it is assumed that all business remains in force and the CEL continues as a going concern, and projections are shown over a five year period up to year end 2022.

Under each scenario a central stress as well as an up and a down stress are performed. The stress scenarios used are provided by Group and include stressing the yield curve and credit risk adjustment applied to it up/down, default risk, lapse risk up/down and expense risk.

Under each scenario described above, and each stress within each scenario, the SCR coverage ratio remains well above CEL's minimum solvency coverage ratio over the projection period.

In summary, the financial strength of the company remains robust under each scenario over the projection period.

I have no issues to note from my review of the OSRA prepared by CEL. The analysis supports the strategic decision to transfer the business.

## 3.8 Policyholder Reasonable Expectations

I am required to consider PRE in ASP LA-6 in the context of the work of the Independent Actuary. Under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'.

PRE is not a material consideration in respect of transferring policyholders. I have discussed PRE issues with CEL's HoAF, including his interpretation of PRE for the index linked policy holders

transferring and taken those views into account in considering PRE in the context of the proposed Scheme and I have no issues to note.

The matured benefits under the transferring index linked policy holders are straightforward in nature; therefore the areas of PRE to consider for transferring scheme members are as follows:

- Security and availability of benefits: Pre transfer the matured benefits are held in an instantly accessible cash account in a BBB rated bank account earning a nil rate of interest. The transferring index linked policy holders have a reasonable expectation that their matured benefits are secure and will be paid as they make a claim post transfer and the amount of their benefit will not fall from the date of maturity to the date of the claim payment (i.e. be impacted by negative interest rates). As the risk of default lies with the company rather than the policyholder, post transfer this risk will depend on the financial position of CNPSIL.
- Entitlement to benefits: It is not expected there will be any change to the entitlement of benefits as a consequence of this Scheme and hence to policyholders reasonable expectations of the same.
- Service standards: transferring policyholders have a reasonable expectation that the services they receive will be provided in a professional manner and that benefit payments and enquiries will be dealt with promptly. As the policies have matured there is limited administration performed. As the policies have matured there is limited administration performed on a day-to-day basis. Policy administration is currently performed in-house by CEL. It is the intention that following the portfolio transfer the policy administration will be performed in-house by CNPSIL.
- Discretionary powers available to CEL: There are limited discretionary powers available to CEL for the transferring policies.

### **3.9 Other regulatory matters**

On 23 June 2016 the UK voted to leave the European Union ("EU"). The impact on the ability of CEL and the wider group company to continue to operate on a freedom of services basis across the EU is unknown at this point. Notwithstanding Brexit, the same issue impacts whether the business is with CEL or CNPSIL. There is no expected direct impact on the transferring policyholders as set out in the Scheme of Transfer described in this report.

I am not aware of any other regulatory matters.

## 4 CNP Santander Insurance Life DAC

### 4.1 Structure and background

CNPSIL is a life insurance undertaking incorporated in Ireland on 24 August 2010. CNPSIL was authorised by the CBI to write life assurance business on 10 June 2011. CNPSIL is a joint venture between CNP (51% ordinary shares) and Banco Santander S.A. (49% ordinary shares). The company was fully owned by Santander Insurance Holding, S.L. until 16th December 2014 when Santander Insurance Holding, S.L. sold 51% of the share capital to CNP as part of a long-term strategic partnership. On 28th December 2016, Banco Santander, S.A. acquired 49% of the shares of the company as a result of a merger by absorption resulting in Santander Insurance Holding, S.L.'s dissolution.

The principle activity of CNPSIL is the underwriting of life assurance via payment protection insurance products, in association with a loan or other credit product, to customers of Santander Consumer Bank in Europe. CNPSIL writes business as a direct insurer on a Freedom of Services basis in Germany, Spain, Norway, Denmark, Sweden, Poland, Austria, Belgium and The Netherlands and on a Freedom of Establishment basis in Italy. CNPSIL also has some outwards reinsurance portfolios in run-off relating to business previously carried out in Germany, Italy, Norway, Sweden, Finland and Denmark and has some inwards reinsurance portfolios in Germany, Poland and Austria. The largest market by volume is Germany, but volumes across all regions have been increasing as the business continues to grow. CNP Santander Insurance Europe DAC is a non-life insurance company closely associated with CNPSIL and it was also incorporated on 24 August 2010.

### 4.2 Nature of business written

CNPSIL received €0.6bn premium income in 2017 and was holding €1.1bn IFRS technical reserves at 31 December 2017. Premium written is typically single premium and in respect of group cover of payment protection insurance business relating to loans, car financing and credit cards. In 2017 52% of the premium was written in Germany, 22% in Poland and 15% in Spain, with Italy, the Nordics and Austria making up the remainder.

### 4.3 Risk Profile and management

#### 4.3.1 Overview of risks

CNPSIL is exposed to a range of risks particularly those relating to underwriting and operational risk. It is exposed to the following risks:

- Demographic/underwriting risks such as mortality, disability, lapse risk, unemployment risk. Also unexpected changes to the underlying mix of the customer profile;
- Operational risks arising as a result of inadequate or failed internal processes, people or system, or from external events. Operational risks also include outsourcing arrangements to external providers, information security and fraud;
- Market risks such as interest rate risk including spread risk, exchange rate risk and illiquidity risk;

- Counterparty risks (e.g. exposures to banks, reinsurers and investments in other counterparties including Group companies);
- Capital risk arising as a result of insufficient capital to sustain business growth and meet policyholder liabilities;
- Strategic risk arising as a result of insufficient resource to successfully implement the strategy in a timely manner;
- Governance risk including breach of regulation or legislation, misstatements or errors, reputational damage, failure of the governance system;
- Conduct risk arising from the company's direct interaction with policyholders (e.g. inappropriate sale of a product); and
- Environmental risk which refers mainly to global economic conditions that could negatively affect the execution of the company's business plan, and also to sector specific developments, including developments in the regulatory landscape.

These risks are overseen and managed by the Board. The Board reviews all risk and compliance issues affecting CNPSIL. The primary risk to the security of CNPSIL's policyholder benefits is that one or more of the risks identified give rise to an event which renders CNPSIL insolvent. Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of benefits could be considered remote.

#### 4.3.2 Risk Appetite

The Risk Appetite Statement is reviewed annually by CNPSIL's Board of Directors. It identifies the company's key risks and provides a framework for testing these risks and establishing risk tolerances. The Risk Appetite Statement seeks to connect CNPSIL's strategy and the required level of regulatory capital with the company's risk management framework, which is supported by a suite of risk policies and manuals.

The Audit and Risk Committee supports the Board in their review of the Risk Appetite Statement.

#### 4.3.3 Governance

CNPSIL has a risk management system in place which aims to integrate sound and prudent management of risk at all levels of decision making throughout the company. CNPSIL has implemented a risk management framework which includes:

- Risk Identification process;
- A Risk Appetite Statement;
- A Risk Dashboard with regular monitoring of risks;
- A Risk Incident Log to oversee, track and address any risk incidents in the business;
- A suite of formal risk policies;
- Appointment of a Chief Risk Officer;



- An Internal Control team supporting all business areas documenting and reviewing processes and identifying risks and controls, annual testing of key controls;
- An internal audit of specific areas on a regular basis throughout the year.

As well as the Board of Directors there are various sub-committees of the Board such as the:

- Audit sub-committee; and
- Risk sub-committee.

Committee members are comprised exclusively of Directors and are appointed to the committees by the Board.

In addition there are a variety of key functional internal committees within the company. The functional committees assist the CEO and senior management in ensuring effective governance, monitoring and oversight of the business in line with Board policy. Each functional committee has a terms of reference in place which specify the matters that are under review and discussion:

- Regulatory and Compliance Committee;
- Technical Committee;
- Investment Committee;
- ALM Committee;
- Customer Satisfaction and Service Quality Committee;
- Risk Forum;
- Risk, Actuarial and Finance Forum;
- Data Quality Steering Committee; and
- Product Committee.

#### **4.4 Operational arrangements**

Core services are generally provided in house and CNPSIL does not outsource any key functions. The areas for which CNPSIL subcontracts part of its activities are:

- Investment admin services, custodian services and IT services in Spain;
- IT infrastructure in the UK; and
- Third party administration across a variety of countries.

All outsourced activities are subject to the CNPSIL Outsourcing Risk Management Policy which promotes sound and effective risk management and enables the company to identify, manage, monitor and report on such outsourcing.

## 4.5 Reinsurance

CNPSIL has three proportional quota share reinsurance agreements in place (on Italian business, German business, and on Scandinavian region business) where the main objective is to share the financial benefits of the insured business as well as the related risks with other insurers, without them being involved in all of the management aspects of the insurance business. At 31 December 2017 CNPSIL had ceded approximately 5% of their gross technical provisions.

All three reinsurance arrangements are in run-off with no reinsurance agreements in place on the writing of new business. This is a strategic decision of the company.

## 4.6 Financial Profile

### 4.6.1 Background

The Solvency II regulatory reporting regime has come into effect across Europe from 1 January 2016. As Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings. As both CEL and CNPSIL are regulated in Ireland there will be no change in the underlying regulatory reporting regime for any business transferring between CEL and CNPSIL.

The HoAF is performed by Elena McIlroy De La Rosa in CNPSIL. An overview of the Solvency II regime is given in Appendix 5. CNPSIL prepare their Solvency II figures using a Standard Formula approach rather than using an Internal Model.

### 4.6.2 Technical Provisions

Table 4.2 below summarises CNPSIL's Solvency II technical provisions at 30 June 2018 and 31 December 2017.

Table 4.2 CNPSIL Technical Provisions (€m)		
	30 June 2018	31 December 2017
Life	257.0	229.9
Health	51.9	44.9
<b>Total Technical Provisions</b>	<b>308.9</b>	<b>274.8</b>

In terms of key judgements used to prepare their Solvency II technical provisions, CNPSIL do not use any transitional measures or volatility adjustment within the yield curve. I am not aware of any other key judgements made.

## 4.7 Solvency Position

### 4.7.1 Solvency II Solvency Capital Requirement

Table 4.3 below sets out the solvency position of CNPSIL, under the Solvency II framework at 30 June 2018 and 31 December 2017.

Table 4.3 CNPSIL Solvency Coverage Ratio (€m)		
	30 June 2018	31 December 2017
Own Funds	279.0	249.7
Solvency Capital Requirement ("SCR")	119.7	113.6
Excess of Own Funds over SCR	159.3	136.1
Solvency Coverage Ratio	233%	220%

As at 30 June 2018 the Solvency II returns to the CBI showed total Own Funds available net of liabilities of CNPSIL were €279.0m, an excess of €159.3m over the solvency capital requirement of €119.7m. There was a Solvency II solvency coverage ratio of 233%. Historically, CNPSIL has maintained a strong solvency capital position.

All of the Own Funds capital held is Tier 1 unrestricted capital.

#### 4.7.2 ORSA

I have considered CNPSIL's most recent ORSA report, completed in 2017.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario and up/down stress scenarios over the five year period to 2022, where the projected SCR coverage ratio must be at least as great as the internal minimum solvency ratio.

The projections within the ORSA allow for:

- A combination of market risk, underwriting risk, unemployment risk and operational risk;
- Increasing sales combined with reduced lapses;
- Increasing expenses and expense inflation; and
- Increasing currency risk applied at a point in time.

The projection of the Base balance sheet over the projection period shows a SCR coverage ratio well in excess of the internal minimum solvency ratio target for each year.

I have no issues to note from my review of the OSRA prepared by CNPSIL.

### 4.8 Policyholders Reasonable Expectations

I am required to consider PRE in ASP LA-6 in the context of the work of the Independent Actuary. Under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'.

I have been provided with documentation setting out the HoAF's interpretation of PRE and I have discussed the same with them.

## 4.9 Other regulatory matters

I am not aware of any other regulatory matters other than those set out in Section 3.8.

## 5 The Proposed Scheme of Transfer

### 5.1 Rationale for the Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme. CNP completed a strategic review at Group level in 2014. All options for the future of CEL were fully analysed. Following the result of this review, in the absence of a strategic plan for new business for the company, CNP decided to place the company into a run off position. CEL has since been closed to new business and is in the process of being wound up.

I understand that plans are in place to accelerate the run off and transfer out of the company of the remaining insurance business and that following the termination of the insurance business of the company it is planned that the company's insurance licence will be handed back to the Central Bank of Ireland which will be directly followed by entry into a member's voluntary liquidation.

Given the nature of the charging structure of the portfolio (initial up front charges only with no ongoing administration charges) means that CEL will need to make a payment to CNPSIL to cover the cost of the transfer and the future administration of the transferring policies (in addition to the matured cash proceeds).

I understand that CEL expects to surrender the remaining Italian Unit Linked Portfolio Bond business pre the Scheme and transfer the individual annuity policies to another third party insurance company post the Scheme. This report does not comment further on these arrangements, instead it focuses solely on the proposed transfer of the unclaimed Index Linked Business from CEL to CNPSIL.

### 5.2 Overview of the Scheme

#### 5.2.1 Introduction

The Scheme proposed is one for the transfer of the portfolio of unclaimed index linked retail tracker bonds from CEL to CNPSIL by using the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and S.I. No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015. The terms covering the proposed transfer are set out in the 'Draft Scheme' that will be presented to the Irish High Court. It is anticipated that directions will be sought in relation to the Scheme of Transfer by 31 January 2019 under Section 13 of the 1909 Act. The Scheme of Transfer document has been prepared by CEL's legal advisors. As the business is matured the Scheme provides for the transfer of the index linked retail tracker bond business, incorporating the underlying contracts, together with the associated matured cash assets and liabilities as at the Effective Date to CNPSIL, such that CEL's exposure to the matured cash amounts is extinguished in CEL.

It is important to note there are no actuarial or insurance liability remaining in respect of the unclaimed index linked retail tracker bonds, therefore no reserve or technical provision is held in respect of these policies. The matured cash amounts are included in the 'Other Liabilities' line item in the balance sheet shown in table 3.2 of this report (table is in Section 3.5.2 and not repeated here).

The Scheme proposes on the Effective Date to:

- Transfer the cash assets in respect of all unclaimed index linked retail tracker bond policies from CEL's long term business fund to the long term business fund within CNPSIL.
- Transfer the liabilities in respect of all unclaimed index linked retail tracker bond policies (including all matured, pending, frozen and assigned policies). Upon transfer CNPSIL will not need to establish any technical provisions in respect of the transferring liabilities as there are no actuarial or insurance liabilities remaining in respect of these policies. The liabilities will be presented as 'Other Liabilities' or similar on the company balance sheet.

The effective date of the Scheme is expected to be before 30 April 2019.

It is proposed that the portfolio transfer will be made on an arm's length basis and will include the transfer of assets and associated cash liabilities in respect of the unclaimed index linked retail tracker bond policies as well as a one-off up front transaction fee (as described above) to support the maintenance of the portfolio.

### **5.2.2 Administration arrangements**

As the policies have matured there is limited administration performed on a day-to-day basis. Policy administration is currently performed in-house by CEL. It is the intention that following the portfolio transfer the policy administration will be performed in-house by CNPSIL.

It is intended that there will be no change to the existing administration of the non-transferring policies of CEL or CNPSIL following the Scheme.

### **5.2.3 Policyholder communications**

Section 13 of the 1909 Act requires that, unless the Court otherwise directs, certain materials must be transmitted to each policyholder of both CEL and CNPSIL.

It is proposed that CEL's transferring policyholders (unclaimed index linked retail tracker bond holders) will be sent a circular. I have been provided with draft versions of this policyholder circular. I note that CEL does not intend to write to policyholders remaining in the company post the Scheme. I note that CNPSIL does not intend to write to its policyholders. I have also discussed this with CNPSIL. I understand that the CBI will be made aware of this approach.

## 6 Assessment of Proposed Scheme

### 6.1 Introduction

As the Independent Actuary, the key areas in my opinion that I need to consider for the different groups of policyholders that could potentially be affected by the Scheme, namely the transferring of the unclaimed index linked retail bond policies, the remaining policyholders in CEL and the existing CNPSIL policyholders, are:

- Security of policyholder benefits; and
- Wider PRE issues which include disclosures to policyholders, the use of discretion by companies, local legislative requirements and the day to day administration of policies.

The considerations when reviewing the proposed Scheme are discussed below.

### 6.2 Impact on the security of policyholders' benefits

#### 6.2.1 Proforma financial position

I have considered the relative capital strength of CEL and CNPSIL respectively prior and post the transfer and in respect of all groups of policyholders. I have based my analysis on the most recent financial information at 31 December 2017 including regulatory returns to the CBI and on 30 June 2018 quarterly regulatory reporting information. The capital and solvency position of CEL and CNPSIL as standalone entities pre and post transfer are set out in the table below.

<b>Table 6.1 Proforma Solvency II financial position (€m)</b>					
	<b>31-Dec-17</b>				
	<b>Pre Transfer</b>			<b>Post Transfer</b>	
	<b>CEL actual</b>	<b>CEL (post Port. Bond surrender)</b>	<b>CNPSIL</b>	<b>CEL</b>	<b>CNPSIL</b>
Own funds available to cover required solvency capital requirement	27.3	27.2	249.7	26.2	250.5
Solvency capital requirement	4.3	4.3	113.6	4.1	113.8
Excess of own funds	23.0	22.9	136.1	22.1	136.7
<b>Solvency capital requirement coverage ratio</b>	<b>633%</b>	<b>631%</b>	<b>220%</b>	<b>634%</b>	<b>220%</b>
	<b>30-Jun-18</b>				
	<b>Pre Transfer</b>			<b>Post Transfer</b>	
	<b>CEL</b>	<b>CEL (post Port. Bond surrender)</b>	<b>CNPSIL</b>	<b>CEL</b>	<b>CNPSIL</b>

Own funds available to cover required solvency capital requirement	26.3	26.1	279.0	25.1	279.8
Solvency capital requirement	4.3	4.3	119.7	4.2	119.9
Excess of own funds	22.0	21.7	159.3	20.9	159.9
<b>Solvency capital requirement coverage ratio</b>	<b>608%</b>	<b>603%</b>	<b>233%</b>	<b>603%</b>	<b>233%</b>

Note: \* It is important to note there are no actuarial or insurance liability remaining in respect of the unclaimed index linked retail tracker bonds, therefore no reserve or technical provision is held in respect of these policies. The matured cash amounts are included in the 'Other Liabilities' line.

The proforma analysis above shows the transfer of the matured cash proceeds plus the transaction fee from CEL to CNPSIL (as described in Section 5.1 of this report). At the proforma date there is a strong Solvency II regulatory capital position in CEL and CNPSIL pre and post the Scheme. Considering the impact of the Scheme on the main groups of policyholders separately I note:

- Financial analysis as at 31 December 2017 proforma date:
  - For the remaining CEL policyholders post the transfer, CEL's solvency capital position based on the proforma analysis is expected to remain strong and above risk appetite tolerance levels.
  - For the transferring CEL policyholders, they are moving into a company with a lower regulatory solvency capital requirement coverage ratio post transfer, however they will be part of a much larger company that has a higher level of available capital resources and own funds.
  - The impact of the Scheme to CNPSIL is not material in respect of CNPSIL's existing business and policyholders. At the proforma date, after the transfer, the net asset position and regulatory solvency capital requirement coverage ratio remains broadly unchanged. Therefore based on the financial analysis provided I do not believe that the implementation of the Scheme will have a material adverse effect on the security of the transferring CEL scheme members, remaining CEL policyholders or existing CNPSIL' policyholders.
- Financial analysis as at 30 June 2018 proforma date:
  - The impact of the Scheme at 30 June 2018 to all groups of policyholders is similar to that described above in respect of 31 December 2017. There have been no material developments over the first six months of 2018 in terms of solvency or capital coverage for any group of policyholders.
- Risk profile analysis:
  - If the proposed transfer takes place, the risk profile of CNPSIL is not expected to change as no actuarial or insurance risks are being transferred, only cash assets and associated matured benefit liabilities are transferred. Similarly the risk profile of CEL is not expected to change after the Scheme, CEL will no longer have any



exposure to the cash assets and associated benefit liabilities of the unclaimed index linked retail tracker bond policies. I have no issues to note.

- I have been provided with each entity's most recent ORSA. Post the Scheme both CEL and CNPSIL maintain a positive solvency capital coverage ratio (greater than 100%) under even the most adverse scenarios. This again gives comfort over the robustness and financial stability of each entity.
- CNPSIL will be required to obtain a license to write Class III business in Ireland and will be required to register as a tax agent for the Italian tax authorities. I do not view the application and registration processes as overly complex and would not expect the implementation of these requirements to have any impact on operational or governance risk of CNPSIL.

### 6.2.2 Other financial or regulatory considerations

- I understand that as CEL had opted into the Italian substitute tax regime in respect of the transferring unclaimed index linked retail tracker bond policies. There is a tax asset on CEL's balance sheet in respect of the unclaimed index linked retail tracker bond policies and the unit linked portfolio bond business. Assets excluding the Italian tax asset will be passed over to CNPSIL along with a tax calculation file to enable CNPSIL to appropriately calculate the tax payable to the Italian tax authorities. It is assumed that by the effective date CNPSIL will have opted into the Italian substitute tax regime and will be registered as a tax agent for the Italian tax authorities. It is CEL's understanding that CEL is due a rebate from the Italian tax authorities of all outstanding tax assets in respect of all policies once CEL has no inforce business of any kind within Italy, the timing of this is unclear. No other tax impacts are expected as a consequence of the Scheme for transferring CEL unclaimed index linked retail tracker bond policies, remaining CEL policyholders and existing CNPSIL policyholders. I have been provided with CEL's tax analysis.
- In considering any legal risks, I have relied on the fact that CEL and CNPSIL have followed the advice of their legal advisers and Counsel in finalising the legal agreements in relation to this transaction. I have not obtained separate legal advice for the purposes of my work. Thus, in my opinion, all reasonable steps have been taken to reduce the legal risks arising from the Scheme to a minimum.
- CEL does not have any reinsurance arrangements in place which are within the scope of this Scheme. Reinsurance arrangements have not been considered further.
- There is no change in regulatory rules for transferring policyholders as both CEL and CNPSIL prepare their regulatory returns on a Solvency II basis. Any differences in approach and implementation of the Solvency II regime between the companies is expected to be limited and would not have a material impact on the security of transferring CEL scheme members, remaining CEL policyholders or existing CNPSIL policyholders.
- As noted in Section 3.9 the UK has voted to leave the EU. I do not expect Brexit to be an issue in respect of this Scheme given the transferring policyholders are of Italian domicile and none of the companies involved in the Scheme are UK legal entities.

- I understand that there are no material legal proceedings pending or current against CEL of CNPSIL at the date of this Report.

### 6.2.3 Conclusion

At the proforma date there is a strong Solvency II regulatory capital position in CEL and CNPSIL pre and post the Scheme for all of the policyholders concerned. CEL transferring scheme members are moving into a company with a lower regulatory solvency capital requirement coverage ratio post transfer, however they will be part of a larger company that has a higher level of available capital resources and own funds.

Therefore based on the financial analysis provided I do not believe that the implementation of the Scheme will have a material adverse effect on the security of the transferring CEL scheme members, remaining CEL policyholders or existing CNPSIL' policyholders.

## 6.3 Policyholders reasonable expectations

### 6.3.1 Introduction

PRE is an important part of the current regulatory regime for CEL and CNPSIL. The concept relates to how life insurance companies deal with their policyholders across a wide range of areas. Sections 3.8 and 4.8 of this report describe CEL's and CNPSIL's key areas of consideration regarding PRE. The HoAF of CEL has a responsibility to consider PRE. I have discussed with CEL and CNPSIL the key elements of PRE and what will happen post the Scheme of Transfer. In particular, I have discussed with the HoAF of CNPSIL the Company's views of PRE and that existing PRE practices in respect of CEL will remain unchanged post the Scheme, which is the case.

### 6.3.2 PRE considerations

- As set out in Section 6.2 there is a strong regulatory capital position in CEL and CNPSIL at 30 June 2018 before the Scheme of Transfer and that the regulatory capital position of CEL and CNPSIL remains strong after the proposed Scheme based on the proforma financial analysis prepared.
- The transferring policyholders' terms and conditions will remain unchanged as a consequence of the Scheme. There is no impact on CEL's remaining policyholders or on existing CNPSILs policyholders' terms and conditions.
- The range of discretionary powers available to CEL for the transferring policies is limited. I do not expect that the Scheme will cause a change in the range or impact of discretionary powers.
- As described in Section 5.2.2, while there will be a change in administration provider for the transferring policies given the day to day administration of transferring policies is limited, I do not expect the change of administration provider to be a concern. In my opinion the implementation of the Scheme will not have a material adverse effect on the service levels that transferring index linked retail tracker bond policies, CEL's remaining policyholders or CNPSIL's existing policyholders receive.

- From a security of proceeds and PRE perspective, the transferring index linked policy holders have a reasonable expectation that their matured benefits are secure and will be paid as they make a claim post transfer and the amount of their benefit will not fall from the date of maturity to the date of the claim payment (i.e. be impacted by negative interest rates). As the risk of default lies with the company rather than the policyholder, post transfer this risk will depend on the financial position of CNPSIL. As the assets are transferring within the same Group I do not expect any impact on the default risk of the cash assets as a result of the Scheme. I do not expect any impact on the investment strategy of the non-transferring CEL policyholders or existing CNPSIL policyholders as a result of this Scheme of Transfer.
- No policy expenses or charges are applied to the matured cash funds by CEL and going forward on transfer no charges will be applied by CNPSIL.
- The costs and expenses associated with implementing the Scheme will be met by CEL alone. The key is that no costs are borne by the CEL and CNPSIL scheme members or policyholders. Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.
- I am not aware of any disclosures or local legislative requirements which confer any additional reasonable expectations over and above the contractual terms of the policies.
- I note the approach to Scheme member communications. Given the challenges in communicating with the remaining policyholders over the past number of years, the approach of sending a circular to the last known address is reasonable. I recognise there is a risk that the policyholder may not receive it but I note the efforts made over the past number of years, the status of the policyholder will not change and the policy will continue to remain as part of the group. I note that CEL does not intend to write to policyholders remaining in the company post the Scheme, and CNPSIL does not intend to write to its policyholders. I am satisfied that CEL does not write to remaining policyholders and CNPSIL does not write to its policyholders regarding the Scheme, on the basis that the impact of the transfer to these groups of policyholders is not sufficiently material to warrant the additional expense in doing so.

I have been provided with draft versions of this policyholder circular and I have no issues to note with the detail included in it. The circular includes a statement summarising the terms of the proposed Scheme and a copy of the summary of the Independent Actuary's Report. The summary version of my Report covers all the material points and issues raised in this full report. Therefore, CEL's transferring policyholders will not be disadvantaged by the transmission of a summary version of my Report rather than the full Report. Remaining policyholders of CEL and policyholders of CNPSIL will not be disadvantaged in any way by not being issued with a copy of either the summary version or full version of the Independent Actuary Report.

- I note that the full Report is available to any interested party on request from the offices of CEL and CNPSIL in Ireland. In addition, the Summary Report will be included in the information pack which will be available on the CEL website [www.cnplife.ie](http://www.cnplife.ie) and CNPSIL website [www.cnpsantander.com](http://www.cnpsantander.com). CEL will also publish a notice of the proposed Scheme once in each

of two Irish daily newspapers, The Irish Independent and The Irish Times, and will publish notice of the proposed Scheme in the Italy.

- The Scheme makes no reference to complaints and redress. It is my understanding that these practices will remain unchanged as a consequence of the Scheme for all policyholders. I have no issues to note.

### 6.3.3 Conclusion

Based on the points above I am comfortable that transferring scheme members, remaining CEL policyholders and CNPSIL policyholders will be treated fairly post transfer and their reasonable expectations will not be adversely affected due to the Scheme.

## Appendix 1

### *Extract from KPMG Engagement Letter*

The role of Independent Actuary will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the transferring policyholders of CEL, the remaining policyholders of CEL and the existing policyholders of CNPSIL, and to opine as to whether any policyholders' interests could be in any way (either directly or indirectly) adversely affected by the proposed transfer.

In order to form my opinion, we will expect the tasks that will be carried out will include the following:

- review of existing company documentation (in particular, documentation sent to policyholders);
- review of the Scheme documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;
- review the proposed transfer considering the effect on all classes of policyholders covering their contractual rights, benefit security, and benefit expectations;
- in particular review the different regimes in place for the business from a financial and Policyholder Reasonable Expectations perspective and the proposals post transfer;
- review existing and proposed reinsurance and capital structures;
- review projected comparative solvency levels on a Solvency II basis before and after the proposed transfers;
- review of the effects of the transfer on the risks within the companies and the resources of those companies to meet those risks;
- liaise and raise issues and questions as necessary with the appropriate persons at CEL and CNPS; and
- liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.

We will provide a detailed information request list to you setting out our information requirements.

You agree to provide me with such information as I may reasonably require in order to carry out my role, including providing access to your relevant staff members to deal with questions and queries. You agree to use all reasonable endeavours to ensure that the information you provide is accurate and complete and that any caveats relating to such information are made clear to me.

We will expect to have access to the Head of Actuarial Function of both CEL and CNPSIL and have access to relevant technical staff in both companies as appropriate.

We will also review the complete documentation to be sent to policyholders in order to check that everything is in accordance with my understanding of the Scheme.

The terms of this engagement do not extend to the delivery of legal advice, which you will obtain as required from legal advisers under separate terms and conditions. We will not be responsible for facilitating the supply of legal advice to either or both of you, nor will we be responsible for monitoring or managing the quality or timing of legal or any other advice that either or both of you may obtain from other advisers in connection with matters relevant to the subject of our work. We will have no responsibility or liability in connection with the performance of any other suppliers advising either or both of you.

As indicated above, it is envisaged that, subject to the qualification noted below, our tasks will include the review of the Scheme documentation and the suggestion of drafting changes where appropriate. The qualification in respect of advice on the Scheme documentation is that our advice will be limited to issues of principle relating to actuarial considerations but will not extend to advice on drafting points. We will assist in identifying from the information provided to us areas of uncertainty in the relevant provisions of documentation and suggest amendments for consideration. However, the precise wording of the Scheme documentation is primarily a matter for lawyers and will reflect legal matters outside our expertise. Our comments and suggestions should not be relied upon as being suitable for incorporation into any documentation without further consideration by your legal advisers.

In my capacity as the Independent Actuary, I may receive correspondence from CEL and CNPSIL policyholders or policyholder groups but there is no requirement on me to, and it is not expected that I will, enter into any form of communication with such policyholders. Accordingly, I will forward such correspondence to CEL and CNPSIL (as appropriate, depending on the insurer with which any relevant correspondent policyholder(s) holds a policy (or policies)). In those circumstances, you agree that each Company and as relevant will, as a minimum, send a letter of acknowledgement to the relevant policyholder(s) indicating that the Independent Actuary has seen their letter and is aware of its contents but is not required to (and will not) respond to it. In addition, if any letters of objection to the proposed transfer are sent directly to either of you, copies of these letters will be sent to me for my consideration.

## Appendix 2

### ***Information received***

- Pro forma balance sheet
- Background documentation on the portfolio of policies for transfer
- Pricing memo regarding the transfer of the policies
- Example policyholder notification letter
- Historic regulatory returns, financial statements and HOAF report for CEL and CNPSIL
- Draft notification letter to the CBI
- Memorandum of Association of CEL and CNPSIL
- CEL and CNPSIL ORSA reports at 2017
- Examples of policyholder documentation/contracts
- CNPSIL 5 year business plan
- Various emails and info request log responses from CEL and CNPSIL

## Appendix 3

### *Curriculum Vitae of Independent Actuary*

Brian Morrissey is a qualified actuary with over 24 years experience.

- He currently heads up KPMG's actuarial practice in Ireland focusing on life and non-life insurance and reinsurance markets, both domestically and internationally.
- He has previously worked with KPMG in the UK and a regional role for KPMG out of Hong Kong (18 months 2001/02). During his time overseas, he gained significant exposure to the international insurance markets and the range of products sold in these markets.
- He has acted as Independent/ Expert Actuary on a number of expert opinions required by life insurance and reinsurance companies including significant portfolio transfers in the Irish and Isle of Man markets. He has acted as actuarial peer reviewer on a range of technical matters.
- He holds a number of statutory roles including Actuarial Function Holder under Solvency II to five life insurance/ reinsurance companies regulated in Ireland, Appointed Actuary in the Isle of Man and an Approved Actuary in Bermuda.



## Appendix 4

### PRE

#### Overview of PRE regime in Ireland

- The interpretation of PRE was originally considered to be an issue for companies writing “with-profits” investment policies of the type traditionally offered in the UK and Ireland. These contracts give the life insurance company significant discretion in relation to their operation particularly as regards to the amounts distributed to policyholders by way of bonuses and the timing of such distributions. The concept has, however, been extended to encompass the operation of unit linked business and to a lesser extent non-profit non linked business.
- Although the phrase “PRE” came into use in the 1970’s it does not appear in the Irish insurance legislation. PRE in Ireland has evolved over time and has been affected by, and in some instances overtaken by, legal, regulatory, consumer and industry developments such as the Consumer Protection Code, the Unfair Contract Terms legislation and the Personal Retirement Savings Account (“PRSA”) regulations of the Pensions Board (which is distinct from the CBI). It was mentioned in guidance notes produced in 2000 by the Department of Enterprise, Trade and Employment (a predecessor of the CBI) in relation to the European Communities (Life Assurance) Framework Regulations 1994. Under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. While there are no prescribed regulations, the CBI does consider PRE as part of its individual company engagements.
- The SAI adopted the Institute of Actuaries guidance notes until 1995 and these referred in places to PRE. In 1995 the SAI issued professional standards that referred to PRE and were mandatory for Irish Appointed Actuary’s under the Solvency I regime. These standards have been updated several times and in 2006 additional standard were issued to provide more guidance specifically to PRE. As mentioned above under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. Ultimately the Board is responsible for running the company and meeting PRE.
- Where not overtaken by legal aspects, PRE in Ireland remains a largely judgemental area because the actuarial standards are principle based. In applying these principles Irish HoAFs would usually take good practice into account such as that applied in the UK (such as the ABI’s “A guide of good practice for unit linked funds”, actuarial papers and regulatory requirements).
- It is worth noting that ASP LA-1, ASP LA-3 and ASP LA-4 apply only to Irish HoAFs and therefore would not apply to business sold into Ireland on a freedom of establishment basis.

#### Governance Arrangements

- The responsibility for treating customers fairly rests with the directors of the company.

- The Actuarial Function Holder (“AFH”) is a controlled function under regulation, and the AFH’s responsibilities include providing advice to the firm’s management on the risks the firm runs in so far as they have a material impact on the firm’s ability to meet liabilities to policyholders, including any liability or obligation arising from the requirement to treat customers fairly under Principle 6, including with respect to policyholders’ reasonable expectations.

## Appendix 5

### *Solvency II*

The European Solvency II Directive is a fundamental review of the capital adequacy and solvency supervision regime for the European insurance industry. As Solvency II is an EU initiative it applies in Ireland (and across Europe) in a harmonised way. Solvency II was implemented on 1 January 2016. Under Solvency II, the statutory role of the Appointed Actuary (“AA”) is replaced by the AFH. The role and responsibilities of the AFH under Solvency II are slightly different and somewhat narrower than those of the AA under Solvency I. For the purposes of this report the respective AFHs of CEL and CNPSIL have prepared the Solvency II figures. The change in actuarial governance does not impact on my assessment of the Scheme.

The Solvency II framework is made up of three Pillars.

Pillar 1 defines the financial resources that a company needs to hold in order to be considered solvent. In particular, it contains guidance on the valuation of assets, liabilities (technical provisions) and solvency capital requirements (the Minimum Capital Requirement (“MCR”) and Solvency Capital Requirement (“SCR”)). The higher of the solvency capital requirements, the SCR, is the capital required to withstand adverse 1 in 200 events over a one year period.

Failure to maintain sufficient financial resources to cover the SCR will require immediate notification to the supervisory authority, and the submission of a recovery plan. Standard formulae (including standard stress tests and correlations) or internal models may be used to calculate the SCR, although internal models will need to be approved by the regulators.

Pillar 2 focuses qualitatively on the governance and risk management systems in place and the supervision of these systems and controls. In particular, this includes a review of the SCR and the firm’s Own Risk and Solvency Assessment (“ORSA”). The ORSA is an assessment of the firm’s capital needs taking into account the specific risk profile and strategy of the firm. It analyses areas in which the SCR does not fully reflect this risk profile.

Pillar 3 involves disclosure of a firm’s financial condition in order to improve transparency to outsiders.

An insurer can choose one of two routes for Solvency II capital reporting. They can report on a prescribed standardised basis set out by regulation, or the insurer can choose to apply for regulatory approval to use an internal model to calculate the Solvency II capital requirement. Both CEL and CNPSIL report Solvency II using the standard formula basis.

## Appendix 6

### *Italian substitute tax regime*

For business written in Italy, where a company has opted into the Italian “sostituto d’imposta” tax regime, the company is required to make advanced tax prepayments at the rate of 45 bps per annum on the year-end unit reserves (in respect of business written in Italy) to the Italian Revenue, subject to cap levels on the total amount of prepayments.

Generally speaking these prepayments can subsequently be recovered via the following mechanisms:

- Method A: Against future policyholder exit tax on chargeable gains. Italian Capital Gains Tax applies to gains made on the surrender, maturity and death (apart from death benefits in excess of the unit value) of life insurance products;
- Method B: By offsetting against other Italian taxes payable (within a Group structure) including payroll taxes, corporation tax and capital gains tax;
- Method C: By offsetting against future prepayments if the prepayment tranche has not been recovered after five years; and
- Method D: Directly from the Italian Revenue. This situation effectively means closure to new business and having no remaining inforce business in Italy. The timing of such recovery is uncertain under this recovery mechanism.

On policyholder exit (i.e. Method A), the tax rate payable by policyholders on Italian government (and regional) securities is 12.5%. The tax rate payable for all other securities is 12.5% where gains incepted before 31 December 2011, 20% where gains incepted between 1 January 2012 and 30 June 2014, and 26% thereafter.

If, in the 5th year (following prepayment by the company) the credit is not fully utilised it can be carried forward for offset against substitute tax, tax on reserves, IRES, IRAP, VAT and payroll taxes in future years or transferred to other group companies as set out above.

## Appendix 7

### Glossary

AA	Appointed Actuary
AFH	Actuarial Function Holder
ASP	Actuarial Standard of Practice
BEL	Best Estimate Liability
CBI	Central Bank of Ireland
CEL	CNP Europe Life DAC
Class I Life Insurance	Life Assurance and contracts to pay annuities on human life
Class III Life Insurance	Contracts linked to investment funds
Class IV Life Insurance	Permanent health insurance contracts
Class VI Life Insurance	Capital redemption operations
CNP	CNP Assurances S.A.
CNPSIL	CNP Santander Insurance Life DAC
DAC	Designated Activity Company
GAAP	Generally Accepted Accounting Principles
HoAF	Head of Actuarial Function
Index Linked Retail Tracker Bonds	Type of Structured Product constructed to repay capital and to pay a coupon based on components of a basket of shares or a market index
ORSA	Own Risk and Solvency Assessment
Own Funds	Excess of assets over liabilities
PCF	Pre-Approval Controlled Function
PRE	Policyholders Reasonable Expectations
SAI	Society of Actuaries in Ireland
SCR	Solvency Capital Requirements
Solvency II	Risk based EU wide insurance directive which codifies and harmonises the EU insurance regulation. The regulation sets out the approach to calculation of capital that EU insurance companies must hold to reduce the risk of insolvency. Discussed further in Appendix 5.
TCF	Treating Customers Fairly
TPA Costs	Third-party Administrator

TPs	Technical Provisions
Unit Linked Portfolio Bonds	Investment based plans with higher return and risk than a traditional bank
YE	Year Ending