KPMG

Introduction

An Independent Actuary's Report ("Report") dated 19 November 2018 has been prepared in order that the Irish High Court, ("the Court"), the Central Bank of Ireland ("CBI), the policyholders and other affected parties may properly assess the impact of the proposed transfer of unclaimed index linked retail tracker bond policies (the "Scheme"). The proposed Scheme involves the transfer of the unclaimed index linked retail tracker bond policies of CNP Europe Life DAC ("CEL") into CNP Santander Insurance Life DAC ("CNPSIL") together known as the "Scheme Companies".

This Summary Report describes the Scheme and considers the potential impact and benefits on all affected policyholders (of both CEL and CNPSIL), including the security of their policies. This Summary Report is a summary of the Independent Actuary's Report. The full Report is available on request from the offices of CEL and CNPSIL and on their respective websites www.cnplife.ie and www.cnpsantander.com.

The proposed transfer of unclaimed index linked retail tracker bond policies from one entity to another must be approved by the Court. In addition the CBI as the regulator of the Scheme Companies will be consulted. The terms covering the proposed Scheme are set out in the Scheme document that will be presented to the Court. I refer to that document as the "Scheme of Transfer". It is anticipated that the Scheme of Transfer will be presented to the Court under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 (as amended) and Article 35 of the European Communities (Life Assurance) Framework Regulations 1994 in January 2019 for final approval with a proposed effective date of prior to 30 April 2019 ("Effective Date").

About the Independent Actuary

I am a partner in KPMG Ireland. I am a Fellow of the Society of Actuaries in Ireland with more than 25 years of experience of working in the insurance industry. I have previously conducted similar Independent Actuary roles with respect to businesses in Ireland. My full biography is included in the Report.

Use and Limitations

This Summary Report covers the main conclusions of the full Report. However, this Summary Report must be considered in conjunction with that Report and reliance must not be placed solely on this Summary Report. Both this Summary Report and the full Report must be considered in their entirety as individual sections, if considered in isolation, may be misleading. This Summary Report is subject to the same limitations on its use as are set out in the full Report. In the event of any real or perceived conflict between this Summary Report and the full Report, the latter contains the definitive description.

Neither the full Report, nor any extract from it, may be published without my specific written consent having been given, save that copies of the Report may be made available for inspection by policyholders and shareholders of the Scheme Companies and copies may be provided to any person requesting the same in accordance with legal requirements or any order of the Court. In the event such consent is provided, the full Report must be provided in its entirety.

A summary of my Report is set out below.

Background to CEL and CNPSIL

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.

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. By the Effective Date CNPSIL will expect to receive a license from the CBI to write Class III business in Ireland. They currently do not have authorisation to underwrite the business being transferred under the Scheme and I understand the application is in process.

My full report contains a summary of the products offered by the Scheme Companies. I have not reproduced these details in this Summary Report as my full Report is available on request from the Scheme Companies.

Details of the Scheme

CEL intends to transfer all unclaimed index linked retail tracker bond policies to CNPSIL via a Scheme of Transfer. The Scheme of Transfer provides for the transfer of CEL’s unclaimed index linked retail tracker bond policies, together with the associated liabilities and assets as at the Effective Date to CNPSIL, such that CEL’s policyholder liabilities are extinguished in CEL and CNPSIL become responsible for the CEL policyholder benefits.

The Scheme proposes at 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 proposed effective date is expected to be prior to 30 April 2019.

Independent Actuary’s 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).

Policyholder impacts

Security of benefits

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 30 June 2018 position is produced below).

The capital and solvency position of CEL and CNPSIL as standalone entities pre and what the projected post transfer position are set out in the table below.

Proforma Solvency II financial position (€'m)					
	30-Jun-18				
	Pre Transfer			Post Transfer	
	CEL	CEL (post Port. Bond surrender) **	CNPSIL	CEL	CNPSIL
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
Solvency coverage ratio	**608%**	**603%**	**233%**	**603%**	**233%**

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 'Other Liabilities' – further detailed split is included in the Full Report.

** CEL has a block of Italian Unit Linked Portfolio Bond business on its books which it expects to surrender prior to the Scheme. This column shows the financial position of CEL after this block of business surrenders but prior to the Scheme of transfer taking place.

I have considered the effects of the Scheme on the security of transferring CEL policyholders, remaining CEL policyholders and existing CNPSIL policyholder benefits and in doing so I have considered the following aspects:

— 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 above 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. On a proforma basis, post the transfer, the own funds position and regulatory solvency capital requirement coverage ratio are projected to remain 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 Own Risk and Solvency Assessment ("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.

Fair treatment of policyholders

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.
- 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.

Other considerations

- 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.
- As the policies transferring as part of the Scheme are Italian domiciled policyholders it is assumed that by the effective date CNPSIL will have opted into the Italian substitute tax regime and will meet the requirements as a tax agent for the Italian tax authorities.
- 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.

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.

Brian Morrissey

19 November 2018

Brian Morrissey, FSAI

Date

Independent Actuary

KPMG in Ireland