cutting through complexity

Report of the Independent Actuary

CUNA Mutual Life Assurance (Europe) Limited and Sterling Life Limited

19 November 2014

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1 Introduction

1.1 Purpose of the Report

CUNA Mutual Life Assurance (Europe) Limited ("CMLAE"), an Irish regulated life insurance company authorised by the Central Bank of Ireland ("CBI"), underwrites whole of life term assurance business and group life business in Ireland and also on a freedom of services basis in the United Kingdom ("UK"). (CMLAE's sister company CUNA Mutual Insurance (Europe) Limited ("CMIEL") is an Irish regulated non life insurance company, authorised by the CBI to underwrite non-life accident, sickness, injury and unemployment insurance business in Ireland and also on a freedom of services basis in the UK). CMLAE (and CMIEL) are part of the CUNA Mutual Group Holdings Europe Limited ("CMG"). CMLAE is regulated by the CBI.

Sterling Life Limited ("SLL") is a UK regulated assurance company, authorised by the Prudential Regulation Authority ("PRA") in the UK with responsibility for ensuring prudential solvency and also by the Financial Conduct Authority ("FCA") who have responsibility for conduct issues, to transact life and pensions assurance business (mainly term assurance and creditor business) and reassurance business in the UK and also on a freedom of services basis in Ireland. (SLL's sister company Sterling Insurance Company Limited ("SICL") is a UK regulated assurance company, which is authorised by the PRA in the UK to transact non-life insurance business in the UK and also on a freedom of services basis in Ireland). SLL (and SICL) are part of the Sterling Insurance Group Limited ("Sterling").

CMG has made a strategic decision to transition CMG's European underwriting operations to Sterling in the UK due to being unable to meet certain financial expectations. CMG has transferred it's renewable business into Sterling by way of a Renewal Rights Arrangement and intends to transfer the remaining life insurance business via a Portfolio Transfer in order to achieve a streamlined capital efficient outcome. The Renewal Rights Arrangement took effect from 1 October 2014 with CMLAE using its full, best and prompt efforts to ensure that its policyholders seek to replace their existing policies of insurance as they fall due for renewal with policies of insurance underwritten by SLL.

Under the Portfolio Transfer, it has been proposed that CMLAE will transfer its life assurance business to SLL (and CMIEL will transfer its non-life assurance business to SICL). CMLAE will transfer its life assurance business to SLL under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and the European Communities (Life Insurance) Framework Regulations 1994. I refer to the proposed transfer as the "Scheme". This Report is in respect of the proposed life assurance business Portfolio Transfer; a separate report will be provided in respect of the proposed non-life insurance business 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 in late November/ early December 2014 under Section 13 of the 1909 Act. The Scheme of Transfer document has been prepared by CMLAE's legal advisors.

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

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 CMLAE;
- Section 4: Provides relevant background information on SLL;
- Section 5: Commentary on the proposed Scheme;
- Section 6: Describes the general considerations when reviewing the proposed Scheme;
- Section 7: 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 an Appointed Actuary Certificate issued by the SAI. I currently act in the role of Appointed Actuary ("AA") to two regulated life insurance companies in Ireland. I sit on the Council of the SAI and am a member of various sub committees of the SAI. My curriculum vita is included in Appendix 3.

I have been appointed by CMLAE to act as the Independent Actuary in connection with the Scheme. SLL has agreed to my appointment. The CBI, PRA and FCA have been informed of my appointment by CMLAE and SLL and I understand have not raised any objections to my appointment. The terms on which I was formally appointed as the Independent Actuary are set out in an engagement letter dated 17th September 2014 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 CMG and Sterling. CMLAE and SLL 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:

- Regulation 35 of the European Communities (Life Assurance) Framework Regulations (S.I. No. 360 of 1994) ("1994 Regulations"), which contains the applicable Irish provisions on transfers of portfolios. Regulation 35 of the 1994 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".

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 CMLAE and the existing policyholders of SLL 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, CMLAE's life assurance business, incorporating the insurance policies, together with the associated liabilities and assets will be transferred to SLL, such that the policyholder liabilities are extinguished in CMLAE. I note that there will be certain items excluded from the Transfer and will remain with CMLAE. It is expected that the Effective Date will be March/ April 2015.

My consideration of the financial effects of the Scheme has been based on the method of reporting required for CMLAE's regulatory returns to the CBI (on a Solvency I or Pillar 1 basis as it is known in the UK) and for SLL's regulatory returns to the PRA (under both the Pillar 1 and Pillar 2 capital frameworks (as defined in Appendix 4)). I have also considered the potential effect of the Scheme on a Solvency II basis which is the new regulatory standard due to be implemented from 1 January 2016. I am satisfied that consideration of the CBI regulatory returns and solvency calculations and the PRA Pillar 1 regulatory returns and solvency calculations, Pillar 2 and Solvency II 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 done my best 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 CMLAE and SLL 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 CMLAE and SLL 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 CMLAE and SLL staff as necessary.

- I have provided the Appointed Actuary ("AA") of CMLAE (Michael Culligan) and the Actuarial Function Holder ("AFH") of SLL (Lindsay Unwin) with my Report to ensure they are aware of comments I have made in this Report in relation to actuarial information and their role as AA and AFH 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 CMLAE, SLL and Matheson (who are CMLAE'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 CMLAE, SLL 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 CMLAE, SLL 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.

In my role as Independent Actuary I have contacted the appropriate individuals within the CBI and SLL have contacted the PRA on my behalf. I have been made aware of relevant discussions between SLL and the PRA and FCA, and specifically inquired of them whether there were specific issues I should be aware of. I am not due to meet with the FCA but understand that they have access to my Report.

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 PRA, the FCA, the Board of Directors (of CMLAE and SLL), the AA of CMLAE and the AFH of SLL. It will also be made available to policyholders free of charge from the following:

- The registered office of CMLAE (The Harcourt Building, Harcourt Street, Dublin 2); and
- The registered office of SLL (50 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4JX)
- The registered office of Matheson in both the UK and Ireland (UK:16th Floor, 110 Bishopsgate, London, EC2N 4AY; Ireland: 70 Sir John Rogerson's Quay, Dublin 2).

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

This Report is prepared solely in connection with, and for the purposes of, informing the Court, the CBI, the PRA, the FCA and relevant potentially affected policyholders of my findings in respect of the impact of the Scheme on the security and service levels of potentially affected policyholders and may only be relied on for this purpose. This Report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter dated 17th September 2014. 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 19 November 2014 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

The exchange rates used in this Report are as follows:

- GBP to EUR exchange rate at 31 December 2013 was €1 = £0.83
- Figures are presented in Euro throughout the majority of the report. Figures relating to Sterling business in Section 4 are presented in GBP. I have identified clearly the currency of figures presented.

2 Executive Summary and Conclusions

2.1 Executive Summary

2.1.1 Overview

CMG has made a strategic decision to transition CMG's European underwriting operations to Sterling in the UK due to the business being unable to meet certain financial expectations of its shareholder. CMG has transferred its renewable business into Sterling by way of a Renewal Rights Arrangement (which is not part of my assessment of the Scheme, this was implemented with effect from 1 October 2014). CMG intends to transfer the remaining life insurance business via a Portfolio Transfer in order to achieve a streamlined capital efficient outcome. It has been proposed that CMLAE will transfer its life assurance business to SLL (and CMIEL will transfer its non-life assurance business to SICL). This Report considers the impact of the proposed transfer of the life assurance business of CMLAE into SLL, a separate report will be provided in respect of the proposed non-life assurance business Portfolio Transfer.

The Scheme proposed is one for the transfer of assurance business by order of the Irish High Court. The transfer of the CMLAE portfolio of insurance contracts to SLL will be achieved by using the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Article 35 of the European Communities (Life Assurance) Framework Regulations 1994. The Scheme provides for the transfer of CMLAE's life assurance business, incorporating the insurance policies, together with the associated liabilities and assets as at the Effective Date to SLL, such that CMLAE's policyholder liabilities are extinguished in CMLAE. Under the Renewal Rights Arrangement with effect from 1 October 2014 (prior to the Scheme) CMLAE is to use its full, best and prompt efforts to ensure that its policyholders seek to replace their existing policies of insurance as they fall due for renewal with CMLAE with policies of insurance underwritten by SLL.

The Scheme proposes on the Effective Date to:

- Transfer the assets supporting the policyholder liabilities of the CMLAE long term business fund to the long term business fund within SLL. We note:
  - The contingency reserve held by CMLAE for the closed to new business scenario (required by Irish regulatory rules) will be released at the Effective Date into the net assets of CMLAE and will not be transferred across to SLL. The resilience reserve (required by Irish regulatory rules) will also be released into net assets at the Effective Date; and
  - For Whole of Life insurance business the assets transferred will be in excess of those currently held by CMLAE due to more onerous reserve requirements for that business within the UK regulatory regime.
- All in force CMLAE policies and policies in respect of which any potential liability exists at the effective date should be included in the transfer. Upon transfer SLL will establish regulatory reserves in respect of the transferring CMLAE liabilities under their UK regulatory basis and methodology.

The operation of policies will not change and most supporting contractual arrangements should remain unchanged. I note specifically that existing CMLAE reinsurance on the business to be transferred will be cancelled as it is not required by SLL; that the investment management of the CMLAE's assets backing the transferring liabilities will transfer to SLL. There will be no changes to policyholder benefits

or to the administration of the business as a result of the Scheme and all rights and obligations of CMLAE will transfer to SLL.

The effective date of the Scheme is expected to be March/ April 2015.

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 capital (on the various regulatory bases both inforce and due to be implemented) of the companies and businesses involved.

Having identified the effects of the Scheme on the various companies and businesses, 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:

- CMLAE and SLL balance sheet information based on audited regulatory balance sheet figures as at 31 December 2013 and 31 December 2012, including proforma balance sheet information illustrating the impact of the transfer (after the implementation of the Renewal Rights Agreement) as if it had occurred as at 31 December 2013 assuming business renewed as part of the Renewal Rights Agreement on 1 October 2013.

- Estimates of the levels of risk-based capital (under the PRA Pillar 2 framework) in SLL (on a pre and post transfer basis), at 31 December 2013, required to ensure that policyholder benefits are secure and that the likelihood that each group of policyholders will not receive their benefits is remote.

  Estimates of the impact of the introduction of Solvency II on CMLAE and SLL (on a pre and post transfer basis), at 31 December 2013.

  The Pillar 2 and Solvency II data has been fully disclosed to me by CMLAE and SLL for my analysis, however due to commercial sensitivities; I have not reproduced the detail of the data within this Report.

- In forming my opinion, I have raised queries with key personnel responsible for core functions in the Scheme Companies, and I have placed reliance on, amongst other information, estimates of the impact on CMLAE policyholders of moving to a UK regulatory basis and estimates of the required Pillar 2 capital and Solvency II capital post transfer provided by CMLAE and SLL.

- 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 Pillar 1 and of Pillar 2 capital required.

- The extent to which the reasoning behind my opinion would be affected using alternative estimates of required risk-based capital based on Solvency II capital.

- Consideration of the range of management actions available to the Scheme companies to manage adverse events on a UK regulatory and Solvency II basis.

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

2.1.3 Key assumptions

I understand that:

- SLL intend to continue to underwrite similar business as currently written prior to the Scheme.

- Post transfer, transferring CMLAE business in respect of Irish policyholders will continue to be subject to CBI conduct of business rules, although prudential regulation will be the responsibility of the PRA and conduct regulation will be the responsibility of the FCA for the UK policyholders.

- There will be no change to policy terms and conditions of the transferring CMLAE policies or the existing SLL policies.

- The range of discretionary powers currently available to CMLAE for the transferring policies is reasonably limited relating to claims acceptance, premium refunds, premium repricing ability, and responsibility for the settlement of policyholder tax on chargeable gains[1] (this is discussed further in Section 3.8) and this discretion will remain with SLL; therefore, I do not expect that the Scheme will cause a change in the approach to the use of discretionary powers.

- No material change is expected in the risk profile of SLL, while CMLAE will no longer have any exposure to insurance risk.

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 CMLAE and SLL 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.

[1] An additional discretion historically applied by CMG is that, although 2nd and subsequent deaths on the Funeral Protect+ policy are chargeable events under UK tax rules, CMG does not issue chargeable events certificates but instead has agreed with the HMRC to pay any tax due based on an estimate of tax lost. To date this amount is negligible.

- I do not identify any adverse impact on service levels experienced by transferring CMLAE policyholders as a result of the Scheme; particularly as the administration is currently undertaken by Sterling Group. I expect no change in the levels of service experienced by SLL policyholders.

- Although the transferring CMLAE policyholders will be protected by a different regulatory capital regime in the UK as a result of the Scheme, I do not expect any materially adverse impact on policyholder security as a consequence of this change, as the UK regulatory capital requirements are also designed to ensure that the probability that policyholders will not be paid their benefits is remote.

- I have considered the relative capital strength of CMLAE and SLL respectively prior to the transfer (but post the Renewal Rights Agreement), and SLL post the transfer.

  - I note that the proforma financial information presented is based on 31 December 2013 audited financial information which is dated at this stage. However I am comfortable that it is a reasonable basis to assess the effects of the Scheme. A Supplementary Report will be prepared for the final Court hearing which will reflect the 31 December 2014 financial position for both CMLAE and SLL.

  - Financial analysis: I have based my analysis on the most recent audited financial information at 31 December 2013 including regulatory returns to the CBI and PRA and 30 June 2014 management information. I am not aware of material negative adjustments since 31 December 2013 likely to adversely impact the financial analysis below.

  - Risk profile: If the proposed transfer takes place, the risk profile of SLL after the transfer should not be materially changed from its risk profile before the transfer as the types of risks inherent in CMLAE's business are similar to the life assurance business written by SLL. I note that the assets being transferred in respect of whole of life business will need to be invested in assets of the right nature, term and duration which is SLL's intention. I assume that this investment will be made to avoid additional reserve/ capital requirements in respect of a mismatch.

  - Pillar 1: The Pillar 1 capital and solvency position of CMLAE and SLL as standalone entities pre transfer (pre and post the Renewal Rights Agreement) and as a combined entity post transfer are set out in the table below. The proforma analysis has been prepared as if the Renewal Rights Agreement took place on 1 October 2013 and the Scheme took place on 31 December 2013.

Table 2.1 Proforma projected Solvency I capital requirement at 31 December 2013

	Pre Transfer		Pre Transfer (post RRA*)		Post Transfer	
€m	**CMLAE**	**SLL (Pillar 1)**	**CMLAE**	**SLL (Pillar 1)**	**CMLAE**	**SLL (Pillar 1)**
Assets available to meet liabilities to policyholders	14.5	52.7	13.1	54.2	9.0	58.3
Technical provisions***	5.1	29.9	3.7	31.3	1.9	35.4
Other liabilities**	2.5	8.0	2.5	8.0	2.5	8.0
Net Assets available to cover required minimum solvency margin	6.9	14.8	6.9	14.8	4.7	14.8
Required minimum solvency margin	3.7	7.6	3.7	10.9	3.7	11.2
Excess of available assets	3.2	7.2	3.2	3.9	1.0	3.6

Solvency margin coverage ratio	185%	195%	185%	136%	126%	132%

Note: *Renewal Rights Agreement
**CMLAE figures includes items such as expense accruals, taxation, experience rebate accruals, commission, unallocated premiums and intercompany payables
*** CMLAE figures include a closed fund reserve of €1.85m
Source: Summary of key numbers 2013-12-31 V2 2014-10-06.xls

The movement in the proforma presentation at 31 December 2013 in Table 2.1 is described below:

- Pre Transfer to Pre Transfer (post RAA):
  - CMLAE assets and technical provisions are reduced by €1.4m reflecting the run off of the reserve held for renewal business. SLL assets and liabilities are increased by the equivalent €1.4m.
  - CMLAE and SLL net assets are not impacted.
- Pre Transfer (post RAA) to Post Transfer:
  - CMLAE assets of €4.1m are transferred to SLL equivalent to the technical provisions established in SLL of €4.1m and technical provisions of €1.9m are extinguished in CMLAE; SLL assets and technical provisions increase by €4.1m.
  - The overall impact is a reduction in net assets of €2.2m in CMLAE (reflecting the additional assets transferred over to SLL as part of the Scheme in excess of the technical provisions extinguished in CMLAE) and effectively no change to SLL net assets.

Notwithstanding the excluded assets and liabilities left in CMLAE, the post transfer SLL regulatory capital position remains strong at the proforma date. I note that the assets and liabilities relating to CMLAE business are less significant than SLL business. There is a strong regulatory capital position on a CBI regulatory basis in CMLAE at 31 December 2013 before the Scheme. The UK Pillar 1 regulatory capital position in SLL remains strong on a standalone and a combined basis after the proposed Scheme of Transfer from the perspective of the transferring CMLAE policyholders and the existing SLL policyholders based on the proforma financial analysis prepared. While CMLAE policyholders will sit in a company that has a lower regulatory capital coverage ratio post transfer (185% pre transfer in CMLAE versus 132% post transfer in SLL at 31 December 2013), they will be part of a larger company that has a higher level of available capital resources (available assets of £13.1m pre transfer in CMLAE versus £58.3m post transfer in SLL at 31 December 2013).

I have been provided with projected technical provisions and a projected net asset position of CMLAE at the Effective Date in March/ April 2015. I note that the technical provisions are projected to increase due to changes in investment yields backing Whole of Life business (with some compensating increase in the value of assets backing the technical provisions). The pre transfer net asset position is projected to fall reflecting a negative operating profit result including the impact of operating expenses incurred during 2014. CMLAE's projected net asset position will be weaker than illustrated in Table 2.1 which reinforces the strategic decision to transfer the business to SLL. I would not expect the SLL solvency position at the Effective Date to be materially different from the post transfer position presented in Table 2.1.

In the event of there being Excluded Policies, it is proposed that a reinsurance treaty will be put in place such that these Excluded Policies will be one hundred percent reinsured from CMLAE to SLL, unless/ until the relevant policyholder agrees to its novation to SLL. I would expect the reinsurance treaty to be structured in such a way that in the unlikely event of SLL winding up

every excluded policyholder under the reinsurance treaty would rank equally to other SLL policyholders. So in the event of there being Excluded Policies, at the Effective Date CMLAE will have this reinsurance treaty in place and will continue to be capitalised sufficiently to meet its regulatory obligations. I consider this to be an unlikely scenario.

- Pillar 2 Position: SLL is well capitalised on a Pillar 2 pre transfer basis at 31 December 2013. Post transfer the Pillar 2 position is expected to remain above target levels.

- Solvency II: I have been provided with pre transfer Solvency II results for CMLAE and SLL. Both CMLAE and SLL have a strong and improved solvency coverage ratio on a Solvency II basis compared to Solvency I. The impact of the Transfer is not expected to be material on the SLL Solvency II position.

- Business Plan: When assessing the financial consequences on the security of policyholders, I have considered the SLL business plan which outlines profits over the period to 2018. The CMLAE FCR shows a declining level of financial strength over the next three years which supports the strategic decision to transfer the business.

I intend 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. In this Supplementary Report I will review my findings and opinion which will include consideration of the following:

- Business performance in the period and updated financial information based on the position at 31 December 2014;

- Relevant market developments in the period including the actual impact of the RRA;

- Progress on the implementation of Solvency II;

I understand that this Supplementary Report is intended to be made available on the CUNA Mutual Europe website and Sterling Insurance Group Limited website no later than three weeks prior to the final hearing date, both of which are planned for March/ April 2015.

2.2 Conclusions

Having considered the impact of the Scheme on both the transferring policyholders of CMLAE and the existing policyholders of SLL, 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 CMLAE and SLL policyholders is based on:

- My review of all the pertinent historic and current information provided by CMLAE and SLL;

- The investigations completed by the CMLAE AA and the SLL AFH and their respective conclusions based on those investigations, as set out in their actuarial reports; and

- Discussions with the management of CMLAE and SLL on what will happen post transfer.

My assessments are made in the context of the current Irish and UK regulatory regimes and the proposed Solvency II regime from 1 January 2016.

19 November 2014

Brian Morrissey, FSAI Date

Independent Actuary

KPMG in Ireland

3 CUNA Mutual Life Assurance (Europe) Limited

3.1 Structure and background

CMLAE is an Irish regulated insurance company underwriting whole of life term assurance business and group life business in Ireland and also on a freedom of services basis in the UK. It is a wholly owned subsidiary of CMG, an Irish company which is a wholly owned subsidiary of CUNA Mutual International Holdings Limited, registered in the Cayman Islands which is a wholly owned subsidiary of CMFG Life Insurance Company registered in Iowa in the United States. On 1 August 2005 CMLAE was granted authorisation as a life assurance undertaking to carry on Class I life assurance business and Class IV Permanent Health Insurance ("PHI") business. CMLAE operates out of Harcourt Street, Dublin, the business has focused on both the Irish and UK market. It operates in the UK under the 'freedom of services' provisions of the EU's Third Life Directive as implemented in Irish insurance regulation. CMLAE has no other authorisations and does not passport into any other jurisdictions.

The principle activity of CMLAE is the underwriting of life assurance and group life business in Ireland and the UK. CMLAE's sister company CMIEL underwrites non-life accident, sickness, injury and unemployment insurance business in Ireland and also on a freedom of services basis in the UK. CMLAE is regulated by the CBI.

CMG has made a strategic decision to transfer CMLAE's business into SLL by way of a Portfolio Transfer and a Renewal Rights Arrangement in order to achieve a streamlined capital efficient outcome. Under the Renewal Rights Arrangement with effect from 1 October 2014 CMLAE is to use its full, best and prompt efforts to ensure that its policyholders seek to replace their existing policies of insurance with policies of insurance underwritten by SLL.

Products are distributed in Ireland and the UK through two distribution companies, CUNA Mutual Group Services (Ireland) Limited and CUNA Mutual Group Limited, who develop and manage the relationships with policyholders and sub-agents such as Credit Unions, Building Societies and other affinity partners.

As at 31 December 2013 CMLAE was open for new business on all products except Family Protection Plan business. I understand over the year most products have now closed to new business with the exception of Funeral Protect+ business (pending termination of last agency agreement). CMLAE has now closed to new business.

It is intended that the distribution companies, CUNA Mutual Group Services (Ireland) Limited and CUNA Mutual Group Limited, will be sold to new owners who will enter into a new distribution agreement with SLL (and SICL for non-life business).

3.2 Nature of business written

CMLAE underwrites term assurance and group life business in both the UK and Ireland. The company focuses on the following market sectors: Irish credit unions, UK credit unions, UK Building Societies and Other UK Partners – Co-Operative, Funeral planning companies etc. CMLAE's in-force portfolio can be split into the following product types:

- Life savings ("LS");
- Loan protection ("LP");

- Death Benefit Insurance ("DBI");
- Group life and Critical Illness ("Group Life & CI");
- Family Life + ("FL+");
- Family Protection Plan ("FPP"); and
- Funeral Protect + ("FP+").

Table 3.1 CMLAE's long term business

	31 December 2011			31 December 2012			31 December 2013		
	Number of Policies	**APE**	**Net of Reinsurance Reserves**	**Number of Policies**	**APE**	**Net of Reinsurance Reserves**	**Number of Policies**	**APE**	**Net of Reinsurance Reserves****
		€m	**€m**		**€m**	**€m**		**€m**	**€m**
Irish business	154	5.5	1.5	156	5.2	1.6	157	5.2	1.7
UK business	1,510	5.7	1.2	3,485	6.4	0.8	5,034	6.3	1.4
Other*	-	-	1.8	-	-	1.9	-	-	2.0
Total	**1,664**	**11.2**	**4.4**	**3,641**	**11.6**	**4.2**	**5,191**	**11.4**	**5.1**

Note: *Closed fund provision and resilience reserve
Source: Summary of key numbers 2013-12-31 V2 2014-10-06.xls

At 31 December 2013 all business was monthly renewal premium business apart from; FL+ / FP+ business which is long-term regular premium business (and represents 9% of the premium) and Group life and Critical Illness business which is annual premium business (and represents less than 1% of the premium).

3.3 Risk Profile and management

3.3.1 Overview of risks

CMLAE is exposed to a range of risks as follows:

- Economic and market risks including investment risk;
- Demographic risks: primarily mortality, morbidity and persistency risk;
- Financial risks including sovereign default risk and expense risk;
- Regulatory/ fiscal risk which can come from increases in taxation, revisions in asset admissibility, changing reserve requirements and changing disclosure requirements; and

- Operational risks mainly arising from management and staff, administration procedures, distribution and compliance.

These risks are overseen and managed by the Board Risk Committee. The Board Risk Committee reviews all risk and compliance issues affecting CMLAE. The primary risk to the security of CMLAE's policyholder benefits is that one or more of the risks identified give rise to an event which renders CMLAE 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

3.3.2 Risk Appetite

In line with the Corporate Governance Code, published by the CBI in 2010, CMLAE has a Board-approved Risk Appetite Statement. CMLAE's Risk Appetite Statement is reviewed and approved by the Board on an annual basis. The Risk Appetite Statement sets out both qualitative and quantitative risk measures and is built around 4 risk groups (Strategy/ Business Model Risk, Insurance Risk, Market Risk and Operational risk). The performance of the company against the Risk Appetite is monitored on a monthly basis and formally reported to the Board Risk Committee on a quarterly basis (although any risk measures which fall outside defined tolerances are immediately reported to the chair of the Board Risk Committee).

The Risk Appetite Statement seeks to connect CMLAE'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 were drafted by CMLAE's Board.

3.3.3 Governance

The company has implemented a risk management framework which includes:

- A three year rolling strategic plan which is updated on at least an annual basis supported by a capital plan to ensure the company has sufficient capital to deliver this strategic plan;

- A Risk Appetite Statement which is reviewed and approved by the Board on an annual basis;

- Formal policies established by the Board for key risk areas such as underwriting risk, re-insurance and Asset Liability Matching and Investment risks. These are supplemented with a compliance manual containing policies & procedures covering the broader operations of the business.

- The CRO (together with the broader executive team) maintains a formal risk register. Identified risks are managed by the executive on an on-going basis through mitigating controls and policies, key risk indicators and specific actions and the risks are rated by reference to probability of occurrence and impact. The resulting risk landscape is reported to the Board Risk Committee on a quarterly basis;

- The risk register / risk landscape is informed by the output from on-going compliance monitoring activity and risk incidents and errors reported by the business. Material risk incidents and the output from the compliance monitoring program are also reported to the Board Risk Committee on a quarterly basis; and

- There is also an internal audit function in place which acts as a third line of defence.

As well as the Board of Directors:

- There are two sub-committees of the Board – an Audit Committee and a Risk Committee.

- At the executive management level, there is an Operations Committee ("OpCo") which comprises the heads of the various functions and which meets monthly. There is also an Asset & Liability Committee ("ALCo") comprising the CEO, CFO and CRO which meets quarterly. The OpCo is supported by a number of executive sponsored committees including the Executive Risk Committee, the Product & Claims Quality Committee and a Credit Committee.

3.4 Operational arrangements

The company operates on an outsourced business model with a number of key services being provided by third parties.

- Policy and claims administration is outsourced to Sterling Group;

- Other functions, such as Human Resources and Asset Management Services are provided in whole or in part by the company's ultimate parent in the USA; and

- Milliman provides Appointed Actuary and other actuarial consulting services. The Appointed Actuary is Michael Culligan.

Product development and pricing is carried out in-house. The average number of employees in 2013 was 18 (2012: 15), employed in the areas of Operations & Administration, Marketing and Finance. CMLAE employees also perform services for the company's sister non-life insurance company, CMIEL and the Irish and UK distribution companies (CUNA Mutual Group Services (Ireland) Limited and CUNA Mutual Group Limited).

3.5 Reinsurance

There is one reinsurance treaty in force, an excess of loss treaty where CMLAE is reinsured by CUNA Mutual Insurance Society which provides catastrophic loss protection. This reinsurance covers losses in excess of €500,000 arising from a single event – subject to a maximum of €25m per event.

3.6 Financial Profile

3.6.1 Background

Irish insurance legislation requires life assurance companies to appoint an actuary ("the Appointed Actuary") who is required to conduct an annual investigation into its financial condition and to report to the company's directors and to the CBI. The Appointed Actuary must certify the Company's mathematical reserves and solvency margin requirement and confirm that new business premiums are sufficient, in the context of the Company's capital resources; to enable it to meet its commitments and to establish adequate provisions. The Appointed Actuary must also certify that proper records have been kept by the Company, and must take into account his interpretation of the Company's PRE.

The general requirement by which the mathematical reserves must be calculated is given in paragraph 2 of Annex IV of the 1994 Regulations which may be briefly summarised as:

- Proper provision shall be made for all liabilities on prudent assumptions having regard to the relevant factors and using a sufficiently prudent prospective actuarial valuation and taking account of the liabilities as determined by the policy contracts for each existing contract.

- Liabilities shall be calculated separately for each contract.

- The method of calculation shall not be subject to discontinuities from year to year arising from arbitrary changes and shall recognize the distribution of profits in an appropriate way over the duration of each policy.

- A prudent valuation is not a "best estimate" valuation but shall include an appropriate margin for adverse deviation of the relevant factors.

- The statistical elements of the valuation and the allowance for expenses used shall be chosen prudently.

In addition, the Appointed Actuary is required to comply with Actuarial Standards of Practice issued by the Society of Actuaries in Ireland relating to the valuation of life assurance business and PRE i.e. ASP LA-1: "Appointed Actuaries and Life Assurance Business", ASP LA-3: "Additional Guidance for Appointed Actuaries on Valuation of Life Assurance Business" and ASP LA-4: "Additional Guidance for Appointed Actuaries on Policyholders' Reasonable Expectations".

3.6.2 Mathematical reserves

Table 3.2 below summarises CMLAE's mathematical reserves over the last three years to 31 December 2013 which is the date of the most recent available information.

Table 3.2 CMLAE Mathematical Reserves

€m	31 December 2011	31 December 2012	31 December 2013
Unearned premiums	0.1	0.1	0.0
Claims reserves	2.1	2.3	3.1
Resilience reserve	0.4	0.1	0.2
Closed fund reserve	1.8	1.9	1.9
Total	**4.4**	**4.2**	**5.1**

Source: Regulatory Returns to the CBI and 'Balance sheet as at 2013-12 - V3 2013-11-13.xls'

At 31 December 2013, there were 5,191 policies in force and the mathematical reserves of the company totalled €5.1m.

I have been provided with regulatory returns to the CBI and AA reports supporting the figures included in Table 3.2 above. I have no issues to note from my review of the financial information prepared by the Appointed Actuary and my discussions with the Appointed Actuary.

3.7 Solvency Position

3.7.1 Solvency I (CBI basis) capital requirement

Table 3.3 below sets out the historic solvency position of CMLAE, under the CBI Solvency I framework, for the three years to 31 December 2013.

Table 3.3 CMLAE Solvency I Capital Requirement

€m	31 December 2011	31 December 2012	31 December 2013
Assets available to meet liabilities to policyholders	12.1	11.8	11.5
Mathematical reserves	4.4	4.2	4.7*
Net Assets available to cover required solvency margin	7.7	7.6	6.8
Calculated solvency margin	3.5	3.7	3.7
Excess of available assets over solvency margin	4.2	3.9	3.1
Solvency margin coverage ratio	**219%**	**204%**	**185%**

Source: Regulatory Returns to the CBI
Note: * This excludes pending claims of €0.4m which if included would increase the mathematical reserves to €5.1m as per table 2.1

As at 31 December 2013 the returns to the CBI showed that the total life assurance business available assets to meet liabilities of policyholders of CMLAE were €11.5m while mathematical reserves amounted to €4.7m. There were thus €6.8m surplus assets available, an excess of €3.1m over the required minimum solvency margin of €3.7m. There was a solvency margin coverage ratio of 185%.

Over the past three years the Solvency I solvency margin coverage ratio has been well in excess of the 150% level which the CBI requires companies to exceed. Therefore, CMLAE has maintained a strong Solvency I capital position. However, experience during 2014 has been poor with operating losses due to the sub scale nature of the business rather than specifically poor claims experience which will give rise to a lower solvency margin coverage ratio in CMLAE at the time of the transfer in March/ April 2015.

3.7.2 Future regulatory capital requirements

I have considered the most recent Financial Condition Report ("FCR") completed in 2013.

The CBI requires all life insurance companies to prepare and submit a FCR at least once every three years. The purpose of preparing a FCR is to identify plausible threats to a satisfactory financial condition, actions that lessen the likelihood of those threats, and actions that would mitigate a threat if it materialised. The most recent FCR prepared by the Appointed Actuary for CMLAE was completed on 30 July 2013.

The FCR is useful in terms of understanding the risks inherent in the business and the stability of the Solvency I capital position over time on a central scenario and a range of adverse sensitivities and scenarios. The projection period considered in the report is 2013 to 2017. The central scenario of the FCR illustrated that CMLAE is projected to make losses each year over the next few years as the level of premium income expected will not be enough to provide a sufficient contribution to cover the operating expenses of the company. A range of adverse sensitivities and scenarios were tested on the projected solvency position of the company over 2013 to 2017 to assess the resilience to a range of potentially adverse outcomes including economic growth and decline scenarios, CMLAE ceasing to writing new business and CMIEL closing to new business, adverse claims experience, changes in sales volumes, changes in persistency experience, changes in exchange rates and changes in interest rates. The FCR illustrated that CMLAE would require some capital injections at the end of the projection period under most scenarios to maintain the 150% solvency margin coverage. I have no issues to note from my review of the FCR information prepared by the Appointed Actuary. The analysis supports the strategic decision to transfer the business.

3.7.3 Solvency II

I note that Ireland and the UK (with the rest of Europe) plan to replace the current Solvency I regime with the more sophisticated Solvency II regime with effect from 1 January 2016, a regime which incorporates economic capital modelling into insurer capital requirements. 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 will apply in Ireland and the UK (and across Europe) in a harmonised way.

I have been provided with estimates of the impact of Solvency II on CMLAE on a pre transfer basis at 31 December 2013. The figures reviewed are based on CMLAE's interpretation of the proposed regulations, and additional supervisory guidance may result in revisions to this interpretation. The interpretations of the Solvency II effects as presented to me are reasonable. I note that the current assessment of the impact of Solvency II on CMLAE on a standard formula basis is that it should have sufficient capital to meet its solvency requirements; there is a slightly improved solvency coverage position under Solvency II as at the calculation date though, as for the Solvency I FCR, the solvency margin coverage ratio is expected to decline over the next number of years. Therefore, as a standalone entity prior to the transfer, CMLAE policyholders should not be materially impacted by a move to Solvency II based on the financial analysis presented; though as for the FCR in the longer term, the solvency position would become weaker.

3.8 Policyholder Reasonable Expectations

There is no statutory regulation in relation to PRE. I am required to consider PRE in ASP LA-6 in the context of the work of the Independent Actuary. The Appointed Actuary has to consider PRE in ASP LA-4 'Additional guidance for Appointed Actuaries on policyholders' reasonable expectations'. I have taken those views into account in considering PRE in the context of the proposed Scheme. The Appointed Actuary of CMLAE sets out in the Appointed Actuary Valuation report each year his interpretation of PRE and how it is exercised for policyholders. I have discussed PRE with the Appointed Actuary and his interpretation of PRE for the policyholders of CMLAE and I have no issues to note.

The benefits arising under the transferring CMLAE policies are straightforward and guaranteed in nature; therefore the areas of PRE to consider for transferring policyholders are as follows:

- Security of benefits: transferring policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the transferring policyholders are exposed to before and after the transfer, including the relevant financial position of the companies.

- Entitlement to benefits: transferring policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. I have reviewed CMLAE's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms, or constrain the use of discretion by CMLAE.

- Service standards: transferring policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly.

- Discretionary powers available to CMLAE: transferring policyholders have a reasonable expectation that any discretion available to CMLAE will be applied in a fair and reasonable manner. The use of discretion by CMLAE is reasonably limited and principally relates to:
  - the assessment as to whether a claim is valid or not;
  - the appropriate premium rate to charge (specifically for FPP business); and
  - responsibility for the settlement of policyholder tax on chargeable gains on behalf of the tax payer. An additional discretion historically applied by CMG is that, although 2nd and subsequent deaths on the Family Protect+ and Funeral Protect+ policies are chargeable events under UK tax rules, CMG does not issue chargeable events certificates but instead has agreed with the HMRC to pay any tax due based on an estimate of tax lost. To date this amount is negligible with a small number of cases (about 15) each year. If the level of gains increases on the above products the company will need to notify HMRC. Post transfer SLL will need to agree an approach with HMRC for settlement of policyholder tax on chargeable gains. The approach to the use of these discretionary powers will not be materially altered as a result of the Scheme, we comment on this further in Section 7.2.

3.9 Other regulatory matters

I am not aware of any other regulatory matters.

4 Sterling Life Limited

4.1 Structure and background

SLL is a UK regulated assurance company, which is authorised by the PRA in the UK to transact life and pensions assurance business (mainly term assurance and creditor business) and reassurance business with responsibility for ensuring prudential solvency and also by the FCA who have responsibility for conduct issues. SLL's sister company Sterling Insurance Company Limited ("SICL") is a UK regulated assurance company, which is authorised by the PRA in the UK to transact non-life insurance business. SLL (and SICL) are part of the Sterling Insurance Group Limited ("Sterling"). SLL operates out of 50 Kings Hill Avenue, Kings Hill, West Malling, Kent. It operates in Ireland under the 'freedom of services' provisions of the EU's Third Life Directive.

The principle activity of SLL is the underwriting of term life assurance, critical illness and creditor insurance business in the UK and Ireland. SLL's sister company SICL underwrites household, commercial, non-life accident, sickness, injury and unemployment insurance business in the UK and also on a freedom of services basis in Ireland.

CMG has made a strategic decision to transfer CMLAE's business into SLL by way of a Portfolio Transfer and a Renewal Rights Arrangement in order to achieve a streamlined capital efficient outcome.

4.2 Nature of business written

SLL underwrites term assurance and creditor business in the UK and Ireland to affinity partners. SLL's in-force portfolio can be split into the following product types:

- Term assurance – level and decreasing premiums;
- Standalone critical illness;
- Accelerated critical illness;
- Monthly credit card protection;
- Revolving credit (monthly renewable creditor business); and
- Disability income.

Table 4.1 SLL's long term business

	31 December 2011			31 December 2012			31 December 2013		
	Number	**APE**	**Net of Reinsurance Reserves**	**Number**	**APE**	**Net of Reinsurance Reserves**	**Number**	**APE**	**Net of Reinsurance Reserves**
	Policies	**£m**	**£m**	**Policies**	**£m**	**£m**	**Policies**	**£m**	**£m**
Term assurance	40,258	4.2	12.8	38,650	4.0	14.8	34,846	3.9	13.8
Creditor business	46,980	0.0	10.4	594,347	3.7	7.2	348,568	2.7	5.5

Other reserves	748	0.0	7.5	578	0.0	6.0	61	0.0	5.7
Total	**87,986**	**4.2**	**30.7**	**633,575**	**7.7**	**28.0**	**383,475**	**6.6**	**25.0**

Source: 20131231 SLL Pillar 1 Capital Post Transfer v5.xls

At 30 June 2014 there were 36,908 regular premium, 17,415 single premium and 289,125 recurrent single premium policies in force in SLL.

4.3 Risk Profile and management

4.3.1 Overview of risks

SLL is exposed to a range of risks as follows:

- Insurance risk (typically mortality risk);
- Market risk (Investment risk);
- Credit risk (through corporate bonds, reinsurance and broker exposure);
- Liquidity risk;
- Operational risks mainly arising from management and staff, administration procedures, distribution and compliance.
- Business and strategic risk; and
- Group risk.

These risks are overseen and managed by the Risk Committee who review all risk and compliance issues affecting SLL. The primary risk to the security of SLL's policyholder benefits is that one or more of the risks identified give rise to an event which renders SLL insolvent.

4.3.2 Risk Appetite

Annually the Board of SLL reviews risk appetites and provide guidance on the risk tolerance of the Company within the areas of Insurance Risk, Market Risk, Credit Risk, Liquidity Risk, Operational Risk, Business & Strategic Risk and Group Risk. For each risk category, risk limits and monitoring criteria are established with clear definition of those responsible for carrying out and reporting on the monitoring activity and any exceptions observed. This risk appetite document also lays out the oversight responsibilities for the approval of risk appetite and the operational responsibilities for the management of the business within the approved appetite.

4.3.3 Governance

SLL has various committees in place which are responsible for management, monitoring and reporting of risk which form part of the risk management framework of the company. The risk management framework also consists of:

- A Risk Appetite Statement which is reviewed and approved by the Board on an annual basis;

- A Risk Committee, an Investment Committee and a Management Committee each with their own objectives. The Risk Committee agree and review performance indicators and management information to monitor and assess risk on a regular basis and report these matters to the Board on a regular basis. The Investment Committee communicates the existence and nature of new market, investment credit or liquidity risks, or changes to such, to the Risk Committee on a quarterly basis. The duties of the Management Committee include the need to actively manage the risks to the Group's continuing business and ongoing operations.

- The Board of Directors have ultimate responsibility over corporate governance polices, although the responsibility of day-to-day implementation is delegated to the Risk Committee and Management Committee.

- Governance applied in line with a Group governance manual;

- Policies and procedures covering key risk areas.

4.4 Operational arrangements

Sterling's Head Office is in Kent, UK with 387 employees (as at May 2014). These employees provide the capabilities to support the operations of SLL, SICL and Sterling Administrations Services Limited ("SAS"). In addition to providing administration services to CMG, SAS provides administration services to other insurance operations in the UK and Ireland.

Core services are provided in house however Sterling uses various sub-service organisations to provide services, which are managed and controlled through the Material Third Party Arrangements Policy. Such arrangements include Mimecast Services Ltd to provide a cloud based email service and Strawberry Global Technology Ltd to manage the internal and external networks for Sterling.

4.5 Reinsurance

There are a variety of reinsurance treaties in force as at 31 December 2013. The more material treaties are described below, there are further reinsurance treaties in place (with less material impact on the reserves) which are not commented on here:

- 90% of individual term assurance business is reinsured to Munich Re on an original terms basis;

- Group term assurance covering Norwegian Group business is reinsured to Munich Re;

- 50% of individual term assurance business sold to members of the British Armed Forces is reinsured to Munich Re. This treaty is closed to new business;

- 50% of individual term assurance business sold to members of the British Armed Forces is currently reinsured to SCOR.

- Individual term assurance business sold to members of the British Armed Forces is subject to protection provided by the British Government, through the Ministry of Defence ("M.O.D");

- 40% of all Creditor agreements based on a reducing sum assured is reinsured to Munich Re. This treaty is closed to new business;

- 60% of all Creditor agreements based on a reducing sum assured is reinsured to SCOR; and

- 100% of all Group Creditor agreements based on a reducing sum assured is reinsured to CUNA. Note this reinsurance agreement was cancelled from early 2014.

4.6 Financial Profile

4.6.1 Background

The prudential regulation of insurance companies in the UK is carried out by the PRA. The PRA has rules to govern the conduct of insurance companies, which encompass the requirements of European Insurance Directives and UK legislation. As well as the financial reporting that applies to other types of companies, insurers are also required to provide additional financial information publicly and privately to the PRA. If a firm fails to meet its regulatory capital requirements the firm is normally required to submit a plan to the PRA showing how it will restore its capital resources to the required level.

There are a number of ways in which the PRA require insurance companies to demonstrate their solvency and capital strength. This is based around the concept of three pillars:

- Pillar 1, which is a requirement to calculate and publicise assets, liabilities and capital requirements in accordance with detailed rules. The larger with-profits companies are required to calculate this measure in two ways and hold capital to meet the higher of the two requirements. This is termed the Twin Peaks requirement, with Peak 1, the Regulatory Peak, being the approach that applies to all companies and Peak 2, the Realistic Peak, being an approach specific to companies with with-profits business. The results of the Pillar 1 valuation are published annually in the companies' returns to the PRA. For SLL, Peak 1 only applies.

- Pillar 2, requires companies to calculate their own capital requirement using more sophisticated techniques which recognise all the risks that the business faces. The Pillar 2 calculations are submitted privately to the PRA and are not publicised. The Pillar 2 process is described in Section 4.7.2 and Appendix 4.

- Pillar 3 relates to market discipline and disclosure.

Sections 4.7.1 and 4.7.2 below include commentary on the financial profile of SLL under the Pillar 1 and Pillar 2 bases.

4.6.2 Mathematical reserves

Table 4.2 below summarises SLL's mathematical reserves on a Pillar 1 basis over the last three years to 31 December 2013 which is the date of the most recent available information.

Table 4.2 SLL Mathematical Reserves

	31 December 2011			31 December 2012			31 December 2013		
£m	**Gross**	**Ceded reinsurance**	**Net**	**Gross**	**Ceded reinsurance**	**Net**	**Gross**	**Ceded reinsurance**	**Net**
Mathematical reserves	54.8	24.1	30.7	45.7	17.7	28.0	40.3	15.3	25.0

Source: PRA returns

At 31 December 2013, there were 383,475 policies in force and the mathematical reserves of the company totalled £25.0m. I have been provided with regulatory returns to the PRA and AFH reports supporting the figures included in Table 4.2 above. I have no issues to note from my review of the financial information prepared by the AFH.

4.7 Solvency Position

4.7.1 Solvency I capital requirement

Table 4.3 below sets out the historic solvency position of SLL, under the Solvency I Pillar 1 framework, for the three years to 31 December 2013.

Table 4.3 SLL Solvency I Capital Requirement

£m	31 December 2011	31 December 2012	31 December 2013
Net Assets available to cover required solvency margin	12.4	13.9	12.3
Calculated solvency margin	7.9	7.2	6.4
Excess of available assets over solvency margin	4.6	6.7	6.0
Solvency margin coverage ratio	**158%**	**194%**	**194%**

Source: PRA returns

As at 31 December 2013 the returns to the PRA showed that there were £12.3m surplus assets available, an excess of £6.0m over the required minimum solvency margin of £6.4m. There was a solvency margin coverage ratio of 194%. SLL continues to maintain a strong Pillar 1 capital position.

CMLAE Group life business (LP, LS, DBI and Group Life & CI) will be transferred to SLL prior to the Portfolio Transfer from 1 October 2014 as part of a RRA. As policies fall due for renewal they will be renewed with SLL rather than CMLAE, policyholders have been notified of this at the time of renewal and all have accepted. Table 4.4 illustrates the expected position post the renewal arrangement calculated at the proforma date of 31 December 2013.

Table 4.4 SLL Solvency I Capital Requirement after the renewal arrangement

	31 December 2013	
€m	Prior to renewal	Post renewal
Assets available to meet liabilities to policyholders	52.7	54.2
Technical provisions	29.9	31.3
Other liabilities	8.0	8.0
Net Assets available to cover required solvency margin	14.8	14.8
Calculated solvency margin	7.6	10.9
Excess of available assets over solvency margin	7.2	3.9

Solvency margin coverage ratio	195%	136%

Source: Summary of key numbers 2013-12-31 V2 2014-10-06.xls

While the solvency margin coverage ratio is expected to fall from 195% to 136% as part of the RRA, there remains sufficient assets to cover the solvency margin requirement. The assessment of the RRA is not part of my scope as Independent Actuary.

4.7.2 Pillar 2

Under PRA guidelines UK firms must undertake a Pillar 2 assessment of the adequacy of its capital resources, known as the ICA which is viewed as a more realistic capital measure compared to Pillar 1. This is in addition to the Pillar 1 capital requirement assessment which is based on fixed percentages of certain revenue items, reserves and capital at risk. Companies must hold assets in excess of the higher of the Pillar 1 requirement and the Pillar 2 ICA assessment. The Pillar 2 capital assessment is a risk-based capital assessment that considers the appropriate capital required for the specific risks of the company.

The Pillar 2 results were fully disclosed to me by SLL but due to commercial sensitivities I have not reproduced the detailed results within this Report. I can confirm that the SLL is well capitalised on a Pillar 2 basis.

4.7.3 Future regulatory capital requirements

When assessing the financial consequences on the security of policyholders, I have considered the SLL business plan which shows profits over the period to 2018.

4.7.4 Solvency II

I note that Ireland and the UK (with the rest of Europe) plan to replace the current Solvency I regime with the more sophisticated Solvency II regime with effect from 1 January 2016, a regime which incorporates economic capital modelling into insurer capital requirements. 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 will apply in Ireland and the UK (and across Europe) in a harmonised way.

I have been provided with estimates of the impact of Solvency II on SLL on a pre transfer basis at 31 December 2013. The figures reviewed are based on SLL's interpretation of the proposed regulations, and additional supervisory guidance is expected which may result in revisions to this interpretation. The interpretations of the Solvency II effects as presented to me are reasonable. I note that the current assessment of the impact of Solvency II on SLL on a standard formula basis is that it should have sufficient capital. Therefore, as a standalone entity prior to the transfer, SLL policyholders should not be materially impacted by a move to Solvency II based on the financial analysis presented.

4.8 Treating Customers Fairly

As set out in Section 3.8, I am required to consider PRE in ASP LA-6 in the context of the work of the Independent Actuary. The concept of PRE is otherwise known as Treating Customers Fairly ("TCF") in the UK and is documented under the UK FCA Conduct of Business Sourcebook ("COBS") and Insurance Conduct of Business Sourcebook ("ICOBS").

I have discussed PRE/ TCF with SLL and their interpretation of PRE/ TCF in terms of the existing treatment of CMLAE policyholders which will remain unchanged, and I have no further issues to note.

4.9 Other regulatory matters

There are two specific exposures worth mentioning:

I understand that SLL has some exposure to Payment Protection Insurance ("PPI") compensation claims. These compensation claims relate to products where customers believe a policy (underwritten by SLL) was inappropriately sold to them by a distributor (unconnected to the Sterling Group), and that the benefits and costs associated with these policies were inconsistent with their needs. There is continued focus on the PPI market in the UK and there continues to be a risk of possible future claims. Based on the advice presented to me, this risk relates to certain business underwritten prior to 14 January 2005 where the responsibility for redress is clear though the responsibility for making the initial settlement with the policyholder is less clear if a distributor has gone into liquidation and an agency relationship exists between the parties or there are no clear undertakings for such responsibility; in such instances the underwriter (i.e. SLL) makes the settlement and can attempt to recover it from the distributor. There are a small number of mis-selling claims for pre-2005 business across Sterling and some claims have been settled. The effort to manage these claims will continue into 2015. This exposure is provided for in the financial analysis presented above and does not impact materially on my analysis.

I note that SLL exited the Norwegian market in 2010 due to strategic reasons. It is still exposed to a number of complaints that are currently with the Norwegian Financial Services Complaints Board ("FINKIN") concerning the cancellation or lack of renewal of continuous life insurance contracts in the Norwegian market. There are a small number of complaints still to be settled or reinstated. This exposure is provided for in the financial analysis presented above and does not impact materially on my analysis.

I am not aware of any other regulatory matters.

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. CMG has made a strategic decision to transition CMG's European underwriting operations to Sterling in the UK due to being unable to meet certain financial expectations. The central scenario of the FCR illustrated that CMLAE is projected to make losses each year over the next few years as the level of premium income expected will not be enough to provide a sufficient contribution to cover the operating expenses of the company. As such CMG proposes to transfer the business into Sterling by way of a Portfolio Transfer and a RRA in order to achieve a streamlined capital efficient outcome. It has been proposed that CMLAE will transfer its life assurance business to SLL (and CMIEL will transfer its non-life assurance business to SICL).

5.2 Overview of the Scheme

5.2.1 Introduction

The Scheme proposed is one for the transfer of assurance business by order of the Irish High Court. The transfer of the CMLAE portfolio of insurance contracts to SLL will be achieved by using the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Article 35 of the European Communities (Life Assurance) Framework Regulations 1994. The Scheme provides for the transfer of CMLAE's life assurance business, incorporating the insurance policies, together with the associated liabilities and assets as at the Effective Date to SLL, such that CMLAE's policyholder liabilities are extinguished in CMLAE. Under the RRA with effect from 1 October 2014 CMLAE is to use its full, best and prompt efforts to ensure that its policyholders seek to replace their existing policies of insurance with policies of insurance underwritten by SLL.

The Scheme proposes on the Effective Date to:

- Transfer the assets supporting the liabilities of the CMLAE long term business fund to the long term business fund within SLL. We note:
  - The contingency reserve held by CMLAE for the closed to new business scenario (required under CBI regulatory rules) will be released at the Effective Date into the net assets of CMLAE and will not be transferred across to SLL; and
  - For Whole of Life insurance business the assets transferred will be in excess of those currently held by CMLAE due to more onerous reserve requirements for that business within the UK regulatory regime. I have been provided with the initial draft AFH analysis to support the amount to be transferred over.
- All in force CMLAE policies and policies in respect of which any potential liability exists at the effective date should be included in the transfer. Upon transfer SLL will establish regulatory reserves in respect of the transferring CMLAE liabilities under their UK regulatory basis and methodology.

The operation of policies will not change and all supporting contractual arrangements such as fund administration etc should remain unchanged. There will be no material changes to policyholder benefits, participation rights of the business or to the administration of the business as a result of the Scheme and all rights and obligations of CMLAE will transfer to SLL.

The effective date of the Scheme is expected to be March/ April 2015.

I note that there are certain items excluded from the transfer and will remain with CMLAE. These are outlined in Section 5.2.4.

It is proposed that there be no further monetary consideration made by CMLAE for the transfer of the business other than the amounts to be transferred above.

The key from an Independent Actuary's perspective is to consider the security of benefits and wider PRE/ TCF issues which include disclosures to policyholders, the use of discretion by companies, local legislative requirements and the day to day administration of policies. My understanding is that the Scheme has been designed to ensure:

- There will be no changes to CMLAE or SLL policyholder terms or conditions; and
- There are no plans to change the existing administration of CMLAE or SLL policies post the transfer.

As a result of the Scheme, there will be no change to the approach to the exercise of discretionary powers available to CMLAE or SLL.

5.2.2 Transfer of transferred life reserves

Subject to the sanction of the Court, the Scheme provides for the transfer of CMLAE's reserves known as "Transferred Life Reserves" from CMLAE to SLL as at the Effective Date. The conditions around this transfer as well as the methodology and assumptions to be used to determine the reserves are defined in the Scheme.

The AFH of SLL is responsible for determining the reserves for the whole of life business. I have reviewed the terms set out in the Scheme which describe the methodology and insurance principles ("INSPRU") to follow when determining the reserves. I have been provided with the initial draft AFH analysis to support the amount to be transferred over. The AA of CMLAE is responsible for calculating the reserves for all other life business as at the Effective Date in accordance with the methodologies used to prepare the 31 December 2014 financial statements. In my opinion the methodology and assumptions to be used to calculate the reserves are consistent with generally accepted actuarial principles and practices.

I give a brief overview of the Irish and UK regulatory regime in Appendix 4

5.2.3 Post-completion adjustment to transferred reserves

The Scheme sets out the assumptions and methodology to use in the calculation of the true-up payment for non whole of life reserves. There is no true-up calculation for whole of life reserves. However I note that there is a potential payment from SLL to CMLAE's parent company CUNA Mutual International Holdings Limited if claims paid during the five years after completion are lower than anticipated with the potential payment based solely on claims paid. The responsibility for calculating the true-up rests with CMLAE's parent company CUNA Mutual International Holdings Limited. The adjusted reserves calculation is based on the methodology used by CMLAE's AA to calculate the 31 December 2014 reserves with assumptions updated where appropriate to reflect emerging experience between that taken into account in the development of the 31 December 2014 reserves and that available at the adjusted reserves valuation date.

5.2.4 Excluded policies

Policies held by policyholders who reside outside Ireland cannot be transferred unless the relevant supervisory authority in the Member State where they reside has been notified of the transfer, and either agrees to it or does not object within 3 months of the notification.

In the event of there being Excluded Policies, it is proposed that a reinsurance treaty will be put in place such that these Excluded Policies will be one hundred percent reinsured from CMLAE to SLL, unless/until the relevant policyholder agrees to its novation to SLL. I would expect the reinsurance treaty to be structured in such a way that in the unlikely event of SLL winding up every excluded policyholder under the reinsurance treaty would rank equally to other SLL policyholders. So in the event of there being Excluded Policies, at the Effective Date CMLAE will have this reinsurance treaty in place and will continue to be capitalised sufficiently to meet its regulatory obligations. CMLAE do not expect there to be any excluded policies at the Effective Date. In addition, I do not expect there to be any excluded policies.

5.2.5 Continuity of proceedings

My understanding of the wording of the Scheme is that where a mis-selling claim is notified to Sterling after the Effective Date CMG agrees to pay an amount equal to any mis-selling liability to Sterling, where the circumstances giving risk to the mis-selling claim occurred prior to the Effective Date.

5.2.6 Rights and obligations

Every person who is a holder of a CMLAE insurance policy being transferred will be entitled to the same contractual rights against SLL as he or she may have had against CMLAE, so there are no changes to the policy terms and conditions as a result of the Scheme.

5.2.7 Administration arrangements

It is intended that there will be no material change to the existing administration of the policies of CMLAE or SLL following the Scheme. As mentioned in Section 3.4 CMLAE currently outsources policy and claims administration to Sterling. This is not expected to change post transfer.

5.2.8 Maintenance of existing reinsurance arrangements

The reinsurance arrangement currently in place in CMLAE will be cancelled. The reinsurance counterparty will be informed alongside the policyholder communication process.

The existing SLL reinsurance arrangements will not change as a result of the Scheme.

5.2.9 Taxation

There is some discretion around policyholder taxation regarding the responsibility for the settlement of policyholder tax on chargeable gains. CMG does not issue chargeable events certificates but instead has agreed with the HMRC to pay any tax due based on an estimate of tax lost. To date this amount is negligible with a small number of cases (about 15) each year. If the level of gains increases on the above products the company will need to notify HMRC.

As a consequence of the Scheme transferring CMLAE policyholders and existing SLL policyholders will be unaffected by the Scheme in respect of taxation. As such post transfer SLL will need to agree an approach with HMRC for settlement of policyholder tax on chargeable gains.

I understand that appropriate tax clearances will be obtained from the relevant taxation authorities before the Scheme of Transfer.

5.2.10 Effective date

The effective date of the Scheme is expected to be March/ April 2015.

5.2.11 Costs and Expenses

The costs and expenses associated with the Scheme will be met by CMG and Sterling. The key is that no costs are borne by the CMLAE or SLL policyholders.

5.2.12 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 CMLAE and SLL.

CMLAE's transferring policies constitute both group life assurance policies and stand-alone life assurance policies. With group policies, the policyholders are financial institutions (primarily credit institutions) located in either Ireland or the UK. The credit unions obtain life assurance cover on behalf of their members, who subsequently become beneficiaries under the group policy. It is proposed that a circular is to be sent to each of these financial institutions, but not to the underlying beneficiaries. This is on the basis that the underlying beneficiaries do not have any direct contact with CMLAE, and in many cases are unaware that their financial institution has obtained life assurance cover on their behalf. They do not pay any of the premiums associated and as a result CMLAE does not have individual contact details for these beneficiaries.

It is proposed that all of CMLAE's stand-alone policyholders, not falling into the financial institutions category, shall be sent a circular.

Finally, it is proposed that the policyholders of the Family Protection Plan policies will also be sent a circular. Whilst the Family Protection Plan policies are structured as group policies, the individual beneficiaries are more akin to stand-alone policyholders in that they pay the premium associated with the policies and CMLAE has contact details for the Family Protection Plan beneficiaries.

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, a copy of the summary of the Independent Actuary's Report and a "frequently asked questions" brochure. The summary version of my Report covers all the material points and issues raised in this full report. Therefore, CMLAE policyholders will not be disadvantaged by the transmission of a summary version of my Report rather than the full Report.

I note that SLL does not intend to write to its policyholders. I note that the transferring business is not material to SLL in terms of total assets, total liabilities and regulatory capital and the solvency position of SLL would not be adversely affected by the Scheme. I have also discussed this with the CRO of SLL. I understand that the CBI and the PRA/ FCA are aware of this approach. I am satisfied that SLL does not write to its policyholders regarding the Scheme, on the basis that the impact of the transfer on SLL policyholders is not sufficiently material to warrant the additional expense in doing so. SLL policyholders will not be disadvantaged in any way by not being issued 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 CMLAE in Ireland and the offices of SLL in the UK. In addition, the Summary Report will be included in the

information pack which will be available on the CUNA Mutual Europe website and Sterling Insurance Group Limited website.

5.2.13 Other aspects

Compensation Schemes

There is no compensation scheme in Ireland. CMLAE UK policyholders are covered by the FSCS and will continue to be covered post transfer. CMLAE Irish policyholder are not covered by a compensation scheme in Ireland before transfer of the business to SLL and will not be covered by the FSCS after the transfer. SLL policyholders are covered under the UK Financial Services Compensation Scheme ("FSCS"). For new business written post transfer, the FSCS levy will be paid by SLL shareholders.

Custody of assets

I understand sovereign bond assets are held in a custody account with State Street. SLL intend to hold transferred assets in cash or with SLL's current custodians who are LCF Edmond de Rothschild Securities Limited. This will be managed as part of normal couse of business and decisions made in line with normal governance processes.

Winding up priorities

There are no changes in winding up priorities as a result of the Scheme.

TCF compared to PRE

Post transfer, transferring CMLAE business will see no difference to how PRE/ TCF is interpreted by SLL.

6 General considerations when reviewing the 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 CMLAE policyholders and the existing SLL policyholders, are:

- Security of policyholder benefits; and
- Wider Policyholders Reasonable Expectations ("PRE") and Treating Customers Fairly ("TCF") 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 briefly below and then assessed in Section 7 of this Report.

6.2 Impact on the security of policyholders' benefits

Aspects of the business and the Scheme which could impact on the security of policyholder benefits and should therefore be considered when reviewing the Scheme include:

- Regulatory financial position prior to the Scheme and following implementation of the Scheme for which I have considered the Pillar 1 (akin to Solvency I in UK), Pillar 2 (economic capital basis in UK) and Solvency II projections;
- PRA assessment of SLL solvency and regulatory capital position;
- External reviews/ audit finding;
- SLL projected capital plan and management actions anticipated;
- Risk appetite frameworks;
- Quality of assets;
- Quality of capital including various capital support arrangements;
- Regulatory differences in Ireland and the UK;
- Quality of reinsurance arrangements and reinsurance counterparties;
- Custody of assets;
- Compensation Schemes; and
- Other miscellaneous aspects.

6.3 Fair treatment of policyholders and the impact on policyholders' reasonable benefit expectations

Aspects of the business and the Scheme which could impact on the fair treatment of policyholders and policyholders reasonable expectations and should therefore be considered when reviewing the Scheme include:

- Fair treatment of all policies:
  - Policy terms and conditions;
  - Servicing of policies
  - Expenses and charges;
  - Costs of the Scheme;
  - Current practices and approaches;
  - Complaints and redress;
  - Overarching regulatory requirements relating to the fair treatment of policyholders;
    - Treating customers fairly;
    - Winding-up priorities; and
    - Policyholder notifications.
- Specific considerations for non linked policyholders (including investment strategy and policyholder taxation).

7 Assessment of Proposed Scheme

7.1 Impact on the security of policyholders' benefits

7.1.1 Proforma financial position

This section presents the proforma financial position of CMLAE and SLL as standalone entities and as if the Scheme took place on 31 December 2013.

Pillar 1 Position

Table 7.1 below sets out the regulatory capital position of CMLAE (on CBI basis) and SLL (on PRA basis) at 31 December 2013 pre transfer and post transfer as if the Scheme took place at 31 December 2013.

Table 7.1 Proforma projected Solvency I capital requirement at 31 December 2013

	Pre Transfer		Pre Transfer (post RRA*)		Post Transfer	
€m	**CMLAE**	**SLL (Pillar 1)**	**CMLAE**	**SLL (Pillar 1)**	**CMLAE**	**SLL (Pillar 1)**
Assets available to meet liabilities to policyholders	14.5	52.7	13.1	54.2	9.0	58.3
Technical provisions***	5.1	29.9	3.7	31.3	1.9	35.4
Other liabilities**	2.5	8.0	2.5	8.0	2.5	8.0
Net Assets available to cover required minimum solvency margin	6.9	14.8	6.9	14.8	4.7	14.8
Required minimum solvency margin	3.7	7.6	3.7	10.9	3.7	11.2
Excess of available assets	3.2	7.2	3.2	3.9	1.0	3.6
Solvency margin coverage ratio	**185%**	**195%**	**185%**	**136%**	**126%**	**132%**

Note: *Renewal Rights Agreement
**CMLAE figures includes items such as expense accruals, taxation, experience rebate accruals, commission, unallocated premiums and intercompany payables
*** CMLAE figures include a closed fund reserve of €1.85m

Source: Summary of key numbers 2013-12-31 V2 2014-10-06.xls

The movement in the proforma presentation at 31 December 2013 in Table 7.1 is described below:

- Pre Transfer to Pre Transfer (post RAA):
  - CMLAE assets and technical provisions are reduced by €1.4m reflecting the run off of the reserve held for renewal business. SLL assets and liabilities are increased by the equivalent €1.4m.
  - CMLAE and SLL net assets are not impacted.
- Pre Transfer (post RAA) to Post Transfer:
  - CMLAE assets of €4.1m are transferred to SLL equivalent to the technical provisions established in SLL of €4.1m and technical provisions of €1.9m are extinguished in CMLAE; SLL assets and technical provisions increase by €4.1m.

- The overall impact is a reduction in net assets of €2.2m in CMLAE (reflecting the additional assets transferred over to SLL as part of the Scheme in excess of the technical provisions extinguished in CMLAE) and effectively no change to SLL net assets.

Notwithstanding the excluded assets and liabilities left in CMLAE, the post transfer SLL regulatory capital position remains strong at the proforma date. I note that the assets and liabilities relating to CMLAE business are less significant than SLL business. There is a strong regulatory capital position on a CBI regulatory basis in CMLAE at 31 December 2013 before the Scheme. The UK Pillar 1 regulatory capital position in SLL remains strong on a standalone and a combined basis after the proposed Scheme of Transfer from the perspective of the transferring CMLAE policyholders and the existing SLL policyholders based on the proforma financial analysis prepared. While CMLAE policyholders will sit in a company that has a lower regulatory capital coverage ratio post transfer 185% pre transfer in CMLAE versus 132% post transfer in SLL at 31 December 2013), they will be part of a larger company that has a higher level of available capital resources (available assets of £13.1m pre transfer in CMLAE versus £58.3m post transfer in SLL at 31 December 2013).

I have been provided with projected technical provisions and a projected net asset position of CMLAE at the Effective Date in March/ April 2015. I note that the technical provisions are projected to increase due to changes in investment yields backing Whole of Life business (with some compensating increase in the value of assets backing the technical provisions). The pre transfer net asset position is projected to fall reflecting operating losses incurred during 2014 including the impact of operating expenses and a sub scale business. CMLAE's projected net asset position will be weaker than illustrated in Table 7.1 which reinforces the strategic decision to transfer the business to SLL. I would not expect the SLL solvency position at the Effective Date to be materially different from the post transfer position presented in Table 7.1.

In the event of there being Excluded Policies, it is proposed that a reinsurance treaty will be put in place such that these Excluded Policies will be one hundred percent reinsured from CMLAE to SLL, unless/ until the relevant policyholder agrees to its novation to SLL. I would expect the reinsurance treaty to be structured in such a way that in the unlikely event of SLL winding up every excluded policyholder under the reinsurance treaty would rank equally to other SLL policyholders. So in the event of there being Excluded Policies, at the Effective Date CMLAE will have this reinsurance treaty in place and will continue to be capitalised sufficiently to meet its regulatory obligations. I do not consider this to be a likely outcome.

Pillar 2 Position

SLL are well capitalised on a Pillar 2 pre transfer basis at 31 December 2013. Post transfer the solvency coverage ratio is expected to remain above SLL's risk appetite level.

Solvency II

I have been provided with pre transfer Solvency II results for CMLAE and SLL. Both CMLAE and SLL have a very strong and improved solvency coverage ratio on a Solvency II basis compared to Solvency I. The impact of the Transfer is not expected to be material on the SLL Solvency II position.

Business Plan

When assessing the financial consequences on the security of policyholders, I have considered the SLL business plan which outlines profits over the period to 2018.

The CMLAE FCR shows a declining level of financial strength over the next three years which supports the strategic decision to transfer the business.

Risk appetite

I have been provided with background to the Risk Appetite Statement for CMLAE and SLL. Both entities review their Board-approved Risk Appetite Statement on an annual basis. Key risks are identified and monitored with responsibility falling to various sub committees of the Board. I do not expect the transfer to significantly impact the risk appetite of SLL, risk management framework and governance.

7.1.2 Reinsurance Arrangements

CMLAE has one reinsurance treaty in force, an excess of loss treaty where CMLAE is reinsured by CUNA Mutual Insurance Society which provides catastrophic loss protection. This treaty will cease from the effective date.

No change will be made to SLL reinsurance policies due to the Scheme.

The cancellation of the reinsurance treaty should not materially impact on security of transferring CMLAE or existing SLL policyholders.

7.1.3 Compensation Scheme

SLL policyholders are covered by the Financial Services Compensation Scheme ("FSCS"). The FSCS will pay compensation if SLL is unable to pay claims because it has stopped trading or has been declared in default. Generally the FSCS covers business conducted by firms authorised by the PRA and FCA. However European firms that are authorised by their home state regulator that operate in the UK are also covered.

CMLAE UK policyholders are covered by the FSCS and will continue to be covered post transfer. CMLAE Irish policyholder are not covered by a compensation scheme in Ireland before transfer of the business to SLL and will not be covered by the FSCS after the transfer. There is therefore no reduction in protection for CMLAE policyholders in this regard. For new business written post transfer, the FSCS levy will be paid by SLL shareholders.

Therefore there is no change to the security of transferring CMLAE and existing SLL policyholders as a result of the Scheme.

7.1.4 Regulatory difference

As mentioned in Section 7.1.1 any difference between the CBI regulatory basis and the PRA regulatory basis would not have a material impact on the security of transferring CMLAE policyholders or existing SLL policyholders. A specific difference has been identified in the whole of life reserves and that has been considered as part of the assets being transferred over to SLL.

7.1.5 Miscellaneous Aspects

Expense Synergies

One of the benefits of the portfolio transfer is to rationalise operations including eliminating the duplicate overhead costs of CMG underwriting operations. As Sterling currently administer the CMLAE book of business, the synergies should not be material.

Asset/ Liability modelling

Asset liability modelling is not a key issue given the materiality of the assets and liabilities transferred.

However I note that the assets being transferred in respect of whole of life business (in the form of cash) will need to be invested in assets of the right nature, term and duration. I assume that this investment will be made to avoid additional reserve/ capital requirements in respect of a mismatch. This is SLL's intention.

Quality of capital and asset profile

The capital profile of CMLAE's business would be generally low risk consisting of sovereign and corporate bond exposures i.e. no gearing or financing arrangements in place. The assets would be regarded as conservative other than a material exposure to European sovereigns, though the exposure is to more highly rated sovereigns, Austria, Netherlands, Germany and France. This exposure would have remained regardless of the Scheme. I have no issues to note.

Risk profile

If the proposed transfer takes place, the risk profile of SLL after the transfer should not be materially changed from its risk profile before the transfer as the types of risks inherent in CMLAE's business are similar to the life assurance business written by SLL. There are some additional risks as a result of the Scheme and these are outlined below.

- There is increased currency risk in SLL due to the increased holding of euro assets and liabilities though the exposures will be matched.

- The whole of life business transferring across is of a longer duration than the existing SLL business. As such SLL will need to manage the additional durational risk appropriately.

I have considered each of the risks above and my opinion is that the security of SLL policyholder benefits is not materially adversely affected as a result of the Scheme in this regard.

7.1.6 Conclusion

I note that there is a strong Solvency I/ Pillar 1 position in CMLAE and SLL pre Scheme. I note that CMLAEs projected financial strength will be weaker by the time of the transfer reflecting operating losses incurred during 2014 including the impact of operating expenses and a sub scale business and is projected to further reduce over time as the book declines and further operating losses emerge. I note that the regulatory capital position remains strong in SLL after the proposed Scheme from the perspective of the transferring CMLAE policyholders and the existing SLL policyholders based on the proforma financial analysis presented in Table 7.1 above. SLL's Pillar 2 and Solvency II position is strong pre transfer and there is no reason why the position would be less favourable after the transfer.

Based on this I do not believe that the implementation of the Scheme will have a material adverse effect on policyholder security of the transferring CMLAE policyholders or existing SLL policyholders. Therefore, in my view, policyholders will not be materially adversely affected by the proposed Scheme.

In the event of there being Excluded Policies, at the Effective Date CMLAE will have this reinsurance treaty in place and will continue to be capitalised sufficiently to meet its regulatory obligations.

7.2 Fair treatment of policyholders and the impact on policyholders' reasonable expectations

7.2.1 Introduction

PRE is an important part of the current regulatory regime for CMLAE and SLL (that is referred to as TCF in the UK). The concept relates to how life insurance companies deal with their policyholders across a wide range of areas and the following paragraphs cover the areas which, in my opinion, need to be specifically addressed in relation to the Scheme.

The Appointed Actuary of CMLAE has a responsibility to consider PRE and the Board of SLL have a responsibility to consider TCF.

I have discussed with CMLAE, SLL, the CMLAE AA and the SLL CRO the key elements of PRE and TCF and what will happen post Scheme. In particular, I have discussed with the CRO of SLL the Company's views of PRE and TCF and that existing PRE practices in respect of CMLAE will remain unchanged post Scheme, which is the case.

Some of the following points are also discussed in Section 7.1 but have been included here for completeness.

7.2.2 Security of policyholders' benefits

As set out in Section 7.1 there is a strong regulatory capital position in CMLAE and SLL at 31 December 2013 before the Scheme of Transfer and that the regulatory capital position of SLL remains strong on a combined basis after the proposed Scheme of based on the proforma financial analysis prepared.

7.2.3 Policy Terms and Conditions

The Scheme generally makes no reference to CMLAE policy terms and conditions, so these will remain unchanged as a consequence of the Scheme. There is no impact on existing SLL policyholders' terms and conditions.

7.2.4 Servicing of Policies

As described in Section 5.2.6, there will be no material changes in the administrative arrangements and servicing of CMLAE or SLL policies post transfer therefore there should be limited risk of operative errors occurring during the transfer process. Transferring policyholders have a reasonable expectation that the services they receive are provided in a professional manner.

In my opinion the implementation of the Scheme will not have a material adverse effect on the service levels that policyholders receive. I form this opinion based on the information I have received and considered.

7.2.5 Expenses and charges

CMLAE policyholders, for the majority, have charges that are effectively fixed by the terms of the contracts. The implementation of the Scheme makes no explicit changes to the policy charges.

The expense basis of SLL is not expected to be adversely affected as a consequence of the Scheme and therefore I don't expect SLL policyholders to be adversely affected by the Scheme.

7.2.6 Investment Strategy

While I understand that the approach used to arrive at the investment strategy for this business is not expected to change under the Scheme, the assets transferring over in respect of whole of life business will be in the form of cash and will need to be invested appropriately.

Any changes to investment strategy will be governed by SLL governance arrangements. Therefore, in my opinion the implementation of the Scheme will not have a material adverse effect on CMLAE or SLL policyholders in this regard.

7.2.7 Policyholder taxation

As noted in Section 5.2.9, there is some discretion around policyholder taxation regarding the responsibility for the settlement of policyholder tax on chargeable gains. Post transfer SLL will need to agree an approach with HMRC for settlement of policyholder tax on chargeable gains. It is expected that policyholder taxation shall not be materially affected as a consequence of the Scheme. I am not a tax expert and I have not obtained separate tax advice. I have relied on the independent tax advice prepared by the tax advisors to CMLAE and SLL. No tax issues have been noted that would impact on policyholders.

7.2.8 Costs of the Scheme

The costs and expenses associated with implementing the Scheme will be met jointly by CMG and Sterling. The key is that no costs are borne by the CMLAE or SLL 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.

7.2.9 Discretionary powers

The range of discretionary powers available to CMLAE for the transferring policies is reasonably limited and principally relates to the following:

- the assessment as to whether a claim is valid or not;
- the appropriate premium rate to charge (specifically for FPP business); and

responsibility for the settlement of policyholder tax on chargeable gains on behalf of the tax payer. Overall, I do not expect that the Scheme will cause a change in the approach to the use of discretionary powers.

7.2.10 Disclosure to policyholders

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.

7.2.11 Policyholder communications

I note the approach to policyholder communications.

CMLAE's stand-alone policyholders, the policyholders of the Family Protection Plan policies and the financial institutions who are policyholders of the group life assurance policies and stand-alone life assurance policies shall be sent a Circular setting out the Scheme.

The Circular includes a statement summarising the terms of the proposed Scheme, a copy of the summary of the Independent Actuary's Report and a "frequently asked questions" brochure. The summary version of my Report covers all the material points and issues raised in this full report. Therefore, CMLAE policyholders will not be disadvantaged by the transmission of a summary version of my Report rather than the full Report.

I note that SLL does not intend to write to its policyholders. I am satisfied that SLL does not write to its policyholders regarding the Scheme, on the basis that the impact of the transfer on SLL policyholders is not sufficiently material to warrant the additional expense in doing so.

7.2.12 Compensation Schemes

See Section 7.1.3 where this is commented on.

7.2.13 Pending Legal proceedings

I understand that there are no legal proceedings pending or current against CMLAE at the date of this Report.

I note that SLL are exposed to exposures in respect of PPI compensation claims and compliance in respect of Norwegian business. The exposure in respect of these risks is reflected in the financial figures presented above. I do not consider based on the information presented that the exposures are material.

7.2.14 Legal risk

In considering any legal risks, I have relied on the fact that CMLAE and SLL 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.

7.2.15 Conclusion

Based on the points above I am comfortable that 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

Scope of the Independent Actuary's work. This is an extract from engagement letter dated 17th September 2014.

The role of each Independent Actuary will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the remaining policyholders in CMG, the transferring policyholders of CMG and the existing policyholders of Sterling, 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 documentation of the Companies (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 transfer considering the effect on policyholders covering their contractual rights, benefit security and benefit expectations;*
- *in particular review the different regimes in place for the books of business from a financial and PRE perspective and the proposals post transfer;*
- *review existing and proposed fund structures;*
- *review projected comparative solvency levels on both a Solvency I basis and an assessment of the estimated Solvency II basis before and after the transfer being proposed;*
- *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 CMG and Sterling; and*
- *liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.*

Appendix 2

Information received

We received a large amount of information which is summarised below.

CMLAE data

- AA reports 2011, 2012, 2013
- FCR report 2013
- Regulatory returns 2011, 2012, 2013
- Policyholder policy documentation for all products
- Board of Directors minutes 2014
- Portfolio transfer agreement
- Memorandum and Articles of Association
- Reinsurance contract
- TPA services agreement
- Management accounts June 2014
- Background information
- Financial statements 2011, 2012, 2013
- Proforma numbers 31 December 2013
- Policyholder taxation approach and background information
- Forecast position as at the Effective Date

SLL data

- Risk appetite 2014
- Interim reserve review information at 30 June 2014
- PRA Submission on Solvency II capital analysis 2013
- PRA returns 2011, 2012, 2013
- Business plan 2014

- AFH report on the recommended valuation methodology and basis for the Whole of Life reserve calculation
- AFH report to the Board of Directors on the actuarial valuation of SLL at 31 December 2013

Appendix 3

Curriculum Vitae of Independent Actuary

Brian is a qualified actuary with over 20 year's 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) establishing KPMG's Asian actuarial practice. During his time overseas, he gained significant exposure to the international insurance markets and the range of products sold in these markets.

- He has carried out some significant assignments in the Irish market including acting as Finance Director to an international life company for a period of 5 months, as Head of Actuarial to a life entity with local/ international operations as part of a transition to a new owner for a 4 month period.

- He has acted as Independent/ Expert Actuary on a number of expert opinions required by life insurance and reinsurance companies. He has acted as actuarial peer reviewer on a range of technical matters.

- He holds a number of statutory roles including Appointed Actuary to three life insurance companies; Signing Actuary to seven life reinsurance companies regulated in Ireland and Approved Actuary to four Bermudan regulated life reinsurance companies.

- He is involved with KPMG International's initiatives in relation to IFRS and Solvency II.

- He sits on Council of Society of Actuaries in Ireland and is a member of various sub committees of the Society and is the Society's representative on the Insurance Accounting subcommittee of the International Actuarial Association.

Appendix 4

Overview of UK Regulatory Regime

Three Pillars and Twin Peaks

There are a number of ways in which the PRA require insurance companies to demonstrate their solvency and capital strength. This is based around the concept of three pillars:

- Pillar 1, which is a requirement to calculate and publicise assets, liabilities and capital requirements in accordance with detailed rules. The larger with-profits companies are required to calculate this measure in two ways and hold capital to meet the higher of the two requirements. This is termed the Twin Peaks requirement, with Peak 1, the Regulatory Peak, being the approach that applies to all companies and Peak 2, the Realistic Peak, being an approach specific to companies with with-profits business. The results of the Pillar 1 valuation are published annually in the companies' returns to the PRA.

- Pillar 2, termed the Individual Capital Assessment ("ICA"), requires companies to calculate their own capital requirement using more sophisticated techniques which recognise all the risks that the business faces. The Pillar 2 calculations are submitted privately to the PRA and are not publicised.

- Pillar 3 relates to market discipline and disclosure.

Pillar 1

Capital requirements

A firm must always ensure that it has enough capital to cover its Capital Resources Requirement ("CRR"). The CRR is determined formulaically using a combination of the Regulatory Peak and the Realistic Peak as described below. The PRA categorise capital in different tiers which reflects the characteristics of the capital. The CRR must be covered by capital of a certain quality as specified by the regulations.

The Regulatory Peak

All firms are required to calculate the Regulatory Peak. The Regulatory Peak is calculated using deterministic assumptions and includes margins for prudence within the liabilities (or statutory reserves). Only certain types of assets, as specified in the regulations, are included within the admissible assets.

The CRR is the greater of the MCR (Minimum Capital Requirement) and the ECR (Enhanced Capital requirement). The MCR is the sum of:

- The RCR (Risk Capital Requirement) which is calculated based on a number of stress tests in order to cover market risk; and

- The LTICR (Long Term Insurance Capital Requirement) which is calculated as a certain percentage of reserves and a percentage of sum assured above the reserves.

The ECR is the sum of the LTICR, the RCR and the WPICC (the With-Profits Insurance Capital Component).

The WPICC is the difference between the free surplus under the Realistic Peak and the Regulatory Peak. (For firms which do not need to report under the Realistic Peak the WPICC is zero).

The Realistic Peak

Firms which have with-profits liabilities of greater than £500 million, or other firms which choose to do so, are required to calculate and report their Realistic Peak. This is not applicable in this case and is not discussed further within this report.

Pillar 2

Under Pillar 2, or the Individual Capital Assessment ("ICA"), the insurance company is required to assess internally the adequacy of the capital they are holding based on all the risks to which they are exposed. The ICA should represent the amount of capital which the company needs to hold to ensure it has less than a very small, typically 1 in 200, chance of being unable to cover all its risks over a one year period. There are a number of risks which need to be considered in assessing the ICA, including:

- Credit risk: the risk of loss from another party if it fails to meet its obligations or fails to meet them in a timely manner;
- Market risk: the risks that arise from fluctuations in market values, including assets, exchange rates, interest rates;
- Liquidity risk: the risk that an insurance company will be unable to meet its liabilities as they fall due;
- Insurance risk: the risks that are inherent in writing insurance business (including lapse risk, mortality and morbidity risk, expense risk);
- Operational risk: the risk of loss resulting from the failure of people, processes, systems or external events, and; and
- Other relevant risks, e.g. pension scheme risks or reinsurance risks.

Some of the above risks are not explicitly assessed in Pillar 1, for example operational risks. The risks above are combined and any diversification benefits are taken into account by allowing for the nonindependence of the risks.

The firm then submits its ICA to the PRA, including reasoning and judgements as to the amount of required capital it has derived and the treatment of the various risks. The overall level of capital required is ultimately set by the PRA, following an assessment of the firm's ICA submission, and is known as the Individual Capital Guidance ("ICG"), which is often set as a percentage of the ICA. The ICA and ICG remain confidential and are not, in general, publicly available.

Companies are required to cover both the CRR (Pillar 1 capital requirement) and the ICA (Pillar 2 capital requirement) with certain types of assets.

Solvency II

Solvency II is a new European regulatory regime which was initiated by the European Commission ("EC") in 2000 to implement a fundamental change to European insurance regulations, and is currently expected to take effect during 2016. It will replace the corresponding elements of the current regulatory regime. Solvency II will introduce significantly different reserving and capital requirements to those which apply under the current regime. The impact will vary between companies, and may lead to either an increase or a reduction in regulatory capital requirements, which in some instances may be significant.

However, the initiative is not only in relation to capital requirements but will also fundamentally affect the way insurance companies will need to be managed; companies will need to undertake a wide-ranging review of their operations in order to encompass the new requirements.

The proposed 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 and is therefore based on a similar approach in this respect as the current regulatory regime's Pillar 2 capital requirements. However it should be noted that in practice the SCR is likely to be very different to the current UK Pillar 2 capital requirements.

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 (the PRA in the UK).

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.

The final Solvency II requirements will come into effect from 1st January 2016, although there continue to be a number of technical and practical issues that remain to be resolved. In particular there is still considerable uncertainty over the level of reserving or capital requirements that will be implemented.

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. The current planned approach for both SLL and CMLAE is to report Solvency II on the standard formula basis.

Appendix 5

PRE and TCF

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. While there are no prescribed regulations, the CBI does consider PRE as part of its individual company engagements.

- The SAI adopted 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 AAs. These standards have been updated several times and in 2006 additional standard were issued to provide more guidance specifically to PRE. The AA's role in relation to PRE is to advise the Board and take into account in carrying out a valuation of the business. The Board is responsible for running the company and meeting PRE.

- In addition the AA is required by legislation (European Communities (Life Assurance) Framework Regulations, 1994 S.I No. 360/1994) to confirm, in the annual return to the CBI, compliance with these professional standards or to explain non-compliance.

- 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 AAs 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 AAs and therefore would not apply to business sold into Ireland on a freedom of establishment basis.

Overview of TCF regime in UK

- The concept of PRE existing in UK regulation in the 1970s where failure to meet such expectations was grounds for intervention by the regulator. This evolved over time before being essentially replaced in regulation by the principles of customer's interests, generally referred to as treating customers fairly ("TCF").

- The PRA and the FCA Handbooks, which set out the regulations, comprise of "sourcebooks". The Principles for Business sourcebook ("PRIN") sets out the fundamental obligations of all firms under the regulatory system. Subject to modifications, the Principles apply in whole or part to every firm.

- The key principle in relation to TCF is PRIN 6, Customers' interests, which states "A firm must pay due regard to the interest of its customers and treat them fairly." This is the overarching principle in relation to TCF.

- Other principles that most relate to the concept of TCF are:

  - PRIN 7, Communications with clients: "A firm must pay due regard to the information needs of its clients, and communicate information to them in a way that is clear, fair and not misleading.

  - PRIN 8, Conflicts of interests: "A firm must manage conflicts of interest fairly, both between itself and its customers and between a customers and another client."

  - PRIN 9, Customers: relationships of trust: "A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement."

  (Note: the PRA only applies Principle 8 of the list above. FCA applies all principles)

- The Conduct of Business Sourcebook ("COBS") sets out the principle rules in relation to the conduct regulation. In general COBS applies to firms carrying out long-term insurance business from an establishment maintained in the UK. The general rule is modified according to the activities of a firm and its location.

- The application of these modifications within the rulebook is complex and there are interactions with European law.

- COBS rules around the provision of pre-contract information, information during the term of the contract and cancellation rules do not apply if the state of the policyholder's habitual residence (which for example might be in Ireland) is an EEA state.

Governance Arrangements Relevant to TCF

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

- The 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.

Comparison of PRE regime in Ireland with TCF regime in UK

- The PRE regime in Ireland is based on actuarial guidance standards, which are principle based. Many of the features of the PRE regime are based on UK principles prior to the introduction of the UK TCF regime. The UK TCF regime is also principle based but is arguably broader in application and is underpinned by a substantial amount of prescription in certain areas, for example in relation to the management of the with-profits business.

- In Ireland, AA's take good practice into consideration when advising Boards and, in our experience, this can often bring in practice from the UK on a selective basis. In addition, if they are part of a UK life Insurance group they may consider the practices of the relative UK with profits entity. Where this happens then the PRE regime can result in a similar effect to the TCF regime.

Appendix 6

Glossary

AA	Appointed Actuary
AFH	Actuarial Function Holder
CBI	Central Bank of Ireland
COBS	Conduct of Business Sourcebook
DBI	Death Benefit Insurance product
FCA	Financial Conduct Authority
FCR	Financial Condition Report
FL+	Family Life + product
FOS	Financial Ombudsman Service
FP+	Funeral Protect +
FPP	Family Protection Plan product
FSCS	Financial Services Compensation Scheme
Group Life & CI	Group life and Critical Illness product
HMRC	HM Revenue & Customs
ICA	Individual Capital Assessment
ICG	Individual Capital Guidance
LP	Loan protection product
LS	Life savings product
PRA	Prudential Regulation Authority
PRE	Policyholders Reasonable Expectations
RAF	Risk Appetite Framework
RP	Regular premium
SAI	Society of Actuaries in Ireland
SCR	Solvency Capital Requirements
SP	Single premium

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