The Report of the Independent Actuary

Report of the Independent Actuary on the proposed Scheme to transfer certain insurance business of Athora Ireland plc to Monument Life Insurance dac

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1 INTRODUCTION

Background

1.1 Athora Ireland plc ("**Athora Ireland**"), an Irish insurance company, has a portfolio of unit-linked business with guarantees ("**ULG business**"). That portfolio, which is a legacy of Athora Ireland's previous ownership, includes policies issued to policyholders ("**directly-written ULG business**") as well as business accepted from other insurance companies by way of reinsurance ("**ULG reinsurance-accepted business**").

1.2 It was announced on 3 March 2021 that the Monument Re Group ("**Monument Group**"), through its Irish subsidiary Monument Life Insurance dac ("**MLIDAC**") was to acquire the portfolio in question from Athora Ireland (both the directly-written ULG business and the ULG reinsurance-accepted business). The transaction was in line with the parties' business models and business strategies: disposal of the legacy run-off portfolio of ULG business would allow Athora Ireland to concentrate on its strategy to develop its inwards reinsurance business, whilst the acquisition would support MLIDAC, as a specialist acquirer and consolidator of run-off portfolios, in its continued growth.

1.3 Together with MLIDAC's parent, Monument Re Limited ("**Monument Re**"), Athora Ireland and MLIDAC entered into a legal agreement on 26 February 2021 (the "**Business Sale Deed**") setting out the agreed arrangements to transfer the portfolio from Athora Ireland to MLIDAC.

1.4 Under those agreed arrangements, in order to complete the acquisition, a court-approved portfolio transfer is required: the ULG business will be transferred to MLIDAC via a scheme of transfer ("**the proposed Scheme**"), subject to approval by the High Court of Ireland (**"the Court**"). This will result in the policyholders of the directly-written ULG business being transferred from Athora Ireland to MLIDAC (the "**Transferring Policyholders**"). It will also see the transfer to MLIDAC of the ULG reinsurance-accepted business: the reinsurance agreements entered into by those insurance companies who had previously reinsured ULG business with Athora Ireland ("**Athora Ireland's ULG reinsurance cedants**") will have their reinsurance agreements transferred, with MLIDAC replacing Athora Ireland as the reinsurer.

The role of the Independent Actuary

1.5 Under Section 13 of the Assurance Companies Act 1909 ("**the 1909 Act**"), the Court must approve any scheme which provides for transfer to another body of some or all of the life assurance business carried on by an insurance company.

1.6 The Court will consider any such scheme on the basis of an application ("**Petition**") by one, or both, of the parties. The Petition must be accompanied by a report on the terms of the scheme by an independent actuary (the "**Independent Actuary**"). This report is intended to fulfil that requirement in the case of the proposed Scheme.

Instructions

1.7 Athora Ireland and MLIDAC, together referred to as "**the Companies**", have instructed me to act as the Independent Actuary who is required to report to the Court on the terms of the proposed Scheme. My report has been prepared in accordance with the terms of an engagement letter dated 24 March 2021.

1.8 My appointment as the Independent Actuary has been notified to the Central Bank of Ireland (the "**Central Bank**"). The Central Bank has not objected to my appointment.

1.9 Throughout the remainder of this report (the "**Independent Actuary's Report**"), the term "**the proposed Scheme**" is used to cover all the proposals included in the scheme of transfer, including any related documents referred to in the scheme itself relating to the proposed implementation and operation of the scheme of transfer.

1.10 The Companies anticipate that the proposed Scheme will be presented to the Court in November 2021, with a proposed effective date of 31 December 2021.

1.11 I have interpreted my instructions as requiring me to consider the likely effects of the proposed Scheme on the Companies' life assurance policyholders including, but not limited to, the security of their benefits and their reasonable expectations. In preparing the Independent Actuary's Report, I have had regard to the security of the benefits in each company both before and after the implementation of the proposed Scheme, and the policyholders' reasonable expectations created by the past practices employed or statements made by each company. I have compared the status quo to the position that will apply after the completion of the proposed transfer. I expand further on these topics in section 7.

1.12 It should be noted that I do not consider it necessary to consider the likely effects of the proposed Scheme on Athora Ireland's ULG reinsurance cedants, nor on its other reinsurance cedants.

1.13 As far as I am aware, there are no matters that I have not taken into account in assessing the proposed Scheme and in preparing the Independent Actuary's Report, but which nonetheless should be brought to the attention of the Court in its consideration of the terms of the proposed Scheme.

1.14 I have also reviewed and considered the contents of the Circular (as defined in paragraph6.19) that will be made available to policyholders in relation to the proposed Scheme and which contains a summary of this report.

1.15 I will prepare a further report (the "**Supplementary Report**") prior to the final Court hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events or developments that have occurred since this report was written.

Qualifications and disclosures

1.16 I am a Fellow Member of the Society of Actuaries in Ireland ("**SAI**") and have been so since 1996. I am a Principal of Milliman, Consultants & Actuaries ("**Milliman**") and am a consulting actuary based in the firm's Irish insurance practice at 7 Grand Canal Street Lower, Dublin 2.

1.17 I have more than 30 years' experience in the insurance industry, including experience of acting as the Appointed Actuary and/or Head of Actuarial Function ("**HoAF**") for a number of Irish life assurance companies and acting as the Independent Actuary in relation to a number of previous transfers of life assurance business.

1.18 I am not a policyholder of Athora Ireland or MLIDAC. I have no financial interests in either of the Companies, or in any parent or sister companies. I am not, and have not been, employed by either of the Companies as an employee, officer or director.

1.19 I have, however, from 2013 to 2017 acted (in a consulting capacity) as Head of Actuarial Function (and, prior to the introduction of Solvency II in 2016, as Appointed Actuary) of both Monument Assurance dac and Monument Insurance dac, both of which were predecessor companies of MLIDAC (whose businesses were subsumed into MLIDAC by way of previous portfolio transfers).

1.20 I do not consider that these previous assignments prevent me from acting independently in my assessment of the proposed Scheme. I have also discussed this with senior management of Athora Ireland and MLIDAC and they have confirmed that they are of the same opinion. In addition, as noted above, the Central Bank, which is aware of my previous roles, has been informed of my appointment and has made no objection.

1.21 Consultants from other Milliman offices provide, or have provided, services to both the group of companies of which Athora is a member (the "**Athora Group**") and the Monument Group. However, having checked within the Milliman organisation worldwide, I do not believe that any work undertaken by Milliman with either of the Companies, or with any other subsidiaries or affiliates of either Athora or the Monument Group, would create a conflict of interest for me in my role as Independent Actuary.

1.22 Based on the foregoing I consider that I am in a position to act independently in my assessment of the proposed Scheme.

1.23 I have been assisted in preparing this report by my colleagues, Aisling Barrett and Joanne Tan. However, the report is written in the first person and the opinions expressed are mine alone.

Parties for whom my report has been prepared

1.24 The Independent Actuary's Report has been prepared for the benefit of the Court, but may also be of interest to the following parties:

- Policyholders of Athora Ireland and MLIDAC;
- The Directors and senior management of Athora Ireland, MLIDAC and their parent companies;
- The Central Bank or any other governmental department or agency having responsibility for the regulation of insurance companies in Ireland, or other relevant Member States of the European Economic Area ("**EEA**"); and
- The professional advisers of any of the above with respect to the proposed Scheme.

Reliances and limitations

1.25 In preparing the Independent Actuary's Report, I have had access to certain documentary evidence provided by Athora Ireland and MLIDAC, the principal elements of which I list in Appendix A to this report. In addition, I have had access to, and discussions with, the senior management of both Athora Ireland and MLIDAC. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without independent verification. There are no documents or other information that I have requested and that have not been provided.

1.26 I have relied on the work of the Companies' external auditors in gaining confidence in the financial information as at 31 December 2019 and 31 December 2020 as summarised in this report. I have relied on the Companies' Heads of Actuarial Function in relation to the calculation of the technical provisions as at 31 December 2020 (as certified by them to the Central Bank) and on the written opinions they have provided on aspects of their respective Company's own risk and solvency assessment ("**ORSA**").

1.27 Neither I, nor any member of my team, is a qualified legal or tax expert. I have relied on the opinions and assurances of the Companies' experts in these matters and have not sought independent expert advice.

1.28 The Independent Actuary's Report is based on the information available to me at, or prior to, 8 June 2021, and takes no account of developments after that date.

1.29 The Independent Actuary's Report, and any extract or summary thereof, has been prepared specifically and solely for the purposes of Section 13 of the 1909 Act.

1.30 Other than providing a copy to the Court and placing a copy on the Companies' websites, neither the Independent Actuary's Report, nor any extract from it, may be published without my specific written consent having first been given, except that copies of the Independent Actuary's Report may be made available for inspection by policyholders of both Athora Ireland and MLIDAC and copies may be provided to any person requesting the same in accordance with legal requirements. In the event such consent is provided, the Independent Actuary's Report must be provided in its entirety.

1.31 I have prepared a summary of this report which will be provided to the Court and will be included in the Circular that will be sent to the Transferring Policyholders. No other summary of this report may be made without my written consent and, in particular, no other summary of this report may be distributed to policyholders without my prior approval.

1.32 The Independent Actuary's Report has been prepared within the context of the assessment of the terms of the proposed Scheme. No liability will be accepted by Milliman, or me, for any application of the Independent Actuary's Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the Independent Actuary's Report (or any summary thereof). Judgments as to the conclusions contained in the Independent Actuary's Report should be made only after studying the report in its entirety. Furthermore, conclusions reached by the review of a section or sections on an isolated basis may be incorrect.

1.33 The Independent Actuary's Report should be read together with the other documents relating to the proposed Scheme.

Professional guidance

1.34 The Independent Actuary's Report has been prepared under the terms of the guidance set out in version 2.2 (effective 1 November 2010) of the Actuarial Standard of Practice ("**ASP**") LA-6 ("Transfer of long-term business of an authorised insurance company – role of the independent actuary") issued by the SAI.

1.35 In addition, ASP PA-2 ("General Actuarial Practice"), as issued by the SAI, requires members to consider whether their work requires an independent peer review. In my view this report does require independent peer review and, in accordance with Milliman quality assurance requirements, this report has been peer reviewed by another Milliman Principal.

Terminology

1.36 My report contains various technical terms which I need to use in assessing the proposed Scheme. Those terms are written in bold font when first defined in my report and are also listed in the glossary in Appendix B.

Structure of this report

1.37 The remainder of this report is structured as follows:

- An Executive Summary is provided in section 2.
- The regulatory regime governing Irish insurance companies is summarised in section 3.
- Section 4 provides a summary of the business of Athora Ireland.
- MLIDAC's business is summarised in section 5.
- Section 6 summarises the proposed Scheme.
- In section 7, I set out the basis on which I will assess the proposed Scheme.
- My assessment of the proposed Scheme is set out in sections 8 (security of benefits) and 9 (fair treatment).
- My conclusions are set out in section 10.
- Appendix A lists the principal data sources I relied upon in carrying out my work.
- A glossary of terms is provided in Appendix B.

2 EXECUTIVE SUMMARY

Background and context

2.1 Athora Ireland and MLIDAC have agreed to transfer a portfolio of ULG business from Athora Ireland to MLIDAC.

2.2 The rationale for the proposed transfer is that Athora Ireland wishes to concentrate on a strategy of developing its reinsurance business and has therefore decided to dispose of its non-core and legacy run-off portfolio of ULG business. MLIDAC specialises in acquiring run-off portfolios and the acquisition of Athora Ireland's ULG business is in line with its stated strategy.

2.3 The proposed portfolio transfer requires Court approval, and the Companies are applying to the Court to seek such approval. The terms of the proposed transfer are set out in a Scheme, and the application is set out in a Petition, both of which will be submitted to the Court.

2.4 This report, which I am writing in my capacity as the Independent Actuary appointed by the Companies, considers the impact of the proposed transfer of the ULG business from Athora Ireland to MLIDAC. My report contains various technical terms which I need to use in assessing the proposed Scheme. Those terms are written in bold font when first defined in my report and are also listed in the glossary in Appendix B.

2.5 Further details on the background to the proposed transfer and on my role as Independent Actuary are set out in section 1.

2.6 The Companies are both Irish insurance companies and are therefore both subject to the same regulatory and supervisory regime. The Irish regulatory regime for insurance companies is substantially based on the Solvency II framework developed at EU level, with some local additions. This regulatory framework provides the basis on which insurers must manage their businesses, as well as how they must report both publicly and privately to the supervisor (the Central Bank). The framework also defines the concepts and measures used in managing and reporting on insurance companies' financial and solvency positions.

2.7 Further details on the Irish regulatory framework for insurance companies are set out in section 3.

The proposed Scheme

2.8 The proposed Scheme will see the entirety of Athora Ireland's ULG business transferred to MLIDAC, subject to the approval of the Court. I have been provided with a copy of the proposed Scheme, the main features of which I summarise as follows:

- The Effective Date will be 31 December 2021 unless another date is specified by the Court. If the proposed Scheme does not become effective before 31 December 2021, or any later date that the Companies and the Court agree on, it shall lapse.
- The proposed Scheme is conditional on a number of conditions being fulfilled, including no objection to the Scheme having been made by the Central Bank or the relevant authorities in any of the countries of the EEA in which the Transferring Policies have been written. It will also be necessary to have complied with all of the agreed pre-transfer policyholder notification requirements as directed by the Court.
- Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies will transfer on the Effective Date from Athora Ireland to MLIDAC, which will then become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with MLIDAC as they previously had with Athora Ireland).
- Any rights, powers, obligations and liabilities of Athora Ireland under the Transferring Policies will be transferred to MLIDAC. All property and assets held by Athora Ireland in respect of the Transferring Policies will also be transferred to MLIDAC.
- To the extent that there is discretion available to MLIDAC as to how it will apply or modify the contractual provisions that govern the operation of the Transferring Policies and/or the internal funds to which their benefits are linked, that discretion will be exercised in accordance with the principles that apply to similar business in MLIDAC, taking into account the opinion of MLIDAC's Head of Actuarial Function.
- The costs of preparing and implementing the proposed Scheme will be shared equally by the Companies, except that each of the Companies will be directly liable for their respective legal fees. No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

- The Court may impose modifications, additions or further conditions to the proposed Scheme. Other additions and modifications to the proposed Scheme are permitted prior to the Effective Date if the Companies both agree, subject to Court approval.
- After the Effective Date, MLIDAC may, in certain limited circumstances apply to the Court for approval to change the terms of the Scheme. Any such application from MLIDAC would require the Central Bank to be notified and would require a fresh report from an independent actuary. Athora Ireland's consent would also be required if the proposed modification would affect its rights, obligations or interests. Finally, the Court would also have to give its approval.

2.9 More details on the proposed Scheme are provided in section 6.

Policyholder communications

2.10 By law, the position with regard to policyholder communications is that all policyholders (of both Companies) must, unless the Court directs otherwise, be provided with a Circular which includes a summary of the main provisions of the Scheme and a copy of the Independent Actuary's report. Accordingly, it is open to the Companies to ask the Court for a derogation from various aspects of those requirements.

2.11 I understand that the Companies intend to ask the Court for permission to modify and waive some of these requirements, as follows:

- That the Circular only include a summary of the Independent Actuary's Report, rather than the full report.
- That the Circular only be sent to the Transferring Policyholders, rather than to all policyholders in both Companies.

2.12 I understand that the Athora Ireland's ULG reinsurance cedants, and its other reinsurance cedants (who will remain in Athora Ireland), will be provided with a copy of the Petition, Scheme and my Independent Actuary's Report.

2.13 More details on the proposed approach to policyholder communications, and the Companies' rationale for the proposed approach, are provided in section 6. My views on the proposed approach are set out in section 9.

Information provided

2.14 I have been provided with comprehensive information on the Petition and Scheme, as well as on the business of Athora Ireland and MLIDAC. Appendix A contains a list of the principal items of information provided to me.

2.15 I summarise the information provided on Athora Ireland in section 4, and the information provided on MLIDAC in section 5. The main aspects of the Petition and Scheme are summarised in section 6.

Key assumptions

2.16 There are certain assumptions that I have made when assessing and reaching my conclusions on the proposed Scheme and which I summarise here. I have disclosed and discussed my assumptions with the Companies, and they have not raised any objections. However, if any of these assumptions are incorrect, it is possible that my conclusions on the proposed Scheme could change as a result.

2.17 Summary of key assumptions:

- MLIDAC will take over, and maintain in force, the reinsurance arrangements currently in place between Athora Ireland and New Re in respect of the ULG business.
- MLIDAC will reinsure 90% of the residual cashflows on the ULG business (after allowance for the New Re reinsurance) with Monument Re.
- MLIDAC will maintain all other existing reinsurance arrangements that it has in place with Monument Re.
- MLIDAC will exit the Temporary Permissions Regime ("**TPR**") without seeking authorisation for a UK branch, thereby entering Supervised Run-Off ("**SRO**") under the Financial Services Contracts Regime ("**FSCR**").
- Those transferring UK policyholders who are currently covered by the UK Financial Services Compensation Scheme ("**FSCS**") will remain covered post-transfer, subject to the time limitation imposed by the FSCR.
- MLIDAC will retain its permanent establishment in the UK (which was established to facilitate a small number of UK "onshore bond" policies that transferred to MLIDAC from MetLife). However, the Transferring Policies will be administered from Ireland, with no activities taking place in the UK in respect of the Transferring Policies.

- MLIDAC will ultimately use the services of SS&C to administer the ULG business. In the interim, the administration will continue to be provided by Athora Group under the terms of an agreement (the "**Transitional Services Agreement**"). Approximately 18 employees will transfer to SS&C or the Monument Group from within the Athora Group as a result of the transfer of administration services.
- Athora Ireland will make the agreed payment to MLIDAC to take on the transferring ULG business, as agreed in the Business Sale Deed.
- Each of the Companies will follow the business strategy as articulated in its most recent ORSA.
- Each of the Companies will continue in its current ownership.

2.18 Further details on key assumptions are provided in section 7 (starting at paragraph 7.15).

My approach to assessing the proposed Scheme

2.19 In section 7, I set out the approach I take in assessing the proposed Scheme. I then provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9.

2.20 The conditions to be met by the proposed Scheme are:

- that the security of policyholders' benefits will not be materially adversely affected; and
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations.

2.21 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

2.22 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable benefit expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;
- the tax treatment of policyholders' premiums and/or benefits;
- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders;
- levels of customer service to policyholders.

2.23 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

2.24 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from Athora Ireland (the "Transferring Policyholders"); and,
- Existing (pre-Effective Date) policyholders of MLIDAC ("MLIDAC's existing policyholders").

2.25 As Athora Ireland is expected to have no policyholders following the proposed transfer, only reinsurance cedants, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in Athora Ireland post-transfer.

My assessment of the proposed Scheme

2.26 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9. I summarise that assessment in the following paragraphs.

2.27 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than would otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). Those points of similarity include:

- Both are based in Ireland and subject to the same regulations and the same supervisory regime.
- Both are subsidiaries of larger privately-owned groups, headquartered in Bermuda and focused on insurance business consolidation and/or reinsurance transactions.
- Both currently have a mixture of unit-linked and non-linked business.
- Both have reasonably similar overall risk profiles.
- Both have similar capital management policies.
- Both employ similar risk management tools. In particular, both have a significant reliance on reinsurance as a risk mitigant, and both reinsure substantial amounts to other companies in their groups.
- Both have similar new business acquisition models – ‘business to business’ rather than ‘business to consumer’ – which lead to large deals from time to time rather than a steady flow of new business.
- Both use intra-group service companies.

2.28 There are also some differences, however, including (but not limited to):

- MLIDAC uses external third-party administration (“**TPA**”) service providers (in addition to its sister service company).
- MLIDAC has more complexity in terms of in-force business (more portfolios, some non-life business, some with-profits business).
- The two Companies have different strategic plans.
- The two Companies have different parents (i.e. are part of different groups in different ownership).

2.29 My full assessment of the proposed Scheme in relation to its implications for the security of policyholders’ benefits is set out in section 8. In the following table I briefly summarise the results of my assessment for the two groups of policyholders.

Table 1: High-level summary of my assessment of the proposed Scheme – benefit security

	Transferring Policyholders	MLIDAC’s existing policyholders
Current/recent solvency position	The solvency coverage ratio in MLIDAC post-transfer is calculated as being higher than Athora Ireland’s coverage ratio at 31 December 2020 (187% versus 155%). However, one should exercise caution when comparing solvency ratios at a single point in time and should not rely unduly on that single metric.	The transfer of the ULG business is calculated as having a minor impact on MLIDAC’s solvency position (with the ratio on a pro forma basis at 31 December 2020 decreasing from 190% to 187%).

Table 1 (continued)

Projected solvency position	The development of the future solvency position of both of the Companies over the coming years (on the assumption that the transfer takes place) is projected to be healthy, both in terms of their respective central planning scenarios as well as various adverse scenarios.	The transfer of the ULG business is calculated as having a minor impact on MLIDAC's projected solvency position (compared to the equivalent projection assuming the transfer does not take place).
Risk profile	The Transferring Policyholders will be moving from a company whose main risks are currently financial market risk, counterparty (reinsurer) default risk and longevity risk, to one with broadly similar exposures to those risks but with the addition of exposure to a relatively small amount of non-life insurance risk. If Athora Ireland did not transfer the ULG business, it is expected that its risk profile would shift over time (as the new reinsurance business volumes grew), with an increase in financial market risks.	The transfer will substantially increase MLIDAC's exposure to longevity risk as well as increasing its exposure to financial market risks and the risk of counterparty (i.e. reinsurer) default. It is envisaged that these increased risk exposures will be substantially mitigated by reinsurance arrangements with New Re and Monument Re.
Risk management	MLIDAC has similar risk management policies, frameworks, oversight and governance.	MLIDAC does not intend to change its risk management framework as a result of the proposed transfer.
Capital management policy	MLIDAC's capital management policy is broadly similar to Athora Ireland's.	MLIDAC does not intend to change its capital management policy as a result of the proposed transfer.
Business model sustainability	MLIDAC's business model is broadly similar to Athora Ireland's.	The transfer in of the ULG business is in line with MLIDAC's stated business strategy and does not change its business model.
Recovery and resolution options	MLIDAC has a well-developed pre-emptive recovery plan which sets out the actions to be taken in the event of an unacceptable deterioration in the company's solvency position. This plan will be updated to take account of the ULG business. The options available in a resolution situation are similar for both Companies.	MLIDAC will update its pre-emptive recovery plan to take account of the ULG business. The transfer in of the ULG business will not change the options available in a resolution situation.
Parental support	The proposed transfer will not result in any material adverse change to the nature or character of parental support provided to the Transferring Policyholders.	The proposed transfer will not result in any material adverse change to the nature or character of parental support provided to MLIDAC's existing policyholders.

2.30 My full assessment of the proposed Scheme in relation to the fair treatment of policyholders is set out in section 9. In the following table I briefly summarise the results of my assessment for the two groups of policyholders.

Table 2: High-level summary of my assessment of the proposed Scheme – fair treatment

	Transferring Policyholders	MLIDAC's existing policyholders
Policy terms and conditions	The proposed Scheme provides that there will be no change to existing policy terms and conditions.	The proposed Scheme provides that there will be no change to existing policy terms and conditions.
Discretion and PRE	I have no reason to believe that there will be any materially adverse impact from the way in which MLIDAC may exercise its discretion, compared to how Athora Ireland can currently exercise its discretion, in relation to certain contractual terms and conditions.	No change.
Service standards	The back-office administration arrangements will change from the current model to one where the policy administration services are outsourced to a specialist TPA service provider with experience and expertise in administering ULG business.	No change.
Tax	External tax experts retained by Athora Ireland have examined the terms of the proposed Scheme and concluded that it will have no adverse consequences for the tax treatment of these policyholders.	I have been advised by MLIDAC that the proposed Scheme will have no adverse consequences of these policyholders.
Other	I have not identified any other issues where the implementation of the proposed Scheme would materially adversely affect these policyholders.	I have not identified any other issues where the implementation of the proposed Scheme would materially adversely affect these policyholders.

My conclusions

2.31 My conclusions are provided in section 10. In summary, having considered the effects of the proposed Scheme on both the Transferring Policyholders and MLIDAC's existing policyholders, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on

- the security of benefits of either group of policyholders;
- the reasonable expectations of either group of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both groups of policyholders.

2.32 I am also satisfied that the proposed approach to communicating with policyholders is reasonable.

2.33 This report is based on the information available to me at 8 June 2021. I will prepare a Supplementary Report closer to the date of the final Court hearing to provide an update for the Court on my conclusions in the light of any significant events or developments that may have occurred in the meantime. The Supplementary Report will be made available on the Companies' websites and will also be available for inspection in accordance with the arrangements set out in the Petition and the Circular.

3 OVERVIEW OF THE REGULATORY REGIME FOR IRISH INSURERS

Introduction

3.1 Athora Ireland and MLIDAC are both Irish life assurance companies and are therefore subject to the same prudential regulatory and supervisory regime in respect of the entirety of their business. The regulation and supervision of conduct of business risk depends on the territory where the insurer has written the business.

Prudential regulation

3.2 Solvency II is the name given to the prudential regime for insurers (and reinsurers) across the European Union ("**EU**"). Introduced in 2016, it is based on the following so-called three pillar approach:

- Pillar 1: Quantitative requirements.
- Pillar 2: Governance and risk management.
- Pillar 3: Supervisory reporting and public disclosure.

3.3 Taken together, the three pillars are intended to form a coherent overall approach which incentivises the understanding and management of risks across the insurance sector.

3.4 Some of the key features of the Solvency II regulatory framework are:

- Risk-based: Higher risks will lead to higher capital requirements to cover for unexpected losses. Appropriate credit is given for risk mitigation strategies through reduced capital requirements.
- Market consistent: Assets and liabilities are valued at market value (or a proxy if no direct market price exists).
- Proportionate: The requirements are intended to be applied in a way that is proportionate to the nature, scale and complexity of the risks inherent in an insurer's business.

3.5 The EU Solvency II Directive has been implemented in Ireland in the European Union (Insurance and Reinsurance) Regulations 2015 ("**the Solvency II Regulations**"), supplemented by EU-wide Delegated Regulations and additional requirements and guidelines issued by the Central Bank.

3.6 In the following paragraphs, I provide a summary of the main relevant features of the Solvency II framework. The descriptions and explanations are necessarily high-level in places and should not be taken as exhaustive. They should, however, help to introduce some of the concepts that I refer to later in this report – in particular when discussing the financial and solvency position of the Companies.

PILLAR 1

3.7 Pillar 1 sets out the rules for the valuation of insurers' assets and liabilities and the rules for determining the risk-based capital requirements.

3.8 In summary, the Solvency II Regulations require insurers to value their assets and liabilities at market value, but in most cases liabilities to policyholders are determined on a best estimate basis with the addition of an explicit risk margin, reflecting the lack of a market "price" for insurance liabilities. The policyholder liabilities are valued using best-estimate assumptions, with the projected future cashflows discounted using risk-free rates (with some adjustments).

3.9 Together, the best estimate liability ("**BEL**") and risk margin form the technical provisions which sit on the liability side of the Solvency II balance sheet. To the extent that any business is outwardly reinsured, there will be an offset to the BEL ("**reinsurance recoverable**") which sits on the asset side of the balance sheet. The terms "net" and "gross" are sometimes used in the context of the BEL or technical provisions to denote the position with or without allowance for reinsurance respectively.

3.10 The Solvency II balance sheet provides the measure of the amount by which an insurer's assets exceed its liabilities (termed the insurer's "**own funds**"). There can be some further adjustments needed to arrive at the "eligible own funds", which are the own funds eligible to be counted towards meeting the regulatory capital requirements.

3.11 The eligible own funds are then compared with a regulatory capital requirement termed the Solvency Capital Requirement ("**SCR**"), which is a risk-based capital requirement, intended to represent the amount of capital that an insurer needs to hold to ensure that it will still be solvent (i.e. that its assets will exceed its liabilities, measured according to Solvency II valuation rules) in one year's time with a probability of at least 99.5%. Insurance companies must therefore ensure that they have sufficient available capital resources (i.e. "eligible own funds") to cover the SCR.

3.12 The SCR must cover a prescribed list of various types of risk:

- underwriting risks (life / non-life / health);
- (financial) market risks;
- counterparty default risk; and,
- operational risk.

3.13 Insurers may calculate their SCR using standard prescribed stress tests or factors for the various types of risk, which are then aggregated using prescribed correlation matrices. This approach is known as the "**Standard Formula**". Alternatively, the SCR may be calculated using an internal model, which is based on the insurer's internally-derived assessment of appropriate capital requirements, provided it has first been approved by the insurer's regulator and, in doing so, must meet a number of prescribed standards.

3.14 The benefits of risk mitigation techniques (e.g. reinsurance of underwriting risks; hedging of market risks) can be recognised in the calculation of the SCR, subject to certain conditions being met.

3.15 Both Athora Ireland and MLIDAC use the Standard Formula approach to determining their respective SCRs.

3.16 In addition to the SCR as described above, there is also a second, lower, level of regulatory capital requirement under Solvency II, known as the Minimum Capital Requirement ("**MCR**") which is intended to represent the amount of capital required to ensure continued solvency in one year's time with a probability of at least 85%.

3.17 The two capital requirements – SCR and MCR – define two rungs on the so-called "ladder of supervisory intervention", under which increasingly severe actions will be taken by an insurer's regulator if its level of available capital falls below the SCR (the first point of regulatory intervention)[1] and approaches the MCR. The MCR is the ultimate point of supervisory intervention, below which the company would lose its authorisation.

PILLAR 2

3.18 In addition, under Pillar 2, insurers are required to adopt risk management policies, capital management policies, and risk appetite statements (amongst other things), all of which aim to contribute to effective risk and capital management.

3.19 Furthermore, every insurer is required to conduct an Own Risk and Solvency Assessment ("**ORSA**") on at least an annual basis and to report the findings to the Board and the Central Bank. An ORSA must also be carried out whenever there is a material change in risk profile.

PILLAR 3

3.20 Pillar 3 imposes reporting requirements on insurers – both private reporting to the supervisor and public reporting.

3.21 The private reporting to the supervisor includes quarterly financial and other quantitative information which is provided in defined formats (termed Quantitative Reporting Templates or "**QRTs**"), as well as a more comprehensive suite of annual QRTs and a periodic narrative report (the Regular Supervisory Report).

3.22 In terms of public reporting, every insurer is also required to publish detailed information on its recent performance and solvency position in its annual Solvency and Financial Condition Report ("**SFCR**"), which also includes a subset of the annual QRTs.

Conduct of business regulation

3.23 As noted above, as the Companies are both Irish-authorised insurers, they are both subject to the relevant Irish prudential regulations and to the ongoing prudential supervision of the Central Bank in respect of their entire business. However, when it comes to the regulation and supervision of conduct of business matters, these are the domain of the territory in which the business is written. The relevant conduct of business regulations vary from one

[1] Although, legally, the supervisory authorities can only first intervene when an insurer's available capital falls below the level of its SCR (i.e. an SCR coverage ratio of less than 100%), in practice supervisors expect insurers to manage their businesses to a higher level of coverage.

territory to the next but both Athora Ireland and MLIDAC are required to comply with them on a territory-by-territory basis.

Policyholder's reasonable expectations

3.24 Whilst not, strictly speaking, a legal or regulatory requirement, the concept of "policyholders' reasonable expectations", or "**PRE**", has evolved over time and has come to be an important consideration in terms of how insurers treat their policyholders beyond the contractual obligations set out in their policy terms and conditions.

3.25 The concept first arose in the context of "with-profits" business, where insurers retained very substantial discretion in deciding on the extent to which profits would be shared with policyholders by way of discretionary bonus additions to their contractual benefits. Over the years, the concept has been extended to apply to other types of business, including unit-linked business.

3.26 The PRE concept is not, however, well defined. It is not set out in any Irish insurance legislation, nor in any regulatory communication.

3.27 A briefing note[2] issued by the SAI stated that:

"The Financial Regulator expects life assurance companies to deal fairly and equitably with policyholders and to meet "policyholders' reasonable expectations". This term is not formally defined, but a working understanding of the concept has developed.

Policyholders' reasonable expectations will be affected by:

(a) the communications provided to policyholders, including policy projections; and

(b) the basis on which the company exercises any discretions that it has in relation to policy conditions.

The Board is responsible for meeting policyholders' reasonable expectations. The Appointed Actuary must make an interpretation of the company's policyholders' reasonable expectations, in order to value the company's life assurance liabilities, and will make the Board aware of his or her interpretation.

Among the areas where interpretation of policyholders' reasonable expectations may be required are:

(a) equity in bonus distribution to with profit policyholders;

(b) the unit pricing process in the case of unit-linked policies; and

(c) the exercise of discretions to change policy conditions, especially charges.

The Appointed Actuary may have a specified role in some of these matters in accordance with policy terms but, in any event, would be expected to inform the Board on his or her interpretation of the impact of proposals in all of these or similar areas on policyholders' reasonable expectations."

3.28 An updated note[3], issued by the SAI in January 2007 following the revisions of a number of ASPs, including the following statements:

"In line with the position set out by the Financial Regulator, the Board is responsible for the proper running of the company, including all matters pertaining to the fair treatment of the company's policyholders."

"The Actuarial Standards of Practice LA-1 and LA-4 address matters relating to policyholders' reasonable expectations. In valuing the company's life assurance liabilities, the Appointed Actuary must take into account, and therefore has a continuing responsibility to advise the Board of, his or her interpretation of the company's policyholders' reasonable expectations."

"It is, however, the Board that is responsible for meeting policyholders' reasonable expectations, and consequently the revised Actuarial Standards of Practice consider policyholders' reasonable expectations only in the context of the Appointed Actuary's responsibility to establish adequate technical reserves."

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[2] "The Role of the Appointed Actuary in Ireland" available at: https://web.actuaries.ie/sites/default/files/story/2007/03/070320_the_role_of_the_appointed_actuary_in_ireland.pdf

[3] "Duties of the Appointed Actuary" issued January 2007 and available at: https://web.actuaries.ie/sites/default/files/story/Duties_of_the_Appointed_Actuary/070124_duties_of_the_appointed_actuary.pdf

3.29 Until recently, the SAI maintained an ASP on PRE ("ASP LA-4: Additional guidance for Appointed Actuaries on policyholders' reasonable expectations"), but this was withdrawn in March 2020.

3.30 That ASP following included the requirement for Appointed Actuaries:

"The Appointed Actuary must ensure that the Board is aware of his or her interpretation of policyholders' reasonable expectations. In general terms, this interpretation must have regard to the broad nature of the Company's practices and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders. When a material change is likely to take place in the Company's practices, the Appointed Actuary must advise the Board of the implications for policyholders' reasonable expectations."

3.31 Under Solvency II, the role of the Appointed Actuary no longer exists. However, the Central Bank has, without defining what it means by PRE, introduced requirements for the HoAF to set out, in his or her annual report to the Board of directors on technical provisions, his or her interpretation of PRE and how this has been considered in establishing the technical provisions. However, despite this role for the HoAF, it is generally accepted that under Solvency II the responsibility for meeting PRE rests with the Board of directors.

3.32 Given the lack of codification, considerations of PRE are largely a matter of judgement. The Board of directors is ultimately responsible but will often take the HoAF's views into account (particularly given the requirement for the HoAF to articulate his or her view of PRE, but also because of the long history of the actuarial profession's involvement in this area, as evidenced by the notes and ASP referred to above) and will also look to standards or approaches from other relevant territories (particularly the UK for historical and cultural reasons).

3.33 The SAI has stated, in ASP LA-6, the need for the Independent Actuary to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act.

4 BACKGROUND TO ATHORA IRELAND

History and background

4.1 Athora Ireland is an Irish-incorporated and Irish-authorised life assurance company. It was incorporated in Ireland on 3 August 2001 as a public limited company ("**plc**") under company registration number 346275. It was originally named Scottish Equitable International (Dublin) plc. On 17 May 2007 it changed its name to Aegon Scottish Equitable International (Dublin) plc and then changed its name again on 25 August 2009 to Aegon Ireland plc. Following the sale of Aegon Ireland plc to Athora Holding Ltd on 29 June 2018, it was renamed Athora Ireland.

4.2 Athora Ireland's ultimate parent company is Athora Holding Ltd. All of the shares of Athora Ireland are beneficially owned by Athora Life Re Ltd which is a subsidiary of Athora Holding Ltd. Athora Holding Ltd and Athora Life Re Ltd are incorporated in Bermuda.

4.3 Athora Ireland is authorised by the Central Bank to transact insurance business in Life Classes I, II and VI under the Solvency II Regulations.

4.4 Athora Ireland is headquartered in Dublin, Ireland and has a branch office in Wiesbaden, Germany.

Nature of business written

4.5 Athora Ireland has a portfolio of ULG business dating from its days in Aegon ownership. The portfolio is closed to new business and in run-off. The portfolio includes policies written directly with policyholders as well as business accepted by way of inwards reinsurance. All of this business will transfer to MLIDAC under the proposed Scheme. More details on the Transferring Policies are provided from paragraph 4.11 below.

4.6 ULG business differs from the more common unguaranteed unit-linked business in that the insurer provides the policyholders with certain guarantees as to the level of benefits payable, irrespective of the value of the policyholder's unit-linked funds. This exposes the insurer to the risk that it may need to use its own financial resources, in addition to the proceeds of the policyholder's funds, to pay the benefits due under the policy. These guarantees can take different forms, but three common types (all of which are present in Athora Ireland's ULG business) are:

- Guaranteed Minimum Accumulation Benefit ("**GMAB**"), which guarantees that a specified sum will be paid on a particular date or dates.
- Guaranteed Minimum Death Benefit ("**GMDB**"), which guarantees that a specified sum will be paid on the policyholder's death.
- Guaranteed Minimum Withdrawal Benefit ("**GMWB**"), which guarantees that a series of specified payments will be paid for a specified period (which may be for the lifetime of the policyholder or for a fixed term).

4.7 Following the agreement to transfer the ULG business to MLIDAC, Athora Ireland's strategy is to act as a reinsurer, accepting reinsurance of risks written by other insurers (from both within the Athora Group and elsewhere). At 31 December 2020 it had entered into one reinsurance agreement through which it accepted 75% of the risk on a portfolio of group life assurance written by Athora Belgium. For this transaction Athora Ireland in turn reinsured 75% of its risk to its parent Athora Life Re in Bermuda.

4.8 Table 3 summarises the technical provisions for each line of business in Athora Ireland as at 31 December 2020.

4.9 As can be seen from Table 3, the main lines of business are unit-linked insurance with guarantees, life reinsurance accepted with guarantees and life reinsurance accepted (other). The first two of these lines represent the entirety of Athora Ireland's ULG business. In total, as at 31 December 2020, the technical provisions of Athora Ireland totalled €2.336 billion, with an offset of €891 million in respect of the credit that can be taken for the outwards reinsurance of some risks to reinsurers.

Table 3: Athora Ireland – Technical provisions for in-force business as at 31 December 2020 (€ millions)

Line of business		BEL (1)	RM (2)	Total TPs (3) = (1) + (2)	Reinsurance recoverables (4)
Life	Unit-linked with guarantees	1093	21	1114	10
Life	Life reinsurance accepted - unit linked	58	14	72	48
Life	Life reinsurance accepted - other	1132	18	1150	832
Total		**2283**	**53**	**2336**	**891**

Source: Public QRTs appended to Athora Ireland's SFCR for 2020. Due to rounding, figures may not add to the totals.

4.10 As the entirety of Athora Ireland's ULG business will transfer under the proposed Scheme (see below), only the "Life reinsurance accepted – other" line of business will remain with Athora Ireland following the Effective Date. At the time of writing, this comprises a single inwards reinsurance agreement in respect of a portfolio of traditional group life insurance business written by Athora Belgium, which Athora Ireland has in turn substantially retroceded (i.e. reinsured onwards) to another Athora group company, Athora Life Re, domiciled in Bermuda. Athora Ireland's strategy is to grow this line of business.

The Transferring Policies

4.11 The policies that are proposed to be transferred to MLIDAC (the "**Transferring Policies**") comprise the entire portfolio of ULG business (both directly written ULG business and inwards reinsurance ULG business).

4.12 The Transferring Policies may be grouped as follows:

- Directly written single premium ULG products sold to individual customers[4]:
  - Aegon Secure DepotRente (Germany). This is a Class III life insurance policy with a mandatory annuity rider that was sold in Germany between 2013 and 2018. It includes a GMWB for the life of the policyholder from age 60 at the earliest.
  - Aegon Secure Kapital (Germany). This is a Class III life insurance policy, incorporating a capital guarantee that was sold in Germany between 2014 and 2018. It includes a GMAB at a specified future date and a GMDB on death.
  - 5 for Life (UK). This is a Class III life insurance policy sold in the UK between 2006 and 2009 as an "offshore bond". It includes a GMWB of 5% per annum for the life of the policyholder from age 60 and a GMDB on death.
  - Aegon Secure Lifetime Income (UK). This is a Class III life insurance policy sold in the UK between 2009 and 2016 as an "offshore bond". It includes a GMWB for the life of the policyholder from age 60 at the earliest and a GMDB on death.
  - Aegon Secure Capital (UK). This is a Class III life insurance policy sold in the UK between 2011 and 2016 as an "offshore bond". It includes a GMAB at a specified future date and an optional GMDB on death.
  - Aegon Secure Income (UK). This is a Class III life insurance policy sold in the UK between 2011 and 2016 as an "offshore bond". It includes a GMWB of 5% per annum for 20 years, a GMAB and an optional GMDB on death.
  - Aegon Variabele Lijfrente (Netherlands). This is a Class III life insurance policy sold in the Netherlands between 2009 and 2013. It includes a GMWB of 7% per annum of the original premium for 15 years from age 60 and a GMDB on death.
- Inwards reinsurance of single premium ULG products:
  - Secure Retirement Income from Aegon UK (UK). This is a self-invested personal pension sold by Aegon UK between 2015 and 2018 and reinsured to Athora Ireland. It includes a GMWB for the life of the policyholder from age 55 at the earliest and an optional GMDB on death.

[4] The Aegon Secure products in the UK were also sold to trustees of Self Invested Personal Pension schemes.

- Income for Life from Aegon UK (UK). This is a drawdown pension sold by Aegon UK between 2008 and 2012 and reinsured to Athora Ireland. It includes a GMWB for the life of the policyholder from age 55 at the earliest.
- Investment Control from Aegon UK (UK). This is an offshore bond sold by Aegon UK between 2008 and 2012 and reinsured to Athora Ireland. It includes a GMAB at a specified future date and a GMDB on death. Later versions include a GMWB of 5% per annum for 20 years.
- Terre D'Avenir from AG2R La Mondiale (France). This an offshore bond sold by AG2R La Mondiale in France between 2009 and 2013. It includes a GMWB for the life of the policyholder from age 60 at the earliest and a GMDB on death in the earlier product versions.

4.13 In the case of the directly-written business, Athora Ireland holds the liability for both the underlying unit-linked funds, as well as for the associated guarantees (GMAB, GMDB and GMWB, as the case may be). In the case of the business written by way of inwards reinsurance, Athora Ireland only holds the liability for the associated guarantees.

4.14 The ULG business is reinsured on a 100% quota share basis to New Reinsurance Company Limited[5] ("**New Re**"), whereby New Re reimburses Athora Ireland for any guarantee payments required to be made on the ULG business. Whilst not specified in the proposed Scheme, the Companies have agreed that this reinsurance will transfer to MLIDAC with effect from the Effective Date. Further details on this reinsurance arrangement are provided in 4.48 below.

Table 4: Athora Ireland – Details of Transferring Policies as at 31 December 2020

	No. of policies	Best Estimate Liability including unit-linked liability € millions
Five for Life	506	31
Five for Life Phase 2	2617	198
Aegon Secure Lifetime Income	1603	109
Aegon Secure Lifetime Income Phase 2	4491	376
Aegon Secure Capital and Trustee Capital	975	105
Aegon Secure Income and Trustee Income	880	96
Aegon Secure Trustee Investment	625	84
Investment Control Guaranteed Benefit	1	12
Income for Life Guaranteed Benefit	1	3
Aegon Secure Income Option	1	1
Secure Retirement Income	1	12
Terre d'Avenir	1	31
AEGON Secure DepotRente	575	62
Aegon Secure Kapital	396	32
AEGON Variabele Lijfrente	13	1
Total	**12690**	**1151**

Source: Public QRTs appended to Athora Ireland's SFCR for 2020

4.15 All products within the Transferring Policies are closed to new business and no further premiums are payable.

4.16 None of the Transferring Policies participates in profits and none of the Transferring Policies has been subject to any previous schemes of transfer.

4.17 The Transferring Policies are currently administered by Athora Ireland Services Ltd. via an intra-group agreement for the provision of policy administration, customer service, IT, HR, finance, actuarial, risk management, compliance, internal audit and corporate communications.

[5] New Re is a part of Munich Re Group, one of the world's largest reinsurance groups.

4.18 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, Athora Ireland has exercised some discretionary powers on the Transferring Policies in the past as follows:

- Committed to absorbing the impact of trading fees on fund performance above a de minimis limit (0.1% p.a.) on all sub-scale internal linked funds until it had carried out a review of the available fund range in 2019.
- Subsequently carried out that fund review in 2019 which resulted in the consolidation of sub-scale internal linked funds into larger funds.

4.19 As the Transferring Policies are a closed block in run-off, the number of in-force policies is steadily reducing due to claims. My Supplementary Report will include updated figures for the Transferring Policies.

Solvency position

RECENT SOLVENCY POSITION

4.20 At 31 December 2020, Athora Ireland had an excess of eligible own funds over its SCR, as shown in Table 5. The table also shows the equivalent position as at 31 December 2019.

Table 5: Athora Ireland – Solvency position at 31 December 2020 and 31 December 2019 (€ millions)

	31-Dec-20 € millions	31-Dec-19 € millions
(1) Net assets before deducting Technical Provisions	2505	1478
(2) Technical Provisions	2336	1282
(3) Other adjustments to arrive at eligible own funds	0	(3)
(4) Total eligible own funds (= (1) - (2) + (3))	**169**	**192**
(5) Solvency Capital Requirement (SCR)	109	60
(6) Minimum Capital Requirement (MCR)	27	15
(7) Relevant Solvency II capital requirement (= Higher of 5 & 6)	**109**	**60**
(8) Coverage ratio (= (4) / (7))	155%	319%
(9) Excess of eligible own funds over capital requirement (= (4) - (7))	60	132

Source: Public QRTs appended to Athora Ireland's SFCR for 2020

4.21 In summary, the assets of Athora Ireland exceeded its liabilities by €169 million (31 December 2019: €192 million). The eligible own funds exceeded the relevant regulatory capital requirement by €60 million (31 December 2019: €132 million). In percentage terms the company's solvency coverage ratio was 155% (31 December 2019: 319%).

4.22 As mentioned above, in 2020 Athora Ireland entered into an agreement with Athora Belgium to reinsure a proportion of the risk on a portfolio of group life business. This is the main reason for the change in the solvency position over the year (reducing the eligible own funds and increasing the SCR).

4.23 I have also been provided with (unaudited) figures as at 31 March 2021. These show that Athora Ireland's solvency position was improved from that at end-2020, with a solvency coverage ratio of 203% (31 December 2020: 155%), and an excess of eligible own funds over the relevant regulatory capital requirement of €80 million (31 December 2020: €60 million).

4.24 Athora Ireland operates a policy of targeting a solvency coverage ratio of 135%. See paragraphs 4.51 and 4.52 below for details.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

4.25 Athora Ireland has estimated the impact on its solvency of the proposed transfer of business to MLIDAC had the transfer occurred at 31 December 2020. This is shown in Table 6.

Table 6: Athora Ireland – Pro-forma solvency position at 31 December 2020 (€ millions)

	Total Pre-transfer € millions	Transferring policies € millions	Total Post-transfer € millions
(1) Net assets before deducting Technical Provisions	2505	(1212)	1293
(2) Technical Provisions	2336	(1182)	1154
(3) Other adjustments to arrive at eligible own funds	0	0	0
(4) Total eligible own funds (= (1) - (2) + (3))	**169**	**(30)**	**139**
(5) Solvency Capital Requirement (SCR)	109	(23)	86
(6) Coverage ratio (= (4) / (5))	155%		162%
(9) Excess of eligible own funds over capital requirement (= (4) - (5))	60		53

Source: Pre-transfer figures taken from 2020 SFCR; other figures provided by Athora Ireland

4.26 The proposed transfer of business to MLIDAC includes the transfer of approximately €1.3 billion of assets attributable to the Transferring Policies (figure correct as of 31 March 2021). On the liabilities side, the unit-linked liability also transfers along with the technical provisions. Overall had the transfer occurred at 31 December 2020, the eligible own funds would have reduced by €30 million, and the SCR would have reduced by €23 million. The SCR would have reduced due to the reduction in the size of the balance sheet and also, in particular, due to the transfer to MLIDAC of longevity risk. Overall the solvency ratio is calculated as improving as a result of the transfer.

PROJECTED SOLVENCY POSITION

4.27 In addition to looking at the recent solvency position, it is also useful to look at the projected future solvency development, both with and without the Transferring Policies.

4.28 In December 2020, the board of Athora Ireland ("**Athora Ireland Board**") approved a report documenting the results of an Own Risk and Solvency Assessment (ORSA) of the company's business. The ORSA report, which was prepared prior to the agreement with MLIDAC, included projections of the future solvency position of Athora Ireland for the period to end-2023 on the basis of retaining the Transferring Policies.

4.29 The volume and profile of assumed new inwards reinsurance transactions were key assumptions in the development of the financial projections. The central set of assumptions (which formed the basis for the projections set out in Table 7) assumed that Athora Ireland writes substantial volumes of new inwards reinsurance business throughout the period in question.

Table 7: Athora Ireland – Projected future solvency development (Central Projection from 2020 ORSA) (€ millions)

	31-Dec-20 € millions	31-Dec-21 € millions	31-Dec-22 € millions	31-Dec-23 € millions
(1) Eligible own funds	179	295	391	488
(2) Solvency II capital requirement (SCR)	85	174	269	362
(3) Coverage ratio (= (1) / (2))	210%	169%	145%	135%
(4) Excess of own funds over cap. reqmnt. (= (1) - (2))	94	121	122	127

Source: Athora Ireland ORSA Report (December 2020)

4.30 These ORSA projections indicated that Athora Ireland's solvency coverage ratio was expected to fall over the coming years – from a projected 210% at end-2020 to the target of 135% at end-2023. However, this included the benefit of capital injections totalling €228 million over that period (due to the capital-intensive nature of the reinsurance business) with a dividend payment of €42 million at end-2023 (to bring the solvency coverage ratio down to the 135% level in line with the company's capital management policy as set out starting at paragraph 4.51 below). Without that dividend the ratio at end-2023 was projected to be approximately 146% (virtually unchanged from the projected end-2022 ratio, indicating that the business was becoming capital generative as opposed to requiring capital support as it initially grew).

4.31 The volume and profile of assumed new inwards reinsurance transactions, and the target solvency ratio of 135% are the key drivers of this projection. The capital injections included in the projections are on the basis that Athora Ireland meets its target of new inwards reinsurance transactions.

4.32 The ORSA report also investigated the projected solvency development on a range of alternative adverse scenarios, testing the following key risks to solvency coverage: new business growth, financial market risks, exposure to Athora Life Re, lapse risk, expense risk, regulatory risk and the potential impacts of Brexit and the Covid-19 pandemic.

4.33 The scenario where the Covid-19 pandemic was modelled as leading to a deep global recession was the most adverse of the scenarios investigated (in terms of the impact on Athora Ireland's solvency position). Apart from that scenario none of the other scenarios tested result in a significant deterioration of the solvency position. Other than the impact of a severe global recession, the ORSA indicated that the solvency position was most sensitive to Athora Life Re's credit rating; a combined adverse change in lapses and interest rates; and, reduction in the value of the company's investments in bonds. Capital injections and dividend payments were adjusted in each scenario according to the projected need. No scenario required a higher capital injection than the €228 million envisaged in the central projections shown above (which requires capital to support the target level of new inwards reinsurance transactions).

4.34 As noted above, the ORSA projections in Table 7 do not allow for the proposed transfer of business to MLIDAC. As set out in Table 6 above, the proposed transfer would have reduced the eligible own funds by €30 million and to reduce the SCR by €23 million had it taken place at 31 December 2020. As a result the future solvency position would be expected to be correspondingly higher than envisaged in the December 2020 ORSA report if the transfer goes ahead.

Risk profile

4.35 According to the ORSA, the range of risks to which Athora Ireland is exposed includes counterparty default risk, market risk, underwriting risk including lapse, expense and longevity risks and operational risk. As required under the Solvency II Regulations, the company has in place a risk management framework to monitor and manage risk on an ongoing basis.

4.36 Table 8 sets out the composition of Athora Ireland's SCR as at 31 December 2020. As the SCR is a risk-based calculation of the amount of capital required to be held in respect of various risks to which the company is exposed, it is a useful measure to help understand the company's risk profile.

Table 8: Athora Ireland – SCR as at 31 December 2020 (€ millions)

	Pre Transfer SCR 31-Dec-20 € millions	Post Transfer SCR 31-Dec-20 € millions
Market risk	53	53
Counterparty default risk	22	22
Life underwriting risk	40	10
Health underwriting risk	0	0
Non-life underwriting risk	0	0
Diversification	(31)	(19)
Basic Solvency Capital Requirement	**83**	**66**
Operational risk	26	21
Solvency Capital Requirement	**109**	**86**

Source: Public QRTs appended to Athora Ireland's SFCR for 2020 and figures provided by Athora Ireland

4.37 As can be seen from Table 8, the largest contributor to Athora Ireland's SCR are the capital requirements for (financial) market risk and life underwriting risk. Post-transfer, life underwriting risk is expected to reduce considerably. Market risk capital is not shown as reducing here yet, but it will reduce once the consideration for the transfer has been paid. Counterparty default risk capital is not impacted given the collateral arrangements in place. The operational risk capital reduces due to the reduction in the Basic Solvency Capital Requirement (since there is a cap on operational risk capital of 30% of the Basic Solvency Capital Requirement).

4.38 Market risks include equity market risk, interest rate risk, corporate bond valuation risk (known as "**spread risk**"), concentration risk and currency risk. The largest contributor to Athora Ireland's capital requirement for market risk at 31 December 2020 was spread risk, followed by equity risk and concentration risk.

4.39 The ORSA notes that the investment strategy to date has been to invest shareholder funds almost exclusively in a mix of cash, sovereign bonds, non-listed credit assets, and alternative investments but that, as Athora Ireland grows its inwards reinsurance business, the target investment strategy will move towards a more diversified strategic asset allocation consistent with its risk appetite.

4.40 Life underwriting risk capital includes capital for longevity risk, expense risk and lapse risk. At 31 December 2020, longevity risk was the greatest contributor to Athora Ireland's capital requirement for underwriting risk, followed by lapse risk and expense risk. A significant portion of the longevity risk and expense risk will be removed when the proposed transfer of business occurs[6] which is expected to reduce life underwriting risk considerably as shown above.

4.41 In addition to the financial risks shown above, Athora Ireland is also exposed to non-financial risks, including Brexit and outsourcing risk.

- Athora Ireland's operating model involves the outsourcing of a significant number of key functions and activities to other providers, principally its sister company Athora Ireland Services Limited ("**AISL**"). More information on the outsourcing arrangements is provided below, starting at paragraph 4.60.
- Brexit is likely to have a limited direct impact on Athora Ireland. The main risks are political instability and currency volatility impacts which were assessed as part of the deep global recession scenario in the ORSA. Further comments on the impact of Brexit on Athora Ireland's business are provided in paragraph 4.70 below.

4.42 The transferring business will change the risk profile of Athora Ireland as follows:

- A significant reduction in longevity risk and expense risk;
- A reduction in spread risk mainly due to the reduction of bonds and fixed income assets held as investments;
- Other market risks reduce materially, in particular currency risk, which is removed by the transaction;
- Interest rate risk is also expected to reduce as a result of the transfer of longevity risk and the associated risk margin.

Risk management

4.43 The Athora Group's risk management framework identifies a "Risk Universe" which represents a comprehensive list of the categories of risk which the Group's businesses face or may face in the future. It categorises risks into three areas: Strategic, Financial and Non-Financial.

4.44 Athora Ireland sets out qualitative risk appetite statements for each risk type in the Risk Universe to provide direction as to how the risk appetite statement indicator is to be interpreted.

4.45 Athora Ireland has an appetite for certain risks – such as credit risks – that it believes it can understand, control, and manage. In contrast, Athora Ireland's stated risk appetite sees it seeking to avoid, or to manage, other risks like underwriting, operational and systemic market risks, which Athora Ireland understands but cannot fully control.

4.46 Athora Ireland's risk governance framework includes risk policies and business standards, risk oversight committees with defined roles, responsibilities and delegated authorities.

4.47 Risks are reported on a quarterly basis to the management Risk Committee, Investment Committee, and the Capital Management Committee as part of a regular risk monitoring and reporting process.

4.48 Athora Ireland reinsures the transferring business on a 100% quota share basis to New Reinsurance Company Limited ("**New Re**"). In return for a reinsurance premium, payable over 5 years from April 2018, and all of the unit-linked and guarantee charges on the ULG business, New Re covers all financial market and underwriting risks associated with the guarantees provided on the ULG business, so that Athora Ireland is just exposed to a residual "tail exposure" to longevity risk. This tail exposure arises due to the fact that, in situations where the policyholder's unit fund is exhausted and further periodic income payments are due to the policyholder, New Re settles its liability to Athora Ireland by paying a lump sum to cover the expected future payments, rather than paying the actual instalments as they fall due. There is therefore residual longevity risk for Athora Ireland as the policyholders could live

[6] Note that Athora Ireland's capital requirements for these risks have been reduced since 1 March 2021 as a result of the temporary reinsurance agreement put in place between Athora Ireland and Monument Re. This reinsurance will fall away at the latest on the Effective Date (either because the proposed Scheme is approved or because it is not). In relation to the latter eventuality, I note that the Business Sale Deed states that the reinsurance in question can be terminated if any of the conditions precedent to closing the transaction are not met, with one such condition being that the Scheme must be approved. On that basis, given that that the focus of my report for the Transferring Policyholders is to compare their situation if they remain in Athora Ireland (if the Scheme is not approved) against their position in MLIDAC if the Scheme is approved, I do not consider this reinsurance further.

for longer than assumed in the calculation of the lump sum settlement received from New Re. There is a requirement for either party to post collateral (title transfer of cash) based on the amount of the termination payment that would be due from one party to the other if the reinsurance were recaptured.

4.49 Athora Ireland and Monument Re entered into a reinsurance agreement effective 1 March 2021 which transferred 100% of the residual longevity risk and expense risk associated with the ULG portfolio to Monument Re. This is a collateralised arrangement which removes any counterparty default risk exposure for Athora Ireland. As noted in the footnote to paragraph 4.40, this reinsurance is temporary in nature and is not relevant to my consideration of the potential impact of the proposed Scheme on the Transferring Policyholders.

4.50 For the remaining inwards reinsurance business 75% of the liability has been retroceded to Athora Life Re.

Capital management policy

4.51 Athora Group's capital management policy and Athora Ireland's local addendum to the Group's policy (both of which have been adopted by the Athora Ireland Board) set out the following parameters for managing the company's solvency position.

Table 9: Athora Ireland – Board-adopted solvency coverage ratio thresholds

Metric	Agreed level or range
Normal Operating Level	Greater than 135% of SCR
Heightened Attention Range	Between 120% and 135% of SCR
Indicated Action Trigger	Less than 120% of SCR
Regulatory Minimum	100% of SCR

Source: "Athora Ireland plc – Capital Management Policy (Addendum to the Group Policy)" (March 2020)

4.52 Athora Group's capital management policy states that all excess capital over the normal operating level (135% coverage) shall be considered for distribution or reallocation within the Group. It also states that, when considering dividends or other capital withdrawal measures, certain additional aspects must also be considered including:

- The pipeline for potential future new business or transactions;
- The forward-looking view on projected capital requirements; and,
- Other restrictions such as arrangements or agreements with supervisory authorities.

Athora Ireland's position within the Athora Group

4.53 Athora Group is a specialised insurance and reinsurance group focused on the European market with a strategy to grow primarily through acquisitions, portfolio transfers and reinsurance.

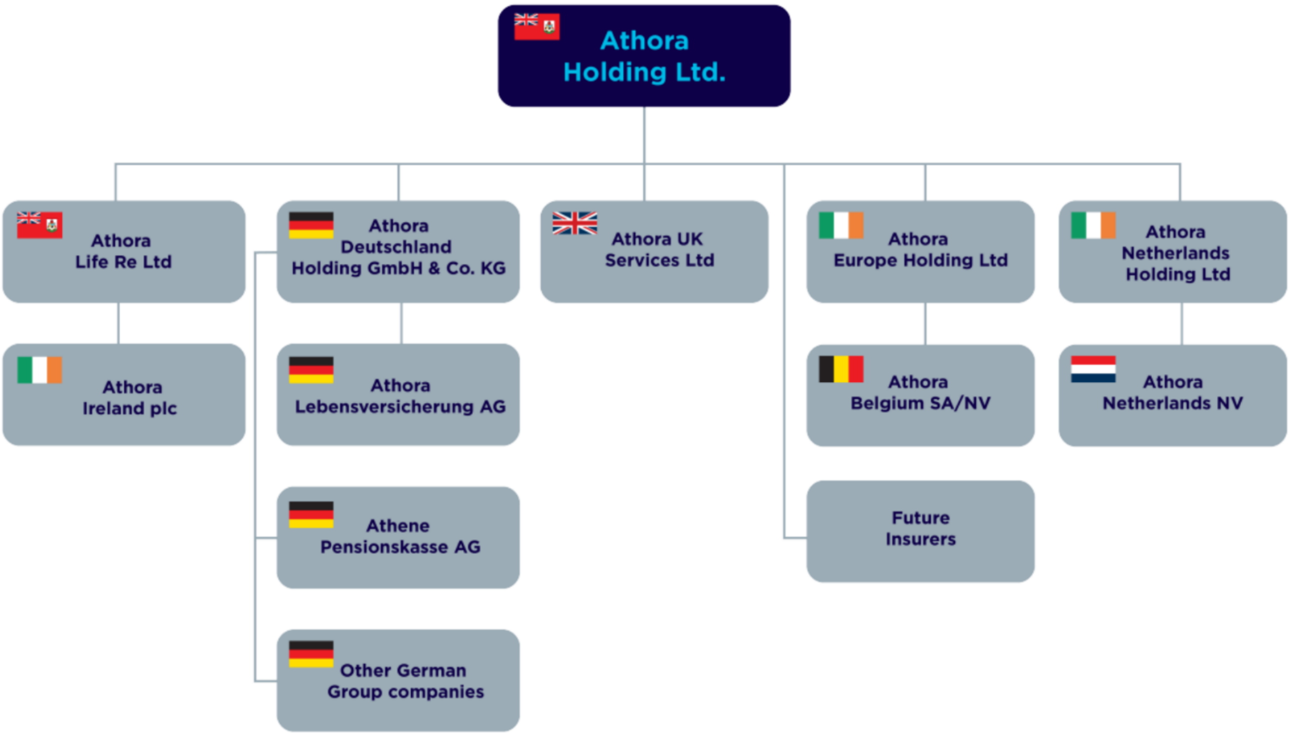
4.54 The Group's shareholders include pension funds, sovereign wealth funds, family offices, and financial services companies. The Group has €4 billion of unconditionally committed capital.

4.55 Its principal operational subsidiaries are:

- Athora Netherlands N.V. in the Netherlands (previously VIVAT N.V. acquired in April 2020);
- Athora Belgium SA in Belgium (previously Generali Belgium SA acquired in January 2019);
- Athora Lebensversicherung AG in Germany (acquired in 2014);
- Athora Ireland plc in Ireland (previously Aegon Ireland acquired in April 2018);
- Athora Life Re Ltd in Bermuda.

4.56 The Athora Group's structure is as summarised in Figure 1. Athora Ireland is a subsidiary of Athora Life Re, which in turn is owned by Athora Holding Ltd.

Figure 1: Athora Group corporate structure



Source: Athora website

4.57 Although Athora Ireland is managed so that it should be self-sufficient from a capital perspective (other than requiring capital to support future transactions), it can call upon its parent, Athora Life Re Ltd, should it need additional capital to support its business (although Athora Life Re is under no legal obligation to provide such capital).

4.58 Athora Life Re has published (on its website), its Financial Condition Report for 2020 (similar to the SFCR under Solvency II), which discloses information on its solvency position as at 31 December 2020. It indicates that Athora Life Re currently has a very healthy solvency position: €282.7 million of available capital resources, against a capital requirement of €86.2 million, giving a solvency coverage ratio of 328%.

4.59 In 31 December 2020, Athora Holding Ltd. was rated 'BBB' (with a stable outlook) and Athora Life Re was rated 'BBB+' (also with a stable outlook) by the Fitch credit rating agency. In addition, Athora Life Re was rated 'A-' (with a stable outlook) by AM Best as at March 2021.

Operational arrangements

4.60 Athora Ireland has an intra-group agreement with Athora Ireland Services Limited for the provision of services relating to policy administration, customer service, IT, HR, Finance, Actuarial, Risk Management, Internal Audit and Corporate Communications.

4.61 Athora Ireland also has outsourcing arrangements for critical and/ or important functions with four external providers covering, amongst other things, asset management and actuarial services.

4.62 Each outsourcing arrangement has an owner within the Athora Ireland Senior Management Team, who is responsible for ensuring the Athora Ireland outsourcing policy requirements are complied with. The company's Chief Risk Officer is responsible for monitoring compliance across all arrangements.

Policyholders' Reasonable Expectations

4.63 The Head of Actuarial Function of Athora Ireland has stated, in his view, that the following reasonable expectations apply to the Transferring Policyholders:

- That investment risks will be properly explained;

- That there will be no surprises with regard to charges i.e. charges will be disclosed in a transparent manner;
- That any illustrations of potential product returns will not be unreasonably optimistic and that the reasons for deviations between actual and illustrative product performance will be explainable;
- In particular, the key factors influencing the conditions in which the investment guarantees bite are clearly illustrated to policyholders;
- That claim payments will be in line with expectations based on policyholder literature and other communications;
- That any discretionary powers of the Company will be exercised fairly and not solely for the purposes of generating additional profits for the Company. There are two areas of relevance for Athora Ireland:
  - Power to vary charges, and
  - Unit pricing.

4.64 The first four items listed above are principally concerned with activities that take place at the point of sale (although ongoing communications with policyholders can also play a role), whereas the last two items are relevant on an ongoing basis.

4.65 Finally, it is worth noting that I consider that matters of PRE are only relevant for directly-written business (as opposed to business written by way of inwards reinsurance) and therefore do not extend to the transferring ULG reinsurance-accepted business (nor to the reinsurance business that will remain in Athora Ireland post-transfer).

Other

COMPLAINTS

4.66 I received a complaints log containing pending complaints for Athora Ireland. There are a small number of open cases which are neither expected to generate notable costs nor set a precedent. No material issues were noted.

4.67 I note that Athora Ireland had three complaints upheld in 2019 and one in 2020. Athora Ireland has a documented complaints management procedure for both internal complaints and for complaints that are escalated to the Financial Services and Pensions Ombudsman ("**FSPO**").

4.68 I have been advised that Athora Ireland currently has no legal matters outstanding nor any regulatory matters outstanding with the Central Bank.

COMPENSATION SCHEMES

4.69 All UK policyholders of Athora Ireland are covered under the FSCS in the UK, until the end of the 15-year run-off term specified in the post-Brexit arrangements (see 4.70 below). The German and Dutch policyholders are not currently covered by any compensation schemes.

BREXIT

4.70 Following the United Kingdom's departure from the European Union, Athora Ireland has entered into the FSCR. The FSCR enables EEA firms that previously passported into the UK and that did not enter the TPR to wind down their UK business in an orderly fashion for a limited period of time (up to a maximum of 15 years for insurance business).

5 BACKGROUND TO MLIDAC

History and background

5.1 MLIDAC is an Irish-incorporated and Irish-authorised designated activity company ("**DAC**"). It was incorporated on 8 April 2000 (as Pumry Limited) under company registration number 325795. On 27 July 2000, it changed its name to CitiLife Financial Limited and, on 4 April 2011, it subsequently changed its name to Laguna Life Limited. On 29 April 2016, it converted to a DAC limited by shares under part 16 of the Companies Act 2014. On 2 April 2020, it changed its name from Laguna Life DAC to its current name, Monument Life Insurance DAC. It is a wholly owned subsidiary of Monument Re, which is a company incorporated in Bermuda.

5.2 MLIDAC is authorised by the Central Bank to transact insurance business in Life Classes I, III, IV and VI. It also holds authorisation for Non-Life Classes 1, 2 and 16 under the Solvency II Regulations, but this authorisation is restricted to the run-off of the Barclays portfolio (see below).

5.3 MLIDAC first sold policies in Spain in 2000 and first accepted business in the UK in 2003. It closed to new business in the UK in 2007 and in Spain in 2009 and those portfolios have been in run-off since then. The UK and Spanish portfolios consist entirely of regular premium non-linked life assurance policies, without profit participation, that provide life cover for a specified term.

5.4 On 29 August 2017, Monument Re acquired MLIDAC from the Enstar Group. MLIDAC now operates as the consolidation vehicle for the Monument Group in Ireland.

5.5 Since its acquisition by Monument Re, MLIDAC has grown substantially through the acquisition of several portfolios of insurance business.

- In April 2018, MLIDAC entered into an agreement to acquire a portfolio of policies from the Belgian insurer Ethias S.A. ("**Ethias**"). This portfolio transfer received the necessary Belgian regulatory approval in September 2018 and was effective from 30 September 2018. The portfolio in question consisted of ca. 4,300 whole of life savings contracts, known as "First A", with guaranteed minimum interest rates. The guaranteed rates are broadly in the 2.5% p.a. to 4.0% p.a. range, with an average rate of circa 3.5% p.a.

- In June 2018, MLIDAC reached agreement with MetLife Europe DAC ("**MetLife**") to acquire a portfolio of policies comprising unit-linked, unit-linked with guarantees, fixed term annuity and group life assurance business. Having received the necessary Court approvals, the transfer was effective from 1 April 2019.

- In 2019 the Monument Group began the process of simplifying its business in Ireland. At that time it owned three insurance companies in Ireland – MLIDAC, Monument Insurance DAC ("**MIDAC**") and Monument Assurance DAC ("**MADAC**"). MIDAC and MADAC had previously been acquired by the Monument Group from Barclays Bank and their in-force business, which was in run-off, comprised payment protection insurance ("**PPI**") policies providing insurance cover to Barclays' customers in the UK, with MADAC providing the life insurance cover (and some related covers) and MIDAC providing the other insurance covers (notably unemployment insurance). The process involved the portfolio transfer of both MIDAC and MADAC's business to MLIDAC and also required the extension of the classes of business for which MLIDAC was authorised to include authorisation for the relevant non-life classes of business (see 5.2 above). The portfolio transfers were approved by the Court and were effective from 30 June 2020 (with a small number not transferring until 31 March 2021).

- On 26 March 2019, MLIDAC entered into an agreement with Rothesay Life Plc ("**Rothesay**"), a UK life insurer, to acquire a portfolio of Irish annuity contracts. This portfolio transfer received the necessary UK regulatory and UK court approvals and was effective from 7 September 2020.

- Zurich Life Assurance plc transferred a portfolio of unit-linked investment business with UK customers to MLIDAC, receiving the approval of the Central Bank and the Court on 30 November 2020.

- In March 2019, MLIDAC entered into an agreement to purchase Inora Life DAC ("**Inora**"), an Irish insurer with a run-off portfolio of unit-linked investment products written in France, Germany, Belgium, Italy and Austria. The acquisition was completed on 16 September 2019 following receipt of regulatory approval from the Central Bank. The business of Inora was subsequently transferred to MLIDAC by way of a portfolio transfer, approved by the Central Bank and the Court with an effective date of 31 December 2020.

5.6 On 26 February 2021, the Monument Group reached agreement with Athora Ireland, that MLIDAC would acquire the run-off portfolio of insurance policies that is the subject of this report.

5.7 Following the various portfolio transfers listed above, the business of MLIDAC consisted of the following portfolios as at 31 December 2020.

Table 10: MLIDAC – Summary of business as at 31 December 2020

Portfolio name	Transferred in on	Product types	Unit-linked?	Territories
Laguna	N/A	Term life assurance contracts	No	Spain, UK
Ethias	28/09/2018	Whole of life savings contracts with participation in profits	No	Belgium
MetLife	01/04/2019	Regular premium savings contracts	Yes	Germany, Spain, Italy
		Single premium investment bonds	Yes	UK, Germany, Spain, Italy and others
		Single premium investment bonds with guarantees	Yes (with guarantees)	Greece, Spain, Poland
		Annuities (fixed term)	No	UK
		Group life assurance contracts	No	Ireland, Norway
Barclays	30/06/2020	Payment protection insurance contracts	No	UK
Rothesay	07/09/2020	Annuities (for life)	No	Ireland
Zurich	30/11/2020	Single premium investment bonds	Yes	UK
Inora	31/12/2020	Single premium investment bonds and regular premium savings contracts	Yes	France, Belgium, Italy, Austria, Ireland

Source: MLIDAC Actuarial Report on Technical Provisions at 31 December 2020

5.8 Looking forward, the Monument Group intends to continue to use MLIDAC as its vehicle for any further acquisitions of Irish portfolios. The volume, nature and timing of any such future deals is difficult to predict. Any such deals that involve a transfer of business to MLIDAC under the provisions of the 1909 Act will be subject to the same oversight and approval process as apply to the proposed Scheme in order to ensure that MLIDAC's policyholders are not materially adversely affected.

5.9 In line with its conditions of authorisation, MLIDAC has submitted documentation to the Central Bank in connection with the proposed Athora Ireland portfolio acquisition (as it is deemed by the Central Bank to constitute a material change of business plan) and is currently awaiting a response from the Central Bank. I note that the proposed Scheme includes a requirement to obtain the non-objection of the Central Bank as a precondition to the Scheme (see paragraph 6.4 below).

Nature of business written

5.10 The make-up of MLIDAC's business is set out in qualitative terms in Table 10 above. Table 11 provides quantitative information as at 31 December 2020.

Table 11: MLIDAC – Summary of in-force business as at 31 December 2020 (€ millions)

Portfolio Name	Product Name	No. of policies	BEL (incl. unit-linked) € millions
Laguna	Term life cover	2500	9
Ethias	Whole of Life savings contracts	1719	116
MetLife	Annuities (fixed term)	1563	82
MetLife	Single premium unit-linked investment contracts with guarantees	1125	86
Barclays	Payment protection insurance	323336	8
Rothesay	Immediate Annuity	392	141
Various	Single and regular premium unit linked investment contracts	3012	51
Various	Single premium unit linked investment contracts	2594	548
Total		**336241**	**1041**

Source: QRT S14.01 for 31 December 2020 as provided by MLIDAC

5.11 In summary, as at 31 December 2020 MLIDAC had some 336,000 policies[7] in force across a wide range of business lines. Total technical provisions (gross of reinsurance) amounted to €1,037 million.

5.12 All portfolios are closed to new business and are in run-off.

5.13 Other than the Ethias portfolio (see paragraph 5.15), none of MLIDAC's policies have any rights to profit-sharing or profit-participation.

5.14 The Laguna portfolio sold in Spain and the UK comprises term life cover, with some optional additional disability covers. The UK term assurance portfolio is reinsured with SCOR on an 80% quota share basis and the Spanish portfolio is reinsured with Swiss Re on a 90% quota share basis.

5.15 The Ethias portfolio sold in Belgium comprises whole of life savings contracts with guaranteed interest rates by which the account value will increase each year. There is also a potential additional discretionary bonus rate disclosed annually. These bonuses have not typically been paid in recent years and the board of MLIDAC ("**MLIDAC Board**") has indicated that it does not expect to pay discretionary bonuses on these policies. The Ethias business is reinsured with Monument Re on a 90% quota share basis.

5.16 The MetLife portfolio includes unit-linked business with guarantees sold in Greece, Spain and Poland. The guarantees are reinsured to MetLife Reinsurance Company of Bermuda ("**MRB**") and the remainder of the cashflows are reinsured to Monument Re on a 90% quota share basis. In addition to the unit-linked business with guarantees, the MetLife portfolio also includes:

- Fixed Term Annuity business sold in the UK;
- Single and regular premium unit linked investment contracts sold in UK, Italy, Germany and Spain (included above under "Various");
- Non-linked term assurance and group protection policies originally sold in Ireland and Norway (included above with the Laguna term life business on materiality grounds).

5.17 The Barclays portfolio consists of payment protection insurance that was sold in the UK. This business is not reinsured.

5.18 The Rothesay portfolio comprises bulk purchase annuity contracts in respect of six pension schemes in Ireland. This business is reinsured to Monument Re on a 90% quota share basis.

5.19 Both the Zurich and the Inora portfolios are included (along with the relevant MetLife business) under the "Various" headings above. The Zurich business was sold in the UK whilst the Inora policies were sold in Belgium, France, Germany, Ireland and Italy. Neither the Zurich nor Inora portfolio is reinsured.

[7] Although there were some 336,000 policies, the number of policyholders was substantially lower (ca. 190,000). The main reason for this difference is because Barclays policyholders typically hold two policies each (one in respect of the non-life benefits originally provided by MIDAC and one in respect of the life benefits originally provided by MADAC).

5.20 In summary, measured by number of policies the Barclays portfolio dominates[8]. However, measured by the best estimate liability (which is a measure of the value of the expected future net cashflows on the business), the Barclays portfolio is small and the unit-linked, Ethias and Rothesay portfolios dominate instead.

Solvency position

RECENT SOLVENCY POSITION

5.21 At 31 December 2020, MLIDAC had an excess of eligible own funds over its regulatory capital requirement, as shown in Table 12.

Table 12: MLIDAC – Solvency position at 31 December 2020 and 31 December 2019

	31-Dec-20 € millions	31-Dec-19 € millions
(1) Net assets before deducting Technical Provisions	1077	522
(2) Technical Provisions	1047	493
(3) Other adjustments to arrive at eligible own funds	0	2
(4) Total eligible own funds (= (1) - (2) + (3))	**29**	**28**
(5) Solvency Capital Requirement (SCR)	16	10
(6) Minimum Capital Requirement (MCR)	6	6
(7) Relevant Solvency II capital requirement (= Higher of 5 & 6)	**16**	**10**
(8) Coverage ratio (= (4) / (7))	182%	282%
(9) Excess of eligible own funds over capital requirement (= (4) - (7))	13	18

Source: Public QRTs appended to MLIDAC's SFCR for 2020

5.22 As at 31 December 2020, the company's assets exceeded its liabilities by €29 million (31 December 2019: €28 million). The eligible own funds exceeded the regulatory capital requirement by €13 million (31 December 2019: €18 million). This translated into a solvency coverage ratio of 182% at 31 December 2020, compared to 282% at end-2019.

5.23 The portfolio transfers of the Barclays, Rothesay, Zurich and Inora portfolios all completed during 2020 and were the principal reason for the increase in the technical provisions over the course of the year. Overall, there was a slight increase in eligible own funds, but a larger increase in the SCR, leading to a reduction of €5 million in the amount by which the eligible own funds exceeded the SCR, and a fall in the coverage ratio.

5.24 I have also been provided with (unaudited) figures as at 31 March 2021. These show that MLIDAC's solvency position has remained stable since year-end with a solvency coverage ratio of 182% and an excess of eligible own funds over the relevant regulatory capital requirement of €13 million.

5.25 MLIDAC operates a policy of targeting a solvency coverage ratio of 150% plus a buffer of €6.7 million. See paragraphs 5.54 to 5.57 below for details.

[8] But note the comments in footnote 7.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

Table 13: MLIDAC – Pro-forma solvency position at 31 December 2020 and 31 December 2021 (€ millions)

	Total Pre-transfer € millions (A)	Other known items € millions (B)	Adjusted Pre-transfer € millions (C)=(A)+(B)	Transferring policies € millions (D)	Intra Group Reinsurance € millions (E)	Total Post-transfer € millions = (C)+(D)+(E)
(1) Net assets before deducting Technical Provisions	1076.5	35.8	1112.3	1211.2	-45.6	2277.8
(2) Technical Provisions	1047.4	35.8	1083.2	1193.3	-35.8	2240.7
(3) Other adjustments to arrive at eligible own funds	0.0	0.0	0.0	0.0	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**29.1**	**0.0**	**29.1**	**17.8**	**-9.8**	**37.1**
(5) Solvency Capital Requirement (SCR)	16.0	-0.7	15.3	33.5	-28.9	19.8
(6) Coverage ratio (= (4) / (5))	182%		190%			187%
(9) Excess of own funds over cap. reqmnt. (= (4) - (5))	13		14			17

Source Public QRTs appended to MLIDAC's SFCR for 2020 and figures provided by MLIDAC

5.26 The impact of the transferring policies on the balance sheet is to increase net assets and technical provisions by approximately €1.2 billion with a net impact on eligible own funds an €18 million increase (before intra-group reinsurance) which reflects the consideration payment to MLIDAC less transaction costs. The SCR increases by €33 million. The technical provisions increase by more than those transferred out of Athora Ireland (see Table 6) due to loadings included for possible changes in assumptions and methodologies.

5.27 The Intra Group Reinsurance column shows the impact of the planned 90% quota share reinsurance of the transferring business cashflows to Monument Re (in addition to the 100% reinsurance of the ULG guarantees with New Re). This causes a significant reduction in the SCR in particular. Overall the solvency coverage ratio improves.

5.28 The table above also allows for some other known items that will occur prior to the portfolio transfer. These are:

- A small portfolio of unit linked contracts (€36 million assets under management) that transferred into MLIDAC at 31 March 2021 is included as if the transfer had taken place on 31 December 2020. They were part of the original MetLife transaction, but their transfer was delayed due to some policyholder tax issues that have now been resolved.
- Inora, which is owned by MLIDAC was recognised on MLIDAC's year-end balance sheet as an investment in a subsidiary and therefore contributed an amount to MLIDAC's SCR at that date. The policies in this portfolio were transferred to MLIDAC on 31 December 2020, but there were some residual assets (approximately €5 million) left in the entity for liquidation purposes. The entity is expected to be liquidated in the coming months and its net assets transferred to MLIDAC prior to the proposed Scheme taking effect, which will result in a small reduction in MLIDAC's SCR requirement. This is included in the table as if the liquidation had taken place on 31 December 2020.

5.29 As shown in the table above, the impact of these other known items would have been to increase the solvency coverage ratio at 31 December 2020 from the reported figure of 182% to 190%.

5.30 The calculations indicate that MLIDAC's solvency coverage ratio would then have decreased slightly from 190% to 187% as at 31 December 2020 had the transfer taken place at that date.

PROJECTED SOLVENCY POSITION

5.31 In addition to looking at the recent solvency position, it is also useful to look at the projected future solvency development.

5.32 In November 2020, the MLIDAC Board approved a report documenting the results of an ORSA of the company's business. The ORSA report included projections of the future solvency position of MLIDAC for the period to end-2025 (with no allowance for the proposed transfer of business from Athora Ireland which is the subject of this report, as that transaction had not been agreed at that time). It also assumes that there are no future transactions.

Table 14: MLIDAC – Projected solvency development – Central scenario (€m)

	31-Dec-20 € millions	31-Dec-21 € millions	31-Dec-22 € millions	31-Dec-23 € millions	31-Dec-24 € millions	31-Dec-25 € millions
(1) Eligible own funds	31	34	36	37	39	41
(2) Solvency II capital requirement (SCR)	16	12	10	9	8	7
(3) Coverage ratio (= (1) / (2))	197%	283%	370%	427%	497%	579%
(4) Excess of own funds over cap. reqmnt. (= (1) - (2))	15	22	26	28	31	34

Source MLIDAC Own Risk and Solvency Assessment November 2020

5.33 The central projections indicated that, in the absence of any further dividends being paid, MLIDAC's solvency position was expected to improve strongly (when measured in terms of the coverage ratio) over the coming years – from 197% at end-2020[9] to 579% at end-2025. In reality, however, substantial dividends would be expected to be paid in a situation where the solvency coverage reached those levels.

5.34 The company's policy regarding target solvency coverage and dividend payments is summarised below, starting at paragraph 5.54. The ORSA report also included projections assuming that dividends are paid so that a solvency coverage ratio of 150% plus €6.7 million buffer is maintained (in line with the company's capital management policy). The results of those projections are shown below.

Table 15: MLIDAC – Projected solvency development – Central scenario (€m)

	31-Dec-20 € millions	31-Dec-21 € millions	31-Dec-22 € millions	31-Dec-23 € millions	31-Dec-24 € millions	31-Dec-25 € millions
Dividend paid	0	9	5	3	3	3
(1) Eligible own funds	31	25	21	20	18	17
(2) Solvency II capital requirement (SCR)	16	12	10	9	8	7
(3) Coverage ratio (= (1) / (2))	197%	207%	220%	227%	236%	247%
(4) Excess of own funds over cap. reqmnt. (= (1) - (2))	15	13	12	11	11	10

Source MLIDAC Own Risk and Solvency Assessment November 2020

5.35 These projections indicated that dividends of €23 million could be paid over the period to end-2025 and MLIDAC's solvency position would still be expected to improve (when measured in terms of the coverage ratio), assuming the business developed in line with the central scenario.

5.36 A wide range of adverse scenarios were tested in the ORSA report, and these demonstrated that the solvency position of MLIDAC was robust in a range of economic and non-economic scenarios.

5.37 The projections above do not allow for the proposed transfer of business from Athora Ireland. As can be seen in Table 13 above the transfer would have increased eligible own funds by €8 million and increased the SCR by €4 million had it taken place on 31 December 2020.

5.38 MLIDAC produced an ORSA report dated 24 May 2021 to assess the impact of the transferring business. The results of those projections are shown below.

Table 16: MLIDAC – Projected solvency development – Including transferring business (€m)

	31-Dec-20 € millions	31-Dec-21 € millions	31-Dec-22 € millions	31-Dec-23 € millions	31-Dec-24 € millions	31-Dec-25 € millions
Dividend paid	0	0	7	3	2	2
(1) Eligible own funds	29	36	30	28	26	25
(2) Solvency II capital requirement (SCR)	16	20	16	14	13	12
(3) Coverage ratio (= (1) / (2))	182%	180%	192%	198%	202%	206%
(4) Excess of own funds over cap. reqmnt. (= (1) - (2))	13	16	15	14	13	13

Source MLIDAC Own Risk and Solvency Assessment May 2021

[9] Note that the 31 December 2020 position included in the November 2020 ORSA was, by definition, an estimate based on projections at that time. In fact, the reported solvency position at 31 December was as set out in Table 12 (with actual own funds of €29 million at that date, compared to a projected figure of €31 million, leading to an actual solvency coverage ratio of 182% rather than the 197% projected in the ORSA).

5.39 This table shows the actual solvency position at 31 December 2020 and the forecast solvency position at each year-end until 31 December 2025 allowing for the transferring business. Note that the projected positions in Table 16 are not directly comparable to those in Table 15 given the different opening positions.

5.40 These projections indicated that dividends of €14 million could be paid over the period to end-2025 in accordance with MLIDAC's capital management policy and MLIDAC's solvency position would still be expected to improve (when measured in terms of the coverage ratio), assuming the business developed in line with the central scenario.

5.41 A range of adverse scenarios were also tested in the May 2021 ORSA report which demonstrated that the solvency position of MLIDAC was robust in a range of economic and non-economic scenarios.

Risk profile

5.42 The ORSA report identifies the range of risks to which MLIDAC is exposed as including market/financial risk, credit risk, counterparty risk, insurance risk, business/operational risk, regulatory compliance risk and fiscal risk. As required under the Solvency II Regulations, the company has in place a risk management framework to monitor and manage risk on an ongoing basis.

5.43 The table below shows the components of the SCR at 31 December 2020 as reported, together with the impact of the proposed Scheme if it had taken place as at that date. As previously noted, the make-up of the SCR (as a risk-based capital measure), is a useful proxy for the company's risk profile.

Table 17: MLIDAC – SCR at 31 December 2020 both pre- and post-transfer (€m)

	Reported SCR € millions	Other known items € millions	Transferring policies € millions	Intra-group reinsurance € millions	Divers-ification € millions	Total post-transfer SCR € millions
Market risk	5	(1)	4	(4)		4
Counterparty default risk	2		2	0		4
Life underwriting risk	4		35	(31)		7
Health underwriting risk	0		0	0		0
Non-life underwriting risk	6		0	0		6
Diversification	(6)	0	(5)	6	(4)	(8)
Intangible asset risk	0		0	0		0
Basic Solvency Capital Requirement	**11**	**(1)**	**37**	**(29)**	**(4)**	**14**
Operational risk	5	0	1	0		6
Loss-absorbing capacity of tech. provs.	0		0	0		0
Loss absorbing capacity of deferred tax	0		0	0		0
Solvency Capital Requirement	**16**	**(1)**	**38**	**(29)**	**(4)**	**20**

Source: Figures provided by MLIDAC's HoAF

5.44 Prior to the transfer, non-life underwriting risk, market risk and operational risk were the most significant components of MLIDAC's SCR. The SCR pre-transfer is shown net of reinsurance to Monument Re. Gross of reinsurance, the most significant components of the SCR are spread, longevity and interest rate risk. However MLIDAC makes use of intra-group reinsurance ("**IGR**") to manage its risk exposures (see paragraph 5.50 below for details of its reinsurance arrangements).

5.45 The transferring policies will bring a significant amount of longevity risk (which is the reason for the increase in life underwriting risk in the table above) and some material market risk. As can be seen in the table above, these will be largely offset by the proposed intra-group reinsurance of the ULG business. In relation to the transferring ULG business, MLIDAC will maintain the 100% reinsurance cover currently in place with New Re and, in addition, will reinsure 90% of all other cashflows on the business to Monument Re.

5.46 In addition to the financial risks shown above, MLIDAC is also exposed to non-financial risks, in particular Brexit and outsourcing risk.

- In November 2020 (the date of the ORSA report) MLIDAC had six critical or important outsourcers. See paragraphs 5.67 to 5.72 below for further details on operational arrangements.
- Brexit is discussed further in paragraph 5.81 below.

5.47 MLIDAC's stated strategy is to acquire run-off blocks of life insurance business. This strategy should not result in the introduction of any new types of risk, beyond those already discussed above in connection with the existing portfolios of business, although the overall impact on the company's risk profile will depend on (amongst other things) the nature of the business acquired and the extent to which risk mitigants (such as IGR) are used.

Risk management

5.48 MLIDAC has adopted a risk management framework which includes the following components:

- risk strategy and appetite, aligned to the company's business strategy;
- risk tolerances, limits and triggers; and
- risk management policies and ongoing processes to identify, measure, monitor, manage and report risk.

5.49 The Risk Management Framework provides for the continuous and forward-looking identification and assessment of the company's risks. On an annual basis, MLIDAC performs an ORSA to assess whether it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions (which are designed based on the company's risk profile). The MLIDAC Board reviews the conclusions drawn from the ORSA and agrees potential actions to be taken.

5.50 MLIDAC has the following reinsurance arrangements in place:

- The Laguna UK term assurance portfolio is reinsured with SCOR on an 80% quota share basis;
- The Laguna Spanish term assurance portfolio is reinsured with Swiss Re on a 90% quota share basis.
- 100% of the risk associated with the guarantees on unit-linked business related to the MetLife portfolio is reinsured with MetLife Reinsurance Company of Bermuda (MRB);
- MLIDAC reinsures 90% of the demographic and economic risks related to the MetLife portfolio (excluding the guarantee risk) to Monument Re;
- MLIDAC reinsures 90% of the demographic and economic risks related to the Ethias portfolio to Monument Re.
- MLIDAC reinsures 90% of the demographic and economic risks related to the Rothesay portfolio to Monument Re.

Table 18: MLIDAC – Technical provisions gross and net of reinsurance recoverables as at 31 December 2020 (€m)

Line of business		Best Estimate Liability (1)	Risk Margin (2)	Total Technical Provisions (3) = (1) + (2)	Reinsurance recoverables (4)	Total Technical Provisions net of Recoverables (5) = (3) - (4)
Non Life	Non life excluding health	5	0	6	0	6
Life	With profits	116	2	118	105	13
Life	Other - without options and guarantee	232	2	234	203	32
Life	Similar to health	4	0	4	0	4
Life and Non Life	Index-linked and unit-linked	685	1	686	617	69
Total		**1043**	**5**	**1047**	**924**	**123**

Source: Public QRTs appended to MLIDAC's SFCR for 2020

5.51 The table shows the technical provisions of MLIDAC at 31 December 2020 both gross and net of the reinsurance recoverables. As can be seen, reinsurance is a very significant risk mitigant for MLIDAC reducing its technical provisions from €1,047 million to €123 million at 31 December 2020.

5.52 In relation to the transferring ULG business, MLIDAC will maintain the 100% reinsurance cover currently in place with New Re and, in addition, will reinsurance 90% of all other cashflows on the business to Monument Re.

5.53 Counterparty risk related to MRB, New Re and Monument Re is mitigated through collateral arrangements.

Capital management policy

5.54 The MLIDAC Board has adopted a Capital Management and Dividend Policy, which sets the company's target solvency coverage ratio (with reference to the SCR or MCR as relevant) at 150% of SCR plus an IGR buffer that was set to €6.7 million at the November 2020 MLIDAC Board meeting. This buffer is calculated so that in the event of a default of Monument Re, MLIDAC would still be able to cover 100% of its MCR and, following the adoption of certain management actions, it would meet 100% of its SCR.

5.55 Enhanced solvency coverage oversight is required if the coverage ratio falls below 140% (plus IGR buffer): this will include increased frequency of monitoring and updating capital and cashflow projections. In addition, a 'comfort level' of solvency coverage ratio is set at the 130% (plus IGR buffer) level: management action required if solvency cover falls below this comfort level.

5.56 Where solvency coverage exceeds 150% (plus IGR buffer), management will present dividend proposals to the MLIDAC Board. When drawing up any dividend proposals, the company must consider a range of factors including:

- The company's regulatory capital position and any regulatory notification requirements;
- Financial projections, including the financial impacts of any expected acquisitions / disposals; and
- The short-term liquidity position pre / post any dividend payment.

5.57 The policy also provides that MLIDAC shall manage its capital with reference to financial projections over the course of its business planning horizon. It envisages that the annual business planning process and annual ORSA process will be central to the capital planning work.

MLIDAC's position within the Monument Group

5.58 As noted above, MLIDAC is owned by Monument Re and also has a substantial risk exposure to Monument Re via the IGR arrangements.

5.59 Monument Re is a Bermudian reinsurer and, either directly or through its subsidiaries (including MLIDAC), an acquirer of asset-intensive European insurers, normally in run-off.

5.60 Monument Re is backed by shareholders including Hannover Re, the world's third largest reinsurer; NYSE-listed Enstar, a leading consolidator of property & casualty insurers in run-off; and E-L Financial, the parent company of Canadian life insurer Empire Life, each of which has a 20% stake.

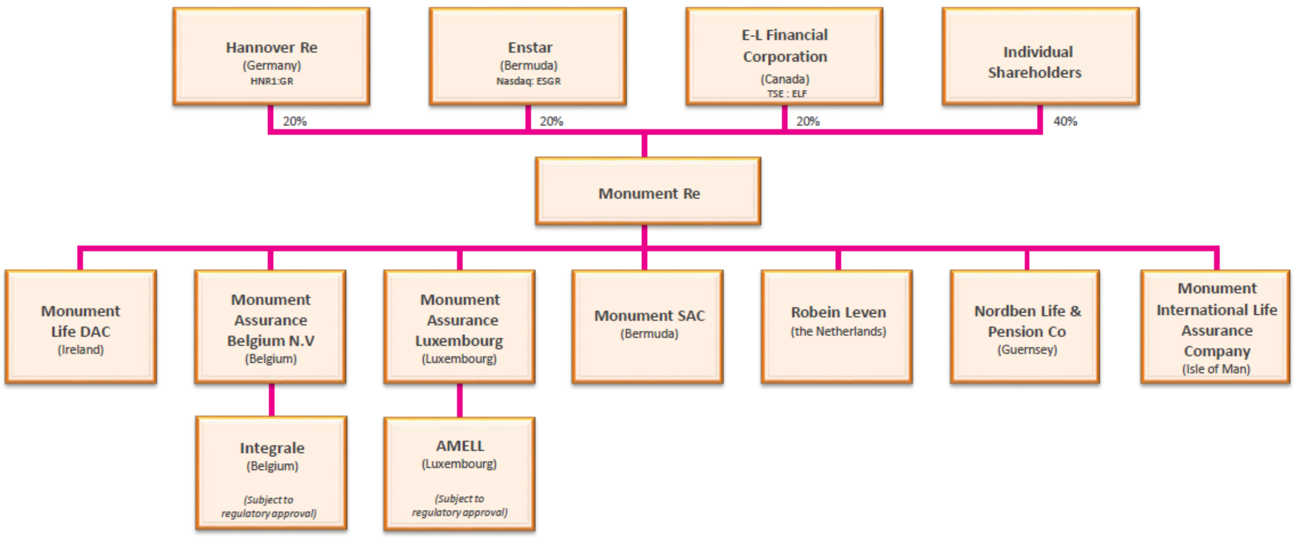
5.61 Monument Re has two principal areas of focus:

- Acquisition of portfolios or direct insurers, primarily those in run-off and targeting mainly annuity, guaranteed savings or linked products; and,
- Reinsurance of in-force blocks of long-dated, asset intensive liabilities, typically with guarantees.

5.62 Monument Re has published (on its website), its Financial Condition Report for 2020 (similar to the SFCR under Solvency II), which discloses information on its solvency position as at 31 December 2020. It indicates that Monument Re currently has a very healthy solvency position: €1,099.6 million of available capital resources, against a capital requirement of €232.3 million, giving a solvency coverage ratio of 473%.

5.63 The structure of the Monument Group is set out in Figure 2.

Figure 2: Monument Group corporate structure (simplified)



Source: Monument Re Limited

5.64 Although MLIDAC is managed so that it should be self-sufficient from a capital perspective (other than requiring capital to support future acquisitions), it can call upon its parent, Monument Re, should it need additional capital to support its business (although Monument Re is under no legal obligation to provide such capital).

5.65 I have been provided with the most recent (April 2021) Group Solvency Self-Assessment report for Monument Re Limited. This report, which is a requirement of the Bermudian regulatory regime for insurers and reinsurers, is similar to an ORSA. The report is not in the public domain, but it indicates that Monument Re currently has a very healthy solvency position.

5.66 Since acquiring the Barclays portfolio and the Laguna portfolio in Ireland in 2017, the Monument Group has completed a significant number of additional transactions, some of which have involved MLIDAC. Apart from the acquisitions in which MLIDAC was involved (as summarised in Table 10 above), some of the other Monument Group acquisitions are listed in Table 19.

Table 19: Monument Re – Selected acquisitions to date (excluding MLIDAC transactions)

Counterparty	Target	Product Type	Country	Completion
ABN AMRO	ABN AMRO Life Capital Belgium N.V.	Traditional savings business	Belgium	March 2018
Talanx	Aspecta Assurance International Luxembourg S.A.	Unit-linked and traditional savings business	Luxembourg	October 2018
Amerborgh Financial Services	Robein Leven N.V.	Unit-linked and traditional savings business	Netherlands	March 2019
Enstar	A run-off portfolio of business	Traditional savings and credit life protection business	Belgium	May 2019
BenCo Insurance Holding	Nordben Life and Pension Insurance Co Limited	Unit-linked and with-profit savings business	Guernsey	June 2019
Curalia	A run-off portfolio of business	Traditional savings business	Belgium	December 2019
GreyCastle Holdings Ltd	A run-off portfolio of business	Annuity and term life protection business	Bermuda	May 2020
Società Cattolica di Assicurazione	Cattolica Life DAC	Unit-linked savings business	Ireland	June 2020
Charles Taylor	LCL International Life Assurance Company Limited	Unit-linked savings and investment business	Isle of Man	February 2021
Administrators appointed by the National Bank of Belgium	Intégrale SA	Group and personal individual pensions business	Belgium	Pending

Source: Monument Re website

Operational arrangements

5.67 On 1 September 2017, the Company outsourced its insurance administration activities to Monument Insurance Services Limited ("**MISL**"), a sister company based in Ireland.

5.68 MLIDAC outsources its insurance administration activities to MISL via an intra-group outsourcing arrangement governed by a Master Services Agreement. MISL provides insurance services to support the administration requirements of MLIDAC in respect of its business.

5.69 MLIDAC currently also outsources a number of other key functions to external third parties, including investment and asset management, IT infrastructure support and internal audit. MLIDAC has six critical or important outsourcers servicing its existing business.

5.70 MLIDAC has, in recent years, developed experience of administering unit-linked business (including unit-linked with guarantees) following the acquisition of business from MetLife, Zurich and Inora.

5.71 MLIDAC has prepared a 'transitional operating model' setting out its outsourcing partners and likely activities by each. MLIDAC has signed a letter of intent with an additional outsourcing service provider that will provide policy and fund administration services for the transferring business. Athora Ireland will provide some support services as set out in the Transitional Services Agreement signed by Athora Ireland and MLIDAC. The remainder of the operations (finance, fund administration, actuarial etc.) will be carried out by a Monument Group service company.

5.72 MLIDAC has stated that the target operating model for each portfolio it acquires in the future will be determined on a case-by-case basis, based on its assessment of the portfolio in question. This assessment will allow MLIDAC to decide whether it is feasible for it to migrate the portfolio to an intra-group operating outsourcing model or whether it is preferable to continue with an externally outsourced operating model.

5.73 In respect of the Transferring Policies, MLIDAC plans to outsource the administration to SS&C Life & Pensions Services (Ireland) ("**SS&C**") (formerly Capita Life & Pensions Services (Ireland)), a specialist third-party administration (TPA) service provider with experience of administering similar unit-linked business with guarantees and will use SS&C to provide these services to MLIDAC.

Policyholders' Reasonable Expectations

5.74 The Head of Actuarial Function of MLIDAC has stated that the following items are the most material areas of consideration of PRE for MLIDAC's existing policyholders:

- Policy conditions for the Ethias portfolio allow the Company to add discretionary bonuses.
- For UK life cover with accelerated critical illness policies, the Company can review premiums charged for and all policies are now within the review "window" (the reviews can occur each policy anniversary).
- For unit-linked contracts, policy conditions allow the Company some discretion in relation to the pricing of units and management charges applied to customers' policies.

5.75 For the Transferring Policies, my understanding is that there is no proposal by MLIDAC to alter the manner in which discretion in relation to the operation of the Transferring Policies will be exercised, or to take measures substantially inconsistent with the current Athora Ireland practice.

5.76 In relation to unit-linked business, I note that MLIDAC has a documented unit pricing policy in place (which I have reviewed) which sets out MLIDAC's approach in this area, and also operates a unit pricing committee. The document approach is typical for unit-linked business. I have also reviewed minutes of MLIDAC's unit pricing committee and am not aware of any issues of concern.

Other

COMPLAINTS

5.77 I received a complaints log containing pending complaints for MLIDAC. There are a small number of open cases which are neither expected to generate notable costs nor set a precedent. No material issues were noted.

5.78 I note that MLIDAC had one complaint upheld by the FSPO in 2020. I understand that there are no open complaints currently with FSPO.

5.79 I have been advised that MLIDAC currently has no legal matters outstanding nor any regulatory matters outstanding with the Central Bank.

COMPENSATION SCHEMES

5.80 All UK policyholders of MLIDAC are covered under the FSCS in the UK (but see the comments in paragraph 5.83 below regarding the time limit placed on this cover by the post-Brexit arrangements). No other compensation schemes apply to MLIDAC policyholders.

BREXIT

5.81 Following the United Kingdom's departure from the European Union, MLIDAC entered into the TPR at the end of the transition period on 31 December 2020. The TPR was written into British legislation offering an alternative approach whereby EU regulated insurers carrying on business in the UK could opt into a simplified process, allowing the opportunity to carry on business in the UK for three years post Brexit before committing to submitting an application for authorisation as a third country branch in the UK to the UK regulatory authorities to maintain business in the UK post Brexit.

5.82 I understand that, rather than applying for authorisation for a UK branch, the MLIDAC Board will be asked at its June meeting to approve a plan to exit the TPR before the end of the three-year period. Under this course of action, MLIDAC would then fall under the SRO, which permits firms with pre-existing UK business to continue to service that business for a limited time (up to a maximum of 15 years for insurance contracts).

5.83 I further understand (and have been provided with confirmation to that effect from MLIDAC's UK lawyers) that, as the Transferring Policies are fully administered and serviced from outside the UK, MLIDAC does not need UK authorisation (whether through the TPR, the FSCR or a UK branch) in order to discharge its obligations to the Transferring Policyholders. Therefore, MLIDAC will continue to be able to discharge its obligations to the Transferring Policyholders once the 15-year SRO period comes to an end. However, access to the FSCS is restricted to UK authorised firms which means that MLIDAC's UK policyholders will cease to be covered by the FSCS after the end of the 15-year SRO period.

5.84 Turning to MLIDAC's existing UK policyholders, I understand that the proposed course of action (to exit the TPR and enter SRO) will have the effect of restricting their coverage by the FSCS to 15 years from the date of entering SRO, whereas, if MLIDAC took the alternative course of action and exited the TPR by establishing a UK branch, those policyholders' access to the FSCS would not be time limited. I note, however, that the number of such policies expected to be still in force in 15 years' time is very small.

6 THE PROPOSED PETITION AND SCHEME

Introduction

6.1 The Transferring Policies will be transferred to MLIDAC via the mechanism of the proposed Scheme, subject to the approval of the Court. I have been provided with a copy of the proposed Scheme and, in this section, I summarise its principal features. I also summarise certain relevant aspects of the petition that the Companies intend to make to the Court (the "**Petition**") when submitting the proposed Scheme to the Court for its approval (particularly the proposed approach to communicating with the Companies' policyholders in respect of the proposed Scheme).

6.2 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9.

Effective date

6.3 It is envisaged that the proposed Scheme will become effective and the transfer take place at 23:59 hours on 31 December 2021, or such other date as may be specified by the Court (the **"Effective Date"**). If the proposed Scheme does not become effective before 31 December 2021, or such later date as the Companies may approve and the Court may allow, it shall lapse.

Pre-conditions

6.4 The proposed Scheme is conditional on a number of conditions being fulfilled, including:

- obtaining the non-objection of the Central Bank;
- obtaining the agreement or deemed agreement of the relevant authorities in the countries in which the Transferring Policies have been written (see paragraphs 6.8 and 6.11 below); and
- the sanction of the Court.

Business to be transferred

6.5 Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies are scheduled to be transferred in their entirety on the Effective Date to MLIDAC, which will become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with MLIDAC as they previously had with Athora Ireland).

6.6 Under the proposed Scheme, any rights, powers, obligations and liabilities of Athora Ireland under, or by virtue of, such policies will be transferred to MLIDAC. All property and assets held by Athora Ireland in respect of the Transferring Policies will also be transferred to MLIDAC.

6.7 In addition, those assets and liabilities of Athora Ireland that relate to the business being transferred will also transfer to MLIDAC on the Effective Date.

EEA and non-EEA policies

6.8 Policies issued by an Irish authorised insurer cannot be transferred to another EEA authorised insurer unless the relevant supervisory authority in the EEA Member States where the transferring policies were concluded have been notified of the transfer, and either agree to it or do not object within three months from the notification. I understand that Athora Ireland has provided the Central Bank with a list of the territories where policies were concluded and has asked the Central Bank to notify the relevant supervisory authorities as required. For completeness, Athora Ireland has also provided the Central Bank with a list of all jurisdictions (both within and outside the EEA) where Transferring Policyholders are resident.

6.9 Athora Ireland has confirmed that it has policyholders residing in a number of EEA Member States. I understand that the transfer will be advertised in publications in those Member States in accordance with the relevant local laws. In addition, the Companies will comply with any additional advertising requirements as may be specified by the supervisory authorities of the EEA Member States where the Transferring Policies were concluded.

6.10 In relation to non-EEA policyholders, I understand that the Central Bank has informed the Companies that it views the UK as a special case (as the UK was an EEA Member State when Athora Ireland concluded policies there) and, although not strictly required in law, it intends to consult with the relevant UK regulatory authorities (the Prudential Regulation Authority and the Financial Conduct Authority) in respect of the proposed Scheme.

6.11 Athora Ireland also has policyholders residing in other non-EEA countries. I understand that the transfer of non-EEA resident policyholders does not require any further regulatory approvals to be obtained under the Solvency II Regulations, and that the Central Bank does not intend to consult with any of the relevant regulatory authorities in any of those countries.

Maintenance and operation of funds

6.12 Following the publication in August 2017 of the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (SI 384 of 2017), the concept of the "life assurance fund", as set out in Sections 14 and 15 of the Insurance Act 1989, no longer exists for life assurance companies that fall within the scope of the Solvency II regime.

6.13 Furthermore, as neither Athora Ireland nor MLIDAC operate any "ring-fenced funds", as defined under Solvency II, all assets and liabilities of Athora Ireland relating to the Transferring Policies will simply transfer to MLIDAC's ownership, without any allocation or ring-fencing to any particular fund.

6.14 However, Athora Ireland maintains a number of notional funds in respect of the transferring business ("**internal linked funds**"). After the Effective Date, Athora Ireland's internal linked funds will be replaced by equivalent funds in MLIDAC. The assets and liabilities deemed appropriated to each Athora Ireland internal linked fund immediately prior to the Effective Date will be moved on the Effective Date to an equivalent internal linked fund established within MLIDAC. The Transferring Policies will be allocated equivalent units in the internal linked funds operated by MLIDAC that correspond to those previously operated by Athora Ireland. The Scheme also states that there will be no change to the investment strategy, the approach to unit pricing, or to fund charges as a result of the transfer.

After the Effective Date, MLIDAC will have the ability to exercise its discretion in relation to the rules of operation (including unit pricing) of the internal linked funds, subject to certain principles and restrictions as set out in the following paragraph.

MLIDAC's rights in relation to Transferring Policies

6.15 The proposed Scheme provides that MLIDAC may:

- exercise any available discretions in relation to the Transferring Policies provided it does so in accordance with the applicable principles, and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in MLIDAC; and
- modify the terms and conditions applicable to any policy or internal linked fund, in accordance with the principles, and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in MLIDAC,

subject in every case to the provisions of the applicable policy conditions and the rules of any relevant investment fund and, where relevant, to the opinion of MLIDAC's Head of Actuarial Function.

Costs of the proposed Scheme

6.16 All costs and expenses relating to the preparation and carrying into effect of the proposed Scheme will be shared equally by the Companies, except that each of the Companies will be directly liable for their respective legal fees. No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

Modification or additions

6.17 Modifications and additions to the proposed Scheme, or further conditions to the proposed Scheme, may be imposed by the Court. Other additions and modifications to the proposed Scheme are permitted if MLIDAC and Athora Ireland both agree, subject to Court approval.

6.18 After the Effective Date, MLIDAC may, in certain limited circumstances and subject to the Court's approval, vary the terms of the Scheme. Any such application from MLIDAC would require the Central Bank to be notified and would require a fresh report from an independent actuary. Athora Ireland's consent would also be required if the proposed modification would affect its rights, obligations or interests.

Policyholder communications

6.19 Section 13 of the 1909 Act requires that, unless the Court otherwise directs, certain materials must be sent to each policyholder of both Athora Ireland and MLIDAC. These materials include a statement summarising the proposed

Scheme together with an abstract summarising the main terms of the proposed Scheme and the Independent Actuary's Report (together the "**Circular**").

6.20 In respect of the proposed Scheme, I understand that the Companies intend to ask the Court to modify and waive some of these requirements. In summary, the Companies request that:

- The Circular in this case will include a summary of the Independent Actuary's report, rather than the full report.
- The Circular will only be sent to those policyholders whose policies are transferring from Athora Ireland to MLIDAC, rather than to all policyholders in both Companies.

6.21 If the Court agrees, Athora Ireland will only send a copy of the Circular to all Transferring Policyholders. Any remaining (i.e. non-transferring) Athora Ireland reinsurance cedants, and the existing (pre-Effective Date) policyholders of MLIDAC ("**MLIDAC's existing policyholders**") will not receive the Circular.

6.22 The Companies' principal arguments for not automatically sending the Circular to MLIDAC's existing policyholders are as follows:

- That, given the number of policyholders involved (approximately 192,000), the costs of sending the Circular by post would be disproportionate to any benefit that might be obtained by the policyholders in question.
- That many of the policyholders in question would have received a welcome letter from MLIDAC in the past 18 months and the issuance of a further letter may cause unnecessary concern and confusion on their part.
- In addition to advertising in Ireland, the Companies propose to publish notice of the proposed Scheme in national newspapers in the United Kingdom, Italy, Germany, France, Spain and Belgium and in The Financial Times (International Edition).
- That I have concluded that neither the security of benefits nor the fair treatment and reasonable benefit expectations of those policyholders will be materially adversely affected by the proposed Scheme[10] and that, therefore, sending them the Circular risks causing them unnecessary concern.

6.23 Furthermore, as there will be no policyholders remaining in Athora Ireland (only reinsurance cedants), there is no requirement to send the Circular to them although I understand that all remaining reinsurance cedants (both Athora Belgium and any others, should Athora Ireland enter into any further inwards reinsurance arrangements prior to the Effective Date) will be provided with a copy of the Petition and proposed Scheme.

6.24 In addition, the materials will be available on both the Athora Ireland website (https://www.athora.com/athora-ireland) and the MLIDAC website (https://www.monumentregroup.com/about-monument-re/about-ie/monument-life-insurance-dac-va/).

6.25 The proposed communication plan, as summarised above, is subject to any amendment directed by the Court.

[10] Please refer to sections 8 and 9 for details of my conclusions and the basis on which I reached them.

7 APPROACH TO ASSESSING THE PROPOSED SCHEME

Introduction

7.1 In this section I explain the approach I have adopted in assessing the impact of the proposed Scheme on the policyholders of Athora Ireland and MLIDAC.

Context of assessment

7.2 My assessment is conducted within the context of the proposed Scheme, and only the proposed Scheme, and considers its likely effects on the Transferring Policyholders and MLIDAC's existing policyholders. It is not within my remit to consider possible alternative schemes or to form a view as to whether this is the best possible scheme.

7.3 My assessment of the impact of the implementation of the proposed Scheme on the various affected policies is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.

7.4 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that the Court should reject a Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.

7.5 In order to acknowledge this inherent uncertainty, and to be consistent with normal practice in these matters, the conclusions of the Independent Actuary in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.

7.6 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

Principles of assessment

7.7 The conditions to be met by the proposed Scheme are:

- that the security of policyholders' benefits will not be materially adversely affected; and
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations.

7.8 In sections 8 and 9 I assess the proposed Scheme in the context of security of policyholders' benefits, fair treatment and policyholders' reasonable benefit expectations. In addition, I have considered the impact of other miscellaneous aspects of the proposed Scheme as set out below. I do not believe that there are any other matters that I have not taken into account that might be relevant to my assessment of the proposed Scheme.

7.9 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

7.10 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable benefit expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;
- the tax treatment of policyholders' premiums and/or benefits;

- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders;
- levels of customer service to policyholders.

7.11 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

Policyholder groupings

7.12 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from Athora Ireland (referred to as the "Transferring Policyholders"); and,
- Existing (pre-Effective Date) policyholders of MLIDAC (referred to as “MLIDAC’s existing policyholders”).

7.13 As Athora Ireland is expected to have no policyholders following the proposed transfer, only reinsurance cedants, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in Athora Ireland post-transfer.

7.14 In addition, when assessing whether the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations, I note that I consider that matters of PRE do not apply to Athora Ireland’s ULG reinsurance cedants.

Assumptions made when assessing the proposed Scheme

7.15 When considering the implications of the proposed Scheme, I need to make certain assumptions about how the Companies will run their respective businesses.

7.16 The assumptions I have made include:

- MLIDAC will take over, and maintain in force, the reinsurance arrangements currently in place between Athora Ireland and New Re in respect of the ULG business.
- MLIDAC will reinsure 90% of the residual cashflows on the ULG business (after allowance for the New Re reinsurance) with Monument Re.
- MLIDAC will maintain all other existing reinsurance arrangements that it has in place with Monument Re.
- MLIDAC will exit the TPR without seeking authorisation for a UK branch, thereby entering SRO under the FSCR.
- Those transferring UK policyholders who are currently covered by the UK FSCS will remain covered post-transfer, subject to the time limitation imposed by the FSCR.
- MLIDAC will retain its permanent establishment in the UK (which was established to facilitate a small number of UK “onshore bond” policies that transferred to MLIDAC from MetLife). However, the Transferring Policies will be administered from Ireland, with no activities taking place in the UK in respect of the Transferring Policies.
- MLIDAC will ultimately use the services of SS&C to administer the ULG business. In the interim, the administration will continue to be provided by Athora Group under the terms of the Transitional Services Agreement. Approximately 18 employees will transfer to Capita or the Monument Group from within the Athora Group as a result of the transfer of administration services.
- Athora Ireland will make the agreed payment to MLIDAC to take on the transferring ULG business, as agreed in the Business Sale Deed.
- Each of the Companies will follow the business strategy as articulated in its most recent ORSA.
- Each of the Companies will continue in its current ownership.

7.17 My assumptions are based on my understanding of the issues in question and have been shared with the Companies’ respective senior management teams for confirmation. I believe, therefore, that it is reasonable to make the assumptions I have made when assessing the implications of the proposed Scheme. However, if any of these assumptions were to be invalid, then my assessment of and conclusions on the proposed Scheme may need to be revised.

8 ASSESSMENT OF THE PROPOSED SCHEME: SECURITY OF BENEFITS

Introduction

8.1 In this section, I set out my assessment of the proposed Scheme in so far as it may affect the security of policyholders' benefits.

8.2 In assessing the implications of the proposed Scheme on the security of benefits for the various groups of policyholders, I have considered a number of factors including the risk profiles of the two Companies and the outlook for their respective future solvency development (including consideration of their business plans).

8.3 The security of policyholders' benefits is provided by the amount by which an insurer's assets exceed its liabilities. In addition, the regulatory regime for Irish insurers requires that this excess of assets over liabilities must in turn exceed a prescribed minimum level (which is calculated taking account of the risks to which the insurer is exposed), thus providing a minimum level of security (see section 3 for more details).

8.4 The principal issue with regard to security of benefits, therefore, is whether or not the transferee company will have adequate resources following the completion of the proposed Scheme and whether this is likely to remain the case over time. This assessment must also have regard to the corresponding situation which would pertain should the proposed Scheme not be proceeded with.

8.5 In my view, the relevant factors to be considered are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

8.6 I deal with each of these aspects in turn in the following paragraphs. Before doing so, however, it is worth first noting the principal similarities and differences between the two Companies.

8.7 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than would otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). Those points of similarity include:

- Both are based in Ireland and subject to the same regulations and the same supervisory regime.
- Both are subsidiaries of larger privately-owned groups, headquartered in in Bermuda and focused on insurance business consolidation and/or reinsurance transactions.
- Both currently have a mixture of unit-linked and non-linked business.
- Both have reasonably similar overall risk profiles.
- Both have similar capital management policies.
- Both employ similar risk management tools. In particular, both have a significant reliance on reinsurance as a risk mitigant, and both reinsure substantial amounts to other companies in their groups.
- Both have similar new business acquisition models – 'business to business' rather than 'business to consumer' – which lead to large deals from time to time rather than a steady flow of new business.
- Both use intra-group service companies.

8.8 There are also some differences, however, including (but not limited to):

- MLIDAC uses external TPA service providers (in addition to its sister service company).
- MLIDAC has more complexity in terms of in-force business (more portfolios, some non-life business, some with-profits business).
- The two Companies have different strategic plans.

- The two Companies have different parents (i.e. are part of different groups in different ownership).

Solvency

8.9 The solvency position of the two Companies is discussed in sections 4 and 5. In particular, the position is examined:

- As at 31 December 2020 (both as reported and on a pro forma basis as if the proposed transfer had taken place as at that date), with the reported 31 December 2019 position also shown for comparison.
- As at 31 March 2021.
- As projected over the period up to 31 December 2023 in the case of Athora Ireland, and 31 December 2025 in the case of MLIDAC, both with and without allowance for the proposed transfer.

8.10 I note that, as at both 31 December 2020 and 31 December 2021, both Companies had available capital resources in excess of both the regulatory minimum (100% of SCR) and their respective target levels as per their capital management policies (see below).

8.11 In addition, projections carried out by both Companies in the context of their ORSAs, indicate that the two Companies are expected to maintain more than adequate solvency levels (in excess of the target levels specified in their capital management policies) over the projection period.

8.12 As explained in section 3, the solvency position is a function of both the available capital resources (“eligible own funds”) and the calculated capital requirement (“SCR”). Therefore, both items must be correctly and appropriately calculated for the reported solvency coverage position to be reliable.

- The eligible own funds derive from the surplus of assets over liabilities measured on a Solvency II basis. To the extent that the assets and/or liabilities are misstated, the eligible own funds will be misstated. I note that the Solvency II balance sheet is audited, and I further note that the technical provisions (which form part of the overall liabilities) are also certified by the HoAF. I have relied on the work of the Companies‘ auditors and HoAFs in this regard. I have also reviewed the reports on the technical provisions produced by the respective HoAFs in respect of 31 December 2020 and am satisfied that the approaches adopted appear reasonable.
- The calculation of the SCR using the Standard Formula is a complex calculation. Again, this is audited, and I have relied on the work of the auditors in that regard. In addition, I reviewed the two Companies SCRs as at 31 December 2020 for reasonableness based on my knowledge of their businesses and of the operation of the Standard Formula.

8.13 Whilst examination of the current and projected solvency position is helpful, it does not, in my view, provide the full picture necessary for an evaluation of the security of policyholders’ benefits. In my view, it is also necessary to review and consider the other items listed in 8.5 above.

Risk profiles and risk management

8.14 In my view, any consideration of the respective future solvency positions needs to include an assessment of the extent to which the projected future development of the Companies’ solvency positions could vary as a result of differences in the Companies’ risk profiles and approach to risk management. Comparison of the Companies’ respective risk profiles is also an important consideration when examining the impact on the Transferring Policyholders of moving from a company with one particular risk profile to a company with a different risk profile.

8.15 The makeup of each company’s SCR provides a good indication of the risks to which the Companies are exposed, and the extent of their exposure. in sections 4 and 5, I summarise the key risks for both Athora Life and MLIDAC, based on the composition of the SCR and commentary from the ORSA reports. In summary, the two Companies are exposed to broadly similar types of risk.

8.16 In terms of risk management, both Companies adopt similar approaches in terms of risk management policies, frameworks, oversight and governance (as is to be expected as they are both subject to the same regulatory and supervisory regime in this regard).

8.17 In terms of risk mitigants, both Companies make substantial use of reinsurance – both to third-party reinsurers and intra-group reinsurers. This changes the nature of their risk exposures on the business in question: the underlying risks associated with the business (e.g. financial market risk, mortality risk, longevity risk etc.) are substantially replaced with counterparty default risk i.e. the risk that the reinsurer defaults on its obligations. In the case of both Companies, this risk is, in turn, substantially mitigated through collateral or other similar mechanisms.

8.18 Having reviewed the relevant documentation provided to me, and based on my experience of insurance risk management, I am satisfied that both Companies' risk management frameworks are fit for purpose.

Capital management policies

8.19 In my view, the Companies' capital management policies are a very important aspect of the assessment of financial strength and security as ultimately any excess capital resources above the level specified in the capital management policy may be transferred out of the company. That specified level of coverage should therefore, in my view, form the basis for assessing the Companies' financial strength.

8.20 The two Companies capital management policies are summarised in sections 4 and 5. They are both reasonably similar in terms of the level of excess capital resources the Companies must hold in excess of the regulatory minimum requirement of 100% of the SCR. MLIDAC's target capital level is, on the face of it, somewhat higher than Athora Ireland's, but this can reflect differences in the company's respective risk profiles.

8.21 As the SCR is intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%, by maintaining capital resources at significantly higher level than 100% of SCR, the Companies are both reducing the probability of having insufficient assets to meet liabilities to less than 0.5% over that timeframe.

8.22 MLIDAC's capital management policy explicitly recognises the dependence on Monument Re as a result of the IGR arrangements and includes an explicit amount of capital that must be held to reflect the associated risks. I have reviewed the basis on which the buffer has been calculated and am satisfied that it is reasonable (particularly in terms of the credibility and reasonableness of the actions that MLIDAC has stated it will take in the event of default by Monument Re).

8.23 Having examined the two Companies' respective capital management policies (particularly with the Transferring Policyholders in mind), I am satisfied that MLIDAC's policy is no weaker than Athora Ireland's in terms of the protection that it affords to policyholders.

Business model sustainability

8.24 In assessing the security of policyholders' benefits, I believe it is also necessary to give some consideration to the sustainability of the Companies' business models.

8.25 Athora Ireland's business model is, following the decision to dispose of its ULG business, to provide reinsurance solutions to European insurers. MLIDAC's business model is to acquire and integrate portfolios of European insurance business and to manage them in run off.

8.26 The Companies therefore have broadly similar business models. On that basis I do not see the proposed transfer resulting in any material implications for policyholders in that regard.

Recovery and resolution options

8.27 Under Solvency II, insurers are required to develop a recovery plan within two months if they breach their SCR. In addition, however, insurers are encouraged (and will soon be required) to develop pre-emptive recovery plans. These are aimed at ensuring that insurers have a good understanding of the situations that could adversely affect their business to the extent that it becomes necessary to implement a recovery plan, as well as the options available in those situations.

8.28 Athora Ireland has identified possible recovery plan triggers and actions in its ORSA. MLIDAC has developed a separate standalone pre-emptive recovery plan.

8.29 Resolution refers to the actions to be taken (by the supervisory authorities) in situations where recovery plans have failed, and all recovery options have been exhausted. In terms of resolution, the options available to both firms are the same and include portfolio transfer and run-off.

Parental support

8.30 Both Athora Ireland and MLIDAC are capitalised and managed to be self-sufficient on a standalone basis, without needing recourse to their respective parents (except to fund agreed acquisitions or other similar transactions). Nevertheless, both companies benefit from the support of their parents, both in terms of reinsurance and in terms of potential access to capital if required (noting that such capital support may or may not be forthcoming depending on the circumstances), which makes parental support an additional factor to consider when evaluating the impact of the proposed Scheme.

8.31 I note that Athora Life Re and Monument Re (the parent companies of Athora Ireland and MLIDAC respectively) both reported very healthy financial positions as at 31 December 2020 (see paragraphs 4.58 and 5.62 respectively), indicating that both parents have substantial available financial resources (also noting, however, that both parents have other potential calls on those resources).

8.32 Athora Ireland's 2020 ORSA set out the options available to it in the event that its solvency coverage ratio fell below the target level specified in its capital management policy. It noted that one of the options available to it was to obtain additional equity capital from its parent, an option whose likelihood it rated as "high" if the other possible measures available to Athora Ireland had been exhausted.

8.33 MLIDAC's Board-approved Pre-Emptive Recover Plan (dated October 2020) identified a range of options and actions that would be available in the event that the company's solvency coverage dipped below the specified trigger point for triggering the plan. The first option listed was to seek additional capital from elsewhere within the Monument Group.

8.34 In my view, the proposed transfer will not change the nature or character of parental support provided to either group of policyholders.

Consideration of different groups of policyholders

8.35 As noted in paragraph 7.12, it is necessary to consider the position separately for each relevant group of policyholders. In the following paragraphs I set out my analysis of the implications of the proposed Scheme for:

- the Transferring Policyholders; and,
- MLIDAC's existing policyholders.

8.36 As noted in paragraph 7.13 above, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in Athora Ireland post-transfer.

8.37 Based on my assessment of the outlook for the solvency position of the two Companies, together with my assessment of the Companies' respective risk profiles and capital management policies, my views on the implications of the transfer for the security of benefits of each of the categories of policyholders are set out below.

THE TRANSFERRING POLICYHOLDERS

Solvency

8.38 MLIDAC solvency coverage ratio (pro forma at 31 December 2020 as if the transfer had taken place on that date) is calculated as being higher than Athora Ireland's coverage ratio at 31 December 2020 (187% versus 155%).

8.39 Based on the projections prepared recently for submission to the Central Bank, MLIDAC's projected solvency development over the coming years (on the assumption that the transfer takes place) is expected to remain strong (and higher than the level required under the company's capital management policy).

8.40 Based on the information provided, I am satisfied that the MLIDAC has a healthy solvency position such that the Transferring Policyholders will not be materially adversely disadvantaged as a result of the proposed Scheme.

Risk profile

8.41 The Transferring Policyholders will be moving from a company whose main risks are currently financial market risk, counterparty (reinsurer) default risk and longevity risk, to one with broadly similar exposures to those risks but with the addition of exposure to a relatively small amount of non-life insurance risk. I note, however, that the non-life portfolio is in run-off (and is declining at the rate of ca. 20% p.a.)

8.42 If Athora Ireland did not transfer the ULG business, it is expected that its risk profile would shift over time (as the new reinsurance business volumes grew), with an increase in financial market risks.

8.43 Although the proposed Scheme would result in some changes to the overall risk profile to which the Transferring Policies will be exposed, the risk profiles of the two Companies are broadly similar. In particular, both Companies will have material exposures to reinsurers (including, in both cases, intra-group reinsurers) and both Companies will face similar strategic risks.

Risk management

8.44 MLIDAC has similar risk management policies, frameworks, oversight and governance.

8.45 As noted above, both Companies make substantial use of reinsurance – both to third-party reinsurers and intra-group reinsurers – with their risk exposure to those reinsurers mitigated through collateral or other similar mechanisms.

8.46 I am therefore satisfied that transferring to MLIDAC would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Capital management policy

8.47 I assess MLIDAC's capital management policy as no weaker than Athora Ireland's. I am therefore satisfied that the change in capital management policy does not weaken the security of benefits for the Transferring Policyholders.

Business model sustainability

8.48 MLIDAC's business model is broadly similar to Athora Ireland's. I am therefore satisfied that transferring to MLIDAC would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Recovery and resolution options

8.49 MLIDAC has a well-developed pre-emptive recovery plan which sets out the actions to be taken in the event of an unacceptable deterioration in the company's solvency position. I have reviewed MLIDAC's plan and believe the actions outlined are plausible. This plan will be updated to take account of the ULG business.

8.50 The options available in a resolution situation are similar for both Companies.

8.51 On that basis, I am satisfied that transferring to MLIDAC would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Parental support

8.52 Given the similarities between the Athora Group and the Monument Group, and the fact that both are well capitalised, I am satisfied that the proposed transfer will not result in any material adverse change to the nature or character of parental support provided to the Transferring Policyholders.

MLIDAC'S EXISTING POLICYHOLDERS

Solvency

8.53 The transfer of the ULG business is calculated as having a minor impact on MLIDAC's solvency position (with the solvency coverage ratio on a pro forma basis at 31 December 2020 decreasing from 190% to 187%) and as having a corresponding minor impact on the company's projected solvency position (compared to the equivalent projection assuming the transfer does not take place).

8.54 I am therefore satisfied that the transfer into MLIDAC of the ULG business would not lead to any material adverse implications in this regard for MLIDAC's existing policyholders.

Risk profile

8.55 The transfer will substantially increase MLIDAC's exposure to longevity risk as well as increasing its exposure to financial market risks. It is envisaged that these increased risk exposures will be substantially mitigated by reinsurance arrangements with New Re and Monument Re.

8.56 Although the proposed Scheme will lead to a material change in MLIDAC's risk profile before allowing for the proposed IGR arrangements, the change is far less material once the effect of the IGR has been taken into account. I am satisfied that the risks associated with the IGR will be appropriately mitigated.

8.57 I believe it is appropriate to consider the position net of IGR and I am therefore satisfied that the transfer into MLIDAC of the ULG business would not lead to any material adverse implications in this regard for MLIDAC's existing policyholders.

Risk management

8.58 MLIDAC does not intend to change its risk management framework as a result of the proposed transfer. Accordingly, I do not consider there to be any issues of concern for MLIDAC's existing policyholders.

Capital management policy

8.59 MLIDAC does not intend to change its capital management policy as a result of the proposed transfer. Accordingly, I do not consider there to be any issues of concern for MLIDAC's existing policyholders.

Business model sustainability

8.60 The transfer in of the ULG business is in line with MLIDAC's stated business strategy and does not change its business model. On that basis, I am satisfied that the transfer into MLIDAC of the ULG business would not lead to any material adverse implications in this regard for MLIDAC's existing policyholders.

Recovery and resolution options

8.61 MLIDAC will update its pre-emptive recovery plan to take account of the ULG business.

8.62 In relation to the options available in a resolution situation, the transfer in of the ULG business will not change the options available.

8.63 On that basis, I do not consider there to be any issues of concern for MLIDAC's existing policyholders in this regard.

Parental support

8.64 The nature and character of parental support provided to MLIDAC's existing policyholders should not change as a result of the proposed Scheme.

Miscellaneous aspects

BREXIT

8.65 I note that, provided the MLIDAC Board approves the plan to exit the TPR, the proposed Scheme will not alter the situation for those Transferring Policyholders who are UK-resident, in that they will continue to be policyholders of an Irish-authorised insurance company operating in the UK under the SRO provisions of the FSCR. In other words, the legal and regulatory position of the policyholders in question with respect to Brexit will be unchanged whether the proposed Scheme proceeds or not[11].

8.66 As noted in paragraph 5.84 above, the proposed course of action (to exit the TPR and enter SRO) will mean that MLIDAC's existing UK policyholders will have their coverage by the FSCS restricted to 15 years from the date of entering SRO, as opposed to enjoying unrestricted coverage if MLIDAC took the alternative course of action and exited the TPR by establishing a UK branch. However, as also noted in paragraph 5.84, the number of such policies expected to be still in force in 15 years' time is very small and therefore, on materiality grounds (as discussed in paragraph 7.5 above), I do not consider that this proposed course of action will have a material adverse impact on the policyholders in question.

MATTERS NOT CONSIDERED

8.67 I do not believe that there are any material relevant issues that have not been considered in this report.

Summary & Conclusions – Security

8.68 On the basis of the information provided to me and having considered the alternative scenario of the transfer not taking place, I am satisfied that the proposed Scheme will not result in a material adverse impact on the security of policyholders' benefits in the case of the Transferring Policyholders or MLIDAC's existing policyholders.

[11] In fact, there will be a slight benefit for the Transferring Policyholders in that their time within the FSCS will now be slightly longer than would have been the case if they remained in Athora Ireland, as the 15-year coverage period will recommence when MLIDAC enters SRO.

9 ASSESSMENT OF THE PROPOSED SCHEME: FAIR TREATMENT

Introduction

9.1 I must also consider whether the proposed Scheme treats policyholders fairly and consider the effect of the proposed Scheme on policyholders' reasonable benefit expectations.

9.2 In the case of the proposed Scheme, this involves consideration of:

- Contractual obligations to policyholders;
- Any changes that would be caused to the tax treatment of policyholders' premiums and/or benefits;
- Any areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders. Such areas of discretionary powers may include, in respect of internal linked funds, the investment criteria, unit-pricing rules and the level of charges applicable to those funds and the ability to vary the level of any non-guaranteed charges, amongst others; and,
- The levels of customer service to policyholders.

9.3 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

9.4 The SAI has stated, in ASP LA-6, the need to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act. I note that there is no objective standard or definition when it comes to considering PRE (see section 3) and I am therefore guided by the comments made by the Heads of Actuarial Function of the two Companies in that regard.

9.5 In the following paragraphs, I set out my views on the impact of the proposed Scheme on the fair treatment and reasonable benefit expectations of the two groups of policyholders.

The Transferring Policyholders

CONTRACTUAL OBLIGATIONS

9.6 The Transferring Policyholders' contractual terms and conditions will not change as a consequence of the proposed Scheme.

TAX TREATMENT OF PREMIUMS AND BENEFITS

9.7 Athora Ireland has retained external tax experts to review the proposed Scheme from the perspective of the tax implications (if any) on the Transferring Policies as well as the policies remaining in Athora Ireland post-transfer. The experts conclude that that the implementation of the proposed Scheme is not expected to have any adverse tax consequences for the Transferring Policyholders.

9.8 I note that, in providing this opinion, the external tax experts have considered the existence and operation of MLIDAC's permanent establishment in the UK and considered the proposed administrative arrangements for the Transferring Policies. Having done so, they have concluded that, provided MLIDAC operates the permanent establishment as intended and as documented, and provided the administrative arrangement for the Transferring Policies are as proposed, there should be no adverse implications for the tax treatment of the Transferring Policies.

9.9 I have been provided with a summary of the advice provided. I do not consider it necessary to seek additional independent tax advice.

EXERCISE OF DISCRETION

9.10 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, I note that (as stated in paragraph 5.75) I have been informed by MLIDAC that they do not propose to alter the manner in which discretion will be exercised in relation to the Transferring Policies, nor do they propose to take discretionary measures that would be substantially inconsistent with the current Athora Ireland practice.

9.11 I further note that the proposed Scheme requires that the exercise of such discretion by MLIDAC post-transfer must have regard, where relevant, to the opinion of MLIDAC's Head of Actuarial Function. The current governance arrangements for MLIDAC's unit-linked business (as summarised in paragraph 5.76) include a documented unit pricing policy (which I have reviewed) which sets out MLIDAC's approach in this area and which is typical for unit-linked business. Post-transfer, this policy would also apply to the Transferring Policies.

9.12 Based on the foregoing, I am satisfied that there is no reason to believe that the Transferring Policyholders will be materially adversely affected by the way in which MLIDAC may exercise its discretion in respect of aspects of the terms and conditions of the Transferring Policies post-transfer, compared to how Athora Ireland can currently exercise its discretion.

CUSTOMER SERVICE

9.13 As noted in paragraph 5.73 above, MLIDAC intends ultimately to outsource the administration of the Transferring Policies to Capita, a specialist TPA service provider with prior experience of administering business similar to the transferring ULG business. In the interim, the administration will continue to be provided by Athora Group under the terms of the Transitional Services Agreement. Approximately 18 employees, in areas such as finance, investment administration, customer service, IT and compliance are expected to transfer to Capita or the Monument Group from within the Athora Group as a result of the transfer of administration services.

9.14 In this regard, I note the following:

- MLIDAC has signed a letter of intent with SS&C in respect of the Transferring Policies and has a project plan in place for the transfer of administration services. The plan envisages the transfer to SS&C going live within 6 months of the Effective Date.
- SS&C is a specialist TPA service provider, with direct prior experience of administering similar policies (unit-linked with guarantees).
- MLIDAC's business model is to outsource administration of its various portfolios to specialist TPA service providers, with different providers used for different portfolios according to their specialisms and expertise.
- MLIDAC's business model is to acquire and integrate run-off portfolios of business and it has a successful track record of doing so to date.
- MLIDAC has well-defined outsourcing governance and oversight arrangements in place, as required under Solvency II. These appear fit for purpose, as evidenced by the fact that they have led to the identification and resolution of problems with external TPA service providers in the past.
- A number of employees will transfer from AISL (to Capita or the Monument Group) as a consequence of the transaction. This should help in terms of continuity of service and knowledge transfer.
- In the unlikely event that the migration to SS&C does not proceed, MLIDAC has identified what it considers to be a viable fall-back approach which could be implemented.

9.15 Having considered the relevant facts, as set out above, I am satisfied that there is no reason to believe that the service standards experienced by the Transferring Policies will be materially adversely affected by the proposed Scheme.

COSTS OF THE PROPOSED SCHEME

9.16 The arrangement with regard to the costs of the proposed Scheme are set out in paragraph 6.16 above. I confirm that I am satisfied that the proposals are fair to the Transferring Policyholders.

POLICYHOLDER COMMUNICATIONS

9.17 The proposed communications plan is summarised in paragraphs 6.19 to 6.24 above. From the perspective of the Transferring Policyholders, the only point of difference with the default approach to communications, as specified in the 1909 Act, is that the Transferring Policyholders will receive a summary of the Independent Actuary's Report (which I will draft) rather than this full report.

9.18 I am satisfied that the proposed approach of communicating with the Transferring Policyholders is reasonable.

MLIDAC's Existing Policyholders

GENERAL

9.19 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of MLIDAC's existing policyholders, nor will there be any changes to the way in which MLIDAC will exercise its discretionary powers. I have been advised that no adverse tax consequences are foreseen and there will be no change to the administration and customer service arrangements.

9.20 I am satisfied that the proposals with regard to the costs of the proposed Scheme are fair to MLIDAC's existing policyholders.

POLICYHOLDER COMMUNICATIONS

9.21 As noted in above, I understand that (subject to the agreement of the Court), the Circular will not be sent to MLIDAC's existing policyholders.

9.22 I note that the Companies' arguments for this approach are as follows:

- That, given the number of policyholders involved (approximately 192,000), the costs of sending the Circular by post would be disproportionate to any benefit that might be obtained by the policyholders in question.
- That many of the policyholders in question would have received a welcome letter from MLIDAC in the past 18 months and the issuance of a further letter may cause unnecessary concern and confusion on their part.
- In addition to advertising in Ireland, the Companies propose to publish notice of the proposed Scheme in national newspapers in the United Kingdom, Italy, Germany, France, Spain and Belgium and in The Financial Times (International Edition).
- That I have concluded that neither the security of benefits nor the fair treatment and reasonable benefit expectations of those policyholders will be materially adversely affected by the proposed Scheme and that, therefore, sending them the Circular risks causing them unnecessary concern.

9.23 I have considered the proposed approach to policyholder communication and am satisfied that it is fair and reasonable in the circumstances. In forming this view I note that, although the size of the proposed transfer (ca. €1.3 billion in assets transferring) is material relative to MLIDAC's pre-transfer size (total assets of €2.2 billion at 31 December 2020), the impacts on MLIDAC's solvency position and risk profile are far less material. I also note that the proposed approach will see additional advertising, in excess of what is required by law or custom in the countries in question, aimed at making MLIDAC's existing policyholders aware of the proposed Scheme.

Summary & Conclusions – Fair treatment

9.24 In my opinion, for the reasons set out above, I am satisfied that the fair treatment and reasonable benefit expectations of both groups of policyholders will not be materially adversely affected by the proposed Scheme.

9.25 I am also satisfied with the proposed approach to policyholder communications in respect of the proposed Scheme.

10 CONCLUSIONS ON THE PROPOSED SCHEME

10.1 I confirm that I have considered the effects of the proposed Scheme on the following groups of policyholders:

- Policyholders transferring to MLIDAC from Athora Ireland; and,
- Existing (pre-Effective Date) policyholders of MLIDAC.

10.2 I further confirm that I do not consider further subdivisions to be necessary.

10.3 I note that I do not consider it necessary to consider the position of any reinsurance cedants who will continue to be reinsured by Athora Ireland post-Effective Date.

10.4 In summary, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on

- the security of benefits of either group of policyholders;
- the reasonable expectations of either group of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both groups of policyholders.

Michael Culligan

Michael Culligan
Fellow of the Society of Actuaries in Ireland

8 June 2021

11 APPENDIX A: LIST OF PRINCIPAL DATA SOURCES

11.1 In carrying out my work and producing this report, reliance has been placed upon, but not limited to, the following information. All items have been provided directly to me by either Athora Ireland or MLIDAC unless otherwise noted.

Legal documents

- Constitution of Athora Ireland
- Constitution of MLIDAC
- The Petition, proposed Scheme and other related legal documents (draft dated 19 May 2021)
- The Circular to be provided to each transferring Athora Ireland policyholder (draft dated 21 May 2021)

Reports from the Heads of Actuarial Function

- Report from the Head of Actuarial Function to the Board of Athora Ireland in respect of the year ended 31 December 2020
- ARTP from the Head of Actuarial Function to the Board of MLIDAC in respect of the year ended 31 December 2020 dated on 31 March 2021
- MLIDAC HoAF Opinion on Underwriting Policy and Reinsurance Arrangements dated on 22 September 2020

Solvency & Financial Condition Reports

- Solvency and Financial Condition Report (SFCR) for Athora Ireland for the year ended 31 December 2020
- Solvency and Financial Condition Report (SFCR) for MLIDAC for the year ended 31 December 2020

Own Risk & Solvency Assessment (ORSA) Reports

- ORSA Report for Athora Ireland dated 17 December 2019
- ORSA Report for Athora Ireland dated 2 December 2020
- ORSA Report (Post Juniper Transaction Update) for Athora Ireland dated March 2021
- ORSA Report for Monument Insurance (including MLIDAC) dated 30 November 2020
- ORSA Report for MLIDAC dated 24 May 2021
- Opinion of Athora Ireland HoAF on ORSA dated 2 December 2020
- Opinion of MLIDAC HoAF on ORSA dated 9 November 2020

Directors' Reports and Financial Statements

- Directors' Report and Financial Statements for Athora Ireland for the financial year ended 31 December 2020
- Directors' Report and Financial Statements for MLIDAC for the financial year ended 31 December 2020

Product documentation

- Sample policy documents for the Transferring Policies

Reinsurance

- Reinsurance agreements for Athora Ireland
  - Aegon UK (various documents including the reinsurance agreement as amended, security and collateral agreements)
  - La Mondiale Partenaire (various documents including the reinsurance agreement as amended and the side letter)

  – New Re (contracts as amended)

- Intra Group Reinsurance framework for MLIDAC dated 30 November 2020
- Juniper 'Day 1' reinsurance agreement

Other documents

- Capital Management Policy for Athora Group dated November 2019
- Capital Management Policy for Athora Ireland dated March 2020
- Capital Management & Dividend Policy for MLIDAC dated November 2020
- MLIDAC unit pricing policy dated 9 June 2020
- Minutes of recent meetings of MLIDAC's unit pricing committee dated 14 April 2020
- Business sale deed disclosure letter dated 26 February 2021
- Business sale deed dated 26 February 2021
- Transitional Services Agreement draft dated 25 February 2021
- Letter from KPMG to Athora Ireland dated 4 June 2021 regarding tax implications for Transferring Policyholders
- MLIDAC Material Change of Business Plan V 2.0 dated 31 May 2021

Correspondence

- E-mail correspondence with Athora Ireland in relation to the proposed Scheme
- E-mail correspondence with MLIDAC in relation to the proposed Scheme

12 APPENDIX B: GLOSSARY OF TERMS

12.1 A glossary of terms and abbreviations used throughout the report is provided below.

Term	Definition
1909 Act	The Assurance Companies Act 1909 (as amended)
AISL	Athora Ireland Services Limited
Appointed Actuary	An actuary appointed to an Irish life assurance company pursuant to Section 34 of the Insurance Act 1989. (Note that the Appointed Actuary role no longer exists following the transition to Solvency II on 1 January 2016)
ASP	Actuarial Standard of Practice
Athora Ireland	Athora Ireland plc
Athora Ireland Board	The board of Athora Ireland
Athora Ireland's ULG reinsurance cedants	Those insurance companies who had previously reinsured ULG business with Athora Ireland who will have their reinsurance agreements transferred by the proposed Scheme, with MLIDAC replacing Athora Ireland as the reinsurer
BEL	Best Estimate Liability. One of the components of the technical provisions under Solvency II. The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cash-flows
Brexit	The term used to describe the UK's exit from the EU
Business Sale Deed	Legal agreement of 26 February 2021 that set out the agreed arrangements to transfer of the portfolio from Athora Ireland to MLIDAC
Central Bank	The Central Bank of Ireland, which is the supervisory authority with responsibility for the prudential supervision of the Companies
Circular	The Circular is a document to be provided to the Transferring Policyholders which includes a summary of the main terms of the proposed Scheme and of the Independent Actuary's Report
Class III life business	Life assurance business (including annuities) where the benefits are linked to investment funds
Companies	Athora Ireland and MLIDAC, collectively
Court	The High Court of Ireland
DAC	Designated Activity Company
Directly-written ULG business	That part of the overall ULG business (see) which Athora Ireland wrote directly with policyholders.
EEA	The European Economic Area. The EEA comprises the EU plus Iceland, Liechtenstein and Norway
Effective Date	23:59 hours on 31 December 2021, or such other date as may be specified by the Court
Eligible own funds	The amount of an insurer's own funds (see) following the application of the eligibility criteria specified in the Solvency II Regulations. Eligible own funds are available to cover the SCR (see).
Ethias	Ethias S.A. (a Belgian insurance company)
EU	The European Union
FSAI	Fellow of the Society of Actuaries in Ireland
FSCR	The Financial Services Contracts Regime enables EEA firms that previously passported into the UK and that did not enter the TPR (or have exited the TPR without securing authorisation for a UK branch) to wind down their UK business in an orderly fashion.
FSCS	The Financial Services Compensation Scheme in the UK
FSPO	The Financial Services and Pensions Ombudsman in Ireland is an independent and free service that helps resolve complaints with pensions providers and regulated financial services providers.
GMAB	Guaranteed Minimum Accumulation Benefit, a form of guarantee provided on some of the ULG business.

GMDB	Guaranteed Minimum Death Benefit, a form of guarantee provided on some of the ULG business.
GMWB	Guaranteed Minimum Withdrawal Benefit, a form of guarantee provided on some of the ULG business.
Head of Actuarial Function	The person, as nominated by the company's board of directors and approved by the Central Bank, with overall responsibility for the tasks called out for the actuarial function under Solvency II and the additional responsibilities introduced by the Central Bank
IGR	Intra-group reinsurance
Independent Actuary	Mr Michael Culligan, a Fellow of the Society of Actuaries in Ireland and a Principal with Milliman, a firm of actuaries and consultants.
Independent Actuary's report	This report
Inora	Inora Life DAC
Internal linked funds	A number of notional funds maintained by Athora Ireland in respect of the transferring business
Internal Model	A customised (company-specific) model for determining the SCR, which must meet certain specified standards and be approved by the Central Bank (in the case of an Irish insurer). Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model
MADAC	Monument Assurance DAC
MCR	Minimum Capital Requirement. One of the regulatory capital requirements under Solvency II. Usually lower than the SCR. The MCR defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation
MetLife	MetLife Europe DAC
MIDAC	Monument Insurance DAC
Milliman	Milliman Ltd., Consultants & Actuaries, 7 Grand Canal Street Lower, Dublin 2
MISL	Monument Insurance Services Limited
MLIDAC	Monument Life Insurance dac
MLIDAC Board	The board of MLIDAC
MLIDAC's existing policyholders	The existing (pre-Effective Date) policyholders of MLIDAC
Monument Group	The group of companies of which Monument Re is the parent
Monument Re	Monument Re Limited (a reinsurer incorporated in Bermuda)
MRB	MetLife Reinsurance Company of Bermuda Limited (a reinsurer incorporated in Bermuda)
New Re	New Reinsurance Company Limited, a reinsurance company within the Munich Re Group, one of the world's largest reinsurance groups.
Non-linked business	Life assurance business which is not unit-linked business
NYSE	New York Stock Exchange
ORSA	Own Risk and Solvency Assessment. The ORSA is a risk management tool, which is required under Solvency II, to assess the overall solvency needs of the firm taking into account the firm's own assessment of its particular risk profile
Own funds	Broadly speaking, the excess of an insurer's assets over its liabilities on a Solvency II basis
Petition	The application by one, or both, of the parties for which the Court will consider the proposed Scheme. The Petition must be accompanied by a report on the terms of the scheme by an independent actuary
PLC	Public limited company
PPI	Payment protection insurance
PRE	Policyholders' reasonable expectations
proposed Scheme	The legal scheme of transfer by which it is proposed that the Transferring Policies and their associated assets and liabilities be transferred from Athora to MLIDAC. Under the relevant provisions of the 1909 Act (see above), the proposed scheme requires the approval of the Court

QRTs	Quantitative Reporting Templates. These are specific forms which insurers must complete on a regular basis under Solvency II. Some QRTs are required to be produced quarterly and more are required to be produced annually. Some of the annual QRTs are public (typically appended to the SFCR)
Reinsurance recoverable	To the extent that business is reinsured, reinsurance recoverable is an offset to the BEL which sits on the asset side of the balance sheet
Risk Margin	The risk margin is an amount, in addition to the BEL, designed to bring the technical provisions up to the amount that another insurer (or reinsurer) would be expected to require in order to take over and discharge the insurance liabilities in an arm's length transaction
Rothesay	Rothesay Life plc
Run-off	A line of insurance business, or an insurance company, that no longer accepts new business but continues to provide coverage for claims arising on policies still in-force and that makes payments for claims that have occurred on policies that have expired
SAI	The Society of Actuaries in Ireland
SCR	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II. Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%
SFCR	Solvency and Financial Condition Report. This is a public document which all insurers are required to produce on an annual basis under Solvency II. Insurers are required to publish their SFCRs on their websites. In addition, the Central Bank also maintains a public repository of all Irish insurers' SFCRs
Solvency II	The regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising insurance regulation across all EEA countries
Solvency II Regulations	The European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No 485 of 2015) (as amended)
SRO	Supervised Run-Off. This is the mechanism under the FSCR that allows firms that previously operated in the UK on a cross-border basis to continue to carry out certain regulated activities in the UK for a period of up to 15 years.
SS&C	SS&C Life & Pensions Services (Ireland) (formerly Capita Life & Pensions Services (Ireland)), a specialist third-party administration service provider to the insurance industry
Standard Formula	A standardised calculation method for determining the SCR. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model
Supplementary report	A further report to be prepared by the Independent Actuary prior to the final Court hearing. The purpose of the supplementary report is to provide an update for the Court on the Independent Actuary's conclusions in light of any significant events subsequent to the date of the finalisation of this report
Technical provisions	The value of the insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II, the Technical Provisions comprise the BEL and the Risk Margin
TPA	Third-party administration
TPR	The Temporary Permissions Regime – the legal basis by which insurers from the EU carrying on insurance business in the UK could (if they opted in) continue to carry on their business in the UK for three years post-Brexit.
Transferring Policies	The policies that are proposed to be transferred from Athora Ireland to MLIDAC under the proposed Scheme
Transferring Policyholders	The policyholders of the directly-written ULG business being transferred from Athora Ireland to MLIDAC
Transitional Services Agreement	An agreement between MLIDAC and AISL whereby AISL has agreed to provide certain services to MLIDAC on a transitional basis for a limited period of time
UK	The United Kingdom of Great Britain and Northern Ireland
Unit-linked business	A type of life assurance business, written under Class III of the Solvency II Regulations, where the benefits payable linked to the performance of investment funds

ULG business	A portfolio of unit-linked business with guarantees which is proposed to be transferred from Athora Ireland to MLIDAC under the proposed Scheme.
ULG reinsurance-accepted business	That part of the overall ULG business (see) which was accepted by Athora Ireland from other insurance companies by way of reinsurance.