The Report of the Independent Actuary

Report of the Independent Actuary on the proposed Scheme to transfer certain insurance business of MetLife Europe dac to Laguna Life dac

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1 INTRODUCTION

Background

1.1 It was announced on 19 June 2018 that the Monument Re Group ("**Monument Group**"), through its Irish subsidiary Laguna Life dac ("**Laguna**") was to acquire a run-off portfolio of insurance policies from MetLife Europe dac ("**MetLife Europe**"). Together with Laguna's ultimate parent, Monument Re Limited ("**Monument Re**"), MetLife Europe and Laguna entered into a legal agreement on that date (the "**Framework Agreement**") setting out the agreed arrangements that would be entered into in order to effect the transfer of the portfolio from MetLife Europe to Laguna.

1.2 In order to complete the acquisition, a Court-approved portfolio transfer is required: the policies in question ("**the Transferring Policies**") will be transferred to Laguna via a scheme of transfer ("**the proposed Scheme**") approved by the High Court of Ireland ("**the Court**").

The role of the Independent Actuary

1.3 Under Section 13 of the Assurance Companies Act 1909 ("**the 1909 Act**"), any scheme which provides for the whole or part of the life assurance business carried on by an insurance company to be transferred to another body, requires the prior sanction of the Court.

1.4 The Court will consider such a scheme on the basis of a 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.

Instructions

1.5 MetLife Europe and Laguna, 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, pursuant Section 13 of the 1909 Act.

1.6 My appointment as the Independent Actuary has been notified to the Central Bank of Ireland (the "**Central Bank**") which has confirmed to the Companies that it has no objection to my appointment.

1.7 My report has been prepared in accordance with the terms of our statement of work dated 13 August 2018 and the terms of our engagement letter to which that statement of work refers.

1.8 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 documents referred to therein relating to the proposed implementation and operation of the scheme of transfer.

1.9 It is anticipated that the proposed Scheme will be presented to the Court in November 2018 under Section 13 of the 1909 Act and Regulation 41 of the European Union ("**EU**") (Insurance and Reinsurance) Regulations 2015 ("**the Solvency II Regulations**"), with a proposed effective date of 1 April 2019.

1.10 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 5.

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

1.12 I have also reviewed and considered the contents of the Circular (as defined in paragraph 4.16) that will be made available to policyholders in relation to the proposed Scheme.

1.13 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 subsequent to the date of the finalisation of this report.

Qualifications and disclosures

1.14 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.

1.15 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 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.

1.16 I am not a policyholder of MetLife Europe or Laguna, nor do I have any financial interests in the shares of MetLife, Inc. ("**MetLife**") (the ultimate parent of MetLife Europe), nor in the Monument Group.

1.17 I am not, and have not been, employed by either of the Companies as an employee, officer or director.

1.18 I have, however, previously acted (in a consulting capacity) as Appointed Actuary of MetLife Europe (from 2007 to 2011) and have acted as the Reviewing Actuary to MetLife Europe's Head of Actuarial Function as at 31 December 2016. In addition, from 2013 to 2017 I acted (in a consulting capacity) as Head of Actuarial Function (and, prior to the introduction of Solvency II, as Appointed Actuary) of both Monument Assurance dac and Monument Insurance dac, both of which are sister companies to Laguna within the wider Monument Group.

1.19 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 MetLife Europe and Laguna and they have confirmed that they are of the same opinion. In addition, as noted above, the Central Bank has been informed of my appointment and has made no objection.

1.20 Consultants from other Milliman offices provide, or have provided, services to MetLife and 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 MetLife or the Monument Group, would create a conflict of interest for me in my role as Independent Actuary.

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

Parties for whom my report has been prepared

1.22 The Independent Actuary's Report has been prepared for use by the following interested parties:

- The Court;
- Policyholders of MetLife Europe and Laguna;
- The Directors and senior management of MetLife Europe, Laguna 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

1.23 In preparing the Independent Actuary's Report, I have had access to certain documentary evidence provided by MetLife Europe and Laguna, 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 MetLife Europe and Laguna. 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.

1.24 I have relied on the work of the external auditors of MetLife and Laguna in gaining confidence in the financial information as at 31 December 2016 and 31 December 2017 as summarised in this report.

1.25 The Independent Actuary's Report is based on the information available to me at, or prior to, 15 November 2018, and takes no account of developments after that date.

1.26 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.

1.27 Neither the Independent Actuary's Report, nor any extract from it, may be published without my specific written consent having first been given, save that copies of the Independent Actuary's Report may be made available for inspection by policyholders of both MetLife Europe and Laguna 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.

1.28 A summary of this report may not be made without my written consent and, in particular, a summary of this report may not be distributed to policyholders without my prior approval.

1.29 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.

1.30 The Independent Actuary's Report should be read in conjunction with the other documents that pertain to the proposed Scheme.

Professional guidance

1.31 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.

1.32 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.

Structure of this report

1.33 The remainder of this report is structured as follows:

- Section 2 provides a summary of the business of MetLife Europe.
- Laguna's business is summarised in section 3.
- Section 4 summarises the proposed Scheme.
- I assess the proposed Scheme in section 5.
- My conclusions are set out in section 6.
- Appendix A lists the principal data sources I relied upon in carrying out my work.
- Appendix B provides an overview of the Transferring Policies.
- A glossary of terms is provided in Appendix C.

2 BACKGROUND TO METLIFE EUROPE

History and background

2.1 MetLife Europe is an Irish-incorporated and Irish-authorised life assurance company. It was incorporated on 8 February 2006 (as MetLife Europe Limited) under company registration number 415123. It is a wholly owned subsidiary of MetLife EU Holding Company Limited and, through intermediate holding companies, of MetLife, which is a company incorporated in the USA.

2.2 MetLife Europe is authorised by the Central Bank to transact life assurance business in Life Classes I, III, IV and VI and Non-Life Classes 1 and 2 under the Solvency II Regulations. The company has written a range of products in the above-mentioned classes, some with benefits linked to the performance of investment funds ("**unit-linked business**") and others without ("**non-linked business**"). Some of MetLife Europe policyholders participate in profits, receiving bonuses which reflect the investment experience of the fund in which their premiums are invested, whilst other lines of non-linked business do not.

2.3 MetLife Europe established a branch in the United Kingdom ("**UK**") in 2006. Over the past number of years, MetLife Europe has been the vehicle for a significant consolidation of MetLife's European operations, taking advantage of the ability provided by the EU's Insurance Directives to "passport" throughout the EU from a single base. This restructuring programme ("**Project Evolution**") was completed in 2016. Between 2012 and 2016, as part of the Project Evolution programme, it established branches in Italy, Spain, Portugal, France, Czech Republic, Slovakia, Hungary, Romania, Bulgaria and Cyprus. It also operates on a freedom to provide services basis in Poland, Greece, United Kingdom, Norway, Germany, Austria, and the Netherlands. In addition, MetLife Europe reinsures business from Russia and Indonesia.

2.4 In January 2017, the company announced the closure of the agency distribution channel in its Spanish branch and the merger of the executive management teams of the Czech and Slovakian branches. On 28 July 2017, the company closed its UK wealth management business to new business and focused its UK strategy on its group life and individual protection business lines.

2.5 On 19 June 2018, MetLife Europe reached agreement with the Monument Group, that Laguna would acquire the run-off portfolio of insurance policies that is the subject of this report.

Nature of business written

2.6 Table 1 summarises the technical provisions for each line of business in MetLife Europe as at 31 December 2017.

2.7 The technical provisions comprise the best estimate liability ("**BEL**") and risk margin (see Appendix C for definitions of these terms) and form part of the liability side of the Solvency II balance sheet. To the extent that some business is reinsured, there is an offset to the BEL ("**reinsurance recoverables**") which sits on the asset side of the balance sheet.

2.8 As can be seen from Table 1, the main lines of business are unit-linked business (some of which provides guaranteed minimum benefits) and insurance with profit participation. In summary, as at 31 December 2017, the technical provisions of MetLife Europe totalled €9.496 billion in respect of some 9.5 million policies in total.

Table 1: MetLife Europe – Technical provisions for in-force business as at 31 December 2017 (€ millions)

<table>
<tr><th colspan="2">Line of business</th><th>BEL
(1)</th><th>RM
(2)</th><th>Total TPs
(3) = (1) + (2)</th><th>Reinsurance recoverables
(4)</th></tr>
<tr><td>Life</td><td>Insurance with profit participation</td><td>1802</td><td>36</td><td>1838</td><td>0</td></tr>
<tr><td>Life</td><td>Unit-linked with guarantees</td><td>275</td><td rowspan="2">70</td><td rowspan="2">6821</td><td>0</td></tr>
<tr><td>Life</td><td>Unit-linked without guarantees</td><td>6476</td><td>0</td></tr>
<tr><td>Life</td><td>Other life insurance with guarantees</td><td>156</td><td rowspan="2">151</td><td rowspan="2">674</td><td>51</td></tr>
<tr><td>Life</td><td>Other life insurance without guarantees</td><td>367</td><td>139</td></tr>
<tr><td>Life</td><td>Life reinsurance accepted</td><td>1</td><td>0</td><td>1</td><td>0</td></tr>
<tr><td>Health</td><td>Health insurance with guarantees</td><td>56</td><td rowspan="2">10</td><td rowspan="2">70</td><td>11</td></tr>
<tr><td>Health</td><td>Health insurance without guarantees</td><td>5</td><td>0</td></tr>
<tr><td>Health</td><td>Health reinsurance accepted</td><td>7</td><td>0</td><td>7</td><td>0</td></tr>
<tr><td>Non-Life</td><td>Medical expense insurance</td><td>10</td><td>1</td><td>10</td><td>7</td></tr>
<tr><td>Non-Life</td><td>Income protection insurance</td><td>58</td><td>15</td><td>73</td><td>0</td></tr>
<tr><td>Non-Life</td><td>Workers' compensation insurance</td><td>0</td><td>0</td><td>1</td><td>1</td></tr>
<tr><td colspan="2">Total</td><td>9213</td><td>283</td><td>9496</td><td>208</td></tr>
</table>

Source: Public QRTs appended to MetLife Europe's SFCR for 2017

Solvency position

RECENT SOLVENCY POSITION

2.9 At 31 December 2017, MetLife Europe had an excess of eligible own funds over its SCR, as shown in Table 2. The table also shows the equivalent position as at 31 December 2016.

Table 2: MetLife Europe – Solvency position at 31 December 2017 and 31 December 2016 (€ millions)

	31-Dec-17 € millions	31-Dec-16 € millions
(1) Net assets before deducting Technical Provisions	10701	11375
(2) Technical Provisions	9496	10032
(3) Other adjustments to arrive at eligible own funds	0	0
(4) Total eligible own funds (= (1) - (2) + (3))	**1205**	**1343**
(5) Solvency Capital Requirement (SCR)	813	781
(6) Minimum Capital Requirement (MCR)	309	318
(7) Relevant Solvency II capital requirement (= Higher of 5 & 6)	813	781
(8) Coverage ratio (= (4) / (7))	148%	172%
(9) Excess of eligible own funds over capital requirement (= (4) - (7))	393	562

Source: Public QRTs appended to MetLife Europe's SFCR for 2017

2.10 In summary, the assets of MetLife Europe exceeded its liabilities by €1,205 million (31 December 2016: €1,343 million). The eligible own funds exceeded the relevant regulatory capital requirement by €393 million (31 December 2016: €562 million). In percentage terms the company's solvency coverage ratio was 148% (31 December 2016: 172%).

2.11 MetLife Europe paid a dividend of €222 million in 2017, which was the main reason for the reduction in own funds over the course of the year, and hence the reduction in the solvency coverage ratio. (The solvency position as reported in Table 2 above as at 31 December 2017 is net of this dividend).

2.12 Analysis provided in the ORSA report from December 2017 (see 2.14 below) concluded that the payment of the then proposed dividend of €222 million was appropriate and that the projected post-dividend solvency position (ca. 150%) provided an appropriate buffer.

2.13 I have also been provided with (unaudited) figures as at 30 June 2018. These show that MetLife Europe's solvency position at mid-2018 was slightly improved from that at end-2017, with a solvency coverage ratio of 157%, and an excess of eligible own funds over the relevant regulatory capital requirement of €462 million.

PROJECTED SOLVENCY POSITION

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

2.15 In December 2017, the board of MetLife Europe ("**MetLife Board**") approved a report documenting the results of an Own Risk and Solvency Assessment ("**ORSA**") of the company's business. The ORSA report included projections of the future solvency position of MetLife Europe for the period to end-2021.

Table 3: MetLife Europe – Projected future solvency development (Central Projection from 2017 ORSA) (€ millions)

	31-Dec-17 € millions	31-Dec-18 € millions	31-Dec-19 € millions	31-Dec-20 € millions	31-Dec-21 € millions
(1) Eligible own funds	1215	1326	1474	1663	1875
(2) Solvency II capital requirement (SCR)	826	823	826	837	854
(3) Coverage ratio (= (1) / (2))	147%	161%	178%	199%	220%
(4) Excess of own funds over cap. reqmnt. (= (1) - (2))	389	503	648	826	1021

Note: The figures for end-2017 differ slightly from those in Table 1, as the ORSA was prepared before final end-2017 figures were available.

Source: MetLife Europe ORSA Report (December 2017)

2.16 The central ORSA projections indicate that, in the absence of any further dividends being paid, MetLife Europe's solvency position is expected to improve over the coming years – from 147% at end-2017 to 220% at end-2021. MetLife Europe's policy regarding target solvency coverage and dividend payments is summarised below, starting at paragraph 2.35.

2.17 The ORSA report notes that the key risks to the projected increase in solvency coverage over time are: pressure on margins on future new business; adverse market conditions (in particular interest rates); worse than expected lapse / claims / expense experience; and Brexit-related uncertainties.

2.18 In particular, the ORSA report makes clear that projections assume a "soft Brexit" – essentially one where the business continues uninterrupted. The ORSA explores some alternative Brexit scenarios and concludes that some of them could have significant capital implications, depending on the outcome of the political negotiations. In particular, the ORSA report notes that the projected level of excess own funds at end-2021 would be more than €130 million lower than on the central scenario, if MetLife Europe's UK branch was converted to a third-country branch with capital ring-fenced up to the level of the branch SCR.

2.19 The ORSA report also investigates the projected solvency development on a range of alternative adverse scenarios and concludes that MetLife Europe's solvency position would be comfortable in all but the most extreme events. Of all the scenarios investigated, the only one which would result in the MCR being breached is the situation if the reinsurer of the guarantees on the company's variable annuity ("**VA**") business (see paragraph 2.27 below) were to default and MetLife Europe was required to settle the VA reinsurance treaty on a US GAAP basis. Even in this scenario, which is judged to be very remote, the ORSA identifies some mitigating actions that could be taken.

2.20 Finally, in addition to the possible impact of external shocks, MetLife Europe's solvency development also depends on any strategic decisions that MetLife Europe may take.

Risk profile

2.21 The range of risks to which MetLife Europe is exposed includes 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.

2.22 As can be seen from Table 1 above, the bulk of MetLife Europe's in-force business at 31 December 2017 was in respect of unit-linked business (some of which provides guarantees) and business that participates in profits (‘insurance with profit participation’).

2.23 Table 4 sets out the composition of MetLife Europe’s SCR as at 31 December 2017.

Table 4: MetLife Europe – SCR as at 31 December 2017 (€ millions)

	31-Dec-17 € millions
Market risk	442
Counterparty default risk	50
Life underwriting risk	548
Health underwriting risk	66
Non-life underwriting risk	0
Diversification	-279
Intangible asset risk	0
Basic Solvency Capital Requirement	**826**
Operational risk	65
Loss-absorbing capacity of technical provisions	-4
Loss absorbing capacity of deferred taxes	-75
Solvency Capital Requirement	**813**

Source: Public QRTs appended to MetLife Europe’s SFCR for 2017

2.24 As can be seen from Table 4, the largest contributor’s to MetLife Europe’s SCR are the capital requirements for life underwriting risk and (financial) market risk.

2.25 Life and health underwriting risks include mortality risk (including catastrophe risk), longevity risk, disability risk, expense risk and lapse risk. Lapse risk is the single greatest contributor to MetLife Europe’s capital requirement for underwriting risk.

2.26 Market risks include equity market risk, interest rate risk, spread risk and currency risk. The largest contributor to MetLife Europe’s capital requirement for market risk at 31 December 2017 was equity market risk, followed by currency risk and interest rate risk.

2.27 There is a material reinsurance counterparty exposure to MetLife Reinsurance Company of Bermuda Limited (“**MRB**”) in relation to the reinsurance of the guarantees on the VA business. This counterparty risk is mitigated by a collateral arrangement with the reinsurer, which is monitored on an ongoing basis.

2.28 In addition, MetLife Europe is exposed to other risks including credit risk, liquidity risk and operational risk.

2.29 Finally, the decision of the UK to leave the EU (‘Brexit’) may have implications for MetLife Europe’s business in the UK and its legal structure. At this time, it is still unclear as to what form Brexit will take and, as a result, there is still a range of possible outcomes, ranging from a scenario where the business could operate uninterrupted, to a scenario where the company would no longer be able to operate in the UK.

Risk management

2.30 MetLife Europe has adopted a risk management framework with the aims of:

- Promoting a strong risk culture, aimed primarily at protecting its customers;
- Ensuring consistent and systematic management of risks across all businesses, operations and risk types; and
- Enabling decision makers to direct the company’s resources to attractive business opportunities that are within the MetLife Board’s risk appetite.

2.31 MetLife Europe has adopted the ‘three lines of defence’ governance model to ensure that its overall risk profile remains within the risk appetite as mandated by the MetLife Board. The “three lines of defence” have independent reporting lines into the MetLife Board, with the aim of providing the MetLife Board with the assurance of strong governance and controls for every business decision.

2.32 MetLife Europe’s Risk Function operates a comprehensive system to identify, aggregate, measure and report risks across the company as a whole, and assesses how the full range of risks and their interaction impacts the company’s solvency, liquidity, earnings, business, customers and reputation.

2.33 The Risk Function is responsible for the following key activities:

- Risk monitoring and analytics;
- Risk governance and reporting;
- Embedding the Risk Management Framework in the business;
- Managing operational risk management processes; and
- Leading the ORSA process.

2.34 When it comes to risk mitigation, MetLife Europe uses a range of techniques to mitigate the risks to which it is exposed:

- Reinsurance is used as a tool to mitigate underwriting risks. MetLife Europe has single-exposure limits in place for different components such as mortality and invalidity. Risks in excess of such limits can be accepted but must be reinsured. Catastrophe reinsurance is used to limit the total loss that can be incurred as the result of single events, and to manage risk concentrations.
- Financial risks on the VA business are fully transferred, via reinsurance, to MRB. The exposure to MRB is monitored (by monitoring MRB’s financial strength) and via funds withheld and collateral arrangements, which limit MetLife Europe’s exposure in the event of reinsurer default.
- Market risks (other than the VA risks which are reinsured to MRB) are primarily mitigated through aligning assets and liabilities, in particular in terms of currencies and timing of cash flows.
- Other credit risks are primarily mitigated through asset allocation, diversification and single-exposure limits.
- Liquidity risks are primarily mitigated through asset allocation, diversification and single-exposure limits, and by avoiding entering obligations to provide liquidity to counterparties.
- Operational risks are primarily mitigated through functional controls, within MetLife Europe’s Risk Framework, independently validated by the MetLife Europe’s Risk, Compliance (where applicable) and Internal Audit functions.
- In relation to Brexit, the company continues to monitor the withdrawal process, to assess the potential impact on its UK operations, and to develop appropriate contingency plans.

Capital management policy

2.35 MetLife Europe’s Capital Management Policy and the Risk Appetite Statement (both of which have been adopted by the MetLife Board) set out the following parameters for managing the company’s solvency position (although it should be noted that this framework is predicated on certain management actions being taken to reduce balance sheet volatility, which means that solvency coverage may be maintained at a higher level in the interim).

Table 5: MetLife Europe – Board-adopted solvency targets

Metric	Agreed level or range
Normal Operating Level	Within the range of 130% to 120% of SCR
Heightened Attention Range	Between 120% and 110% of SCR
Indicated Action Trigger	Less than 110% of SCR
Regulatory Minimum	100% of SCR

Source: “MetLife Europe dac – Capital Management Policy” (December 2017)

2.36 MetLife Europe's Capital Management Policy states that proposed dividends should be considered by the MetLife Board on a case by case basis taking into account the output of the ORSA, including the expected capital position over a 12 month time horizon and the risks to that capital position, but in any case will not result in MetLife Europe going below its overall target solvency level.

The Transferring Policies

2.37 The policies that are proposed to be transferred to Laguna (the "**Transferring Policies**") may be grouped into four blocks as follows:

- ALIL unit-linked ("**ALIL unit-linked**") business: This block comprises unit-linked business written in Germany, Italy, Spain and the UK, both regular and single premium in nature.
- ALIL non-linked ("**ALIL non-linked**") business: This block comprises Irish life and income protection policies and small number of Norwegian group business policies.
- Variable Annuity ("**VA**") business: This block comprises unit-linked business with guarantees, including guaranteed minimum withdrawal benefits, written in Greece, Spain and Poland. Those guarantees are currently reinsured by MetLife Europe to MRB, and it is intended that they will be reinsured by Laguna to MRB post-transfer.
- High Net Worth ("**HNW**") business: This block comprises a number of unit-linked single premium investment policies, written in a number of territories.
- Fixed Term Annuity ("**FTA**") business: This block comprises policies issued in the UK under two fixed-term non-linked products that pay an immediate annuity while the client is alive during the policy term.

Table 6: MetLife Europe – Details of Transferring Policies as at 31 December 2017 (€ millions)

	No. of policies	Technical Provisions
ALIL unit-linked	4724	209
ALIL non-linked	232	
VA	1568	134
HNW	125	64
FTA	2806	166
Total	**9455**	**573**

Source: Data provided by MetLife Europe.

2.38 None of the Transferring Policies participates in profits.

2.39 Further details on the Transferring Policies are set out in Appendix B.

2.40 With the exception of a subset of the ALIL unit-linked business, which is administered by MetLife Europe in-house, the Transferring Policies are currently administered by a number of external specialist third-party outsourced service providers.

2.41 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, MetLife Europe has informed me that it has not exercised any discretionary powers on the Transferring Policies in the past in relation to aspects of their terms and conditions such as the level of charges levied.

3 BACKGROUND TO LAGUNA

History and background

3.1 Laguna is an Irish-incorporated and Irish-authorised life assurance company. It was incorporated on 8 April 2000 (as Pumry Limited) under company registration number 325795. It is a wholly owned subsidiary of Monument Assurance dac ("**MADAC**") and, through intermediate holding companies, of Monument Re, which is a company incorporated in Bermuda.

3.2 Laguna is authorised by the Central Bank to transact life assurance business in Life Class I under the Solvency II Regulations.

3.3 Laguna launched 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. The UK and Spanish business consists entirely of regular premium non-linked life assurance policies, without profit participation, that provide life cover for a specified term.

3.4 On 29 August 2017, Monument Re, through its Irish life assurance subsidiary MADAC, acquired Laguna from the Enstar Group. On 1 September 2017, the Company outsourced its insurance administration activities to Monument Insurance Services Limited ("**MISL**"), a sister company based in Ireland.

3.5 In April 2018, Laguna entered into a portfolio transfer 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 30 September 2018.

3.6 On 19 June 2018, the Monument Group reached agreement with MetLife Europe, that Laguna would acquire the run-off portfolio of insurance policies that is the subject of this report.

3.7 The Monument Group's intention is to use Laguna as its vehicle for acquiring primarily further blocks of unit-linked business. The volume, nature and timing of any such future deals is difficult to predict.

3.8 At present, as noted above, Laguna only holds an authorisation to write Class I (i.e. non-linked) business. In order to accept the Transferring Policies, Laguna requires an extension to the classes of business for which it is authorised to include Class III (i.e. unit-linked) business and Class IV (i.e. permanent health) business. Laguna has submitted an application to the Central Bank for such an extension of authorisation and is awaiting a response. I note that the proposed Scheme includes a requirement to obtain the non-objection of the Central Bank (see paragraph 4.3 below).

Nature of business written

3.9 As at 31 December 2017, the only business of Laguna Life was a closed book of term life assurance policies. Table 7 summarises the technical provisions at 31 December 2017.

Table 7: Laguna – Summary of in-force business as at 31 December 2017 (€ millions)

Line of business		BEL (1)	RM (2)	Total TPs (3) = (1) + (2)	Reinsurance recoverables (4)
Life	Other life insurance without guarantees	1.3	0.3	1.6	0.1
Total		**1.3**	**0.3**	**1.6**	**0.1**

Source: Public QRTs appended to Laguna's SFCR for 2017

3.10 In summary, as at 31 December 2017 Laguna had some 3,400 policies in force. Total technical provisions amounted to €1.6 million.

3.11 As noted above, on 28 September 2018 Laguna acquired a portfolio of policies from Ethias. I have been provided with a summary of the Ethias policies as at 28 September 2018 which showed that, as at that date, there were some 4,273 policies in force with a total account value of €177.9 million. The Ethias policies are savings contracts with minimum guaranteed rates of return (ranging from 2.33% to 4.50% and averaging 3.48% p.a.); there are virtually no policies still paying premiums.

3.12 The Ethias portfolio is a long-duration asset-intensive portfolio, which has been reinsured to Monument Re.

Solvency position

RECENT SOLVENCY POSITION

3.13 At 31 December 2017, Laguna had an excess of eligible own funds over its regulatory capital requirement, as shown in Table 8.

Table 8: Laguna – Solvency position at 31 December 2017 and 31 December 2016

	31-Dec-17 € millions	31-Dec-16 € millions
(1) Net assets before deducting Technical Provisions	7.9	41.0
(2) Technical Provisions	1.6	11.8
(3) Other adjustments to arrive at eligible own funds	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**6.3**	**29.3**
(5) Solvency Capital Requirement (SCR)	1.4	5.1
(6) Minimum Capital Requirement (MCR)	3.7	3.7
(7) Relevant Solvency II capital requirement (= Higher of 5 & 6)	3.7	5.1
(8) Coverage ratio (= (4) / (7))	171%	569%
(9) Excess of eligible own funds over capital requirement (= (4) - (7))	2.6	24.1

Source: Public QRTs appended to Laguna's SFCR for 2017

3.14 As at 31 December 2017, the company's assets exceeded its liabilities by €6.3 million (31 December 2016: €29.3 million). The eligible own funds exceeded the regulatory capital requirement by €2.6 million (31 December 2016: €24.1 million). This translated into a solvency coverage ratio of 171% at 31 December 2017.

3.15 The substantial reduction in solvency coverage over the course of 2017 was largely due to the payment of a post-acquisition dividend of €32.0 million to MADAC, offset by a reduction in the technical provisions to reflect the company's new expense base following the move to outsource to MISL.

3.16 The company operates a policy of targeting a solvency coverage ratio of 150% (see paragraph 3.45 below).

3.17 I have also been provided with (unaudited) figures as at 30 June 2018. These show that the company's solvency position at mid-2018 was very slightly improved from that at end-2017, with a solvency coverage ratio of 174%, and an excess of eligible own funds over the relevant regulatory capital requirement of €2.8 million.

3.18 In addition, prior to 30 June 2018 (and in anticipation of the Ethias transfer), Laguna's immediate parent agreed to provide a non-recourse capital contribution of €20 million. This was approved by the Central Bank as Tier 1 capital in July 2018 (but was not eligible to be counted towards Laguna's eligible own funds as at 30 June 2018).

PROJECTED SOLVENCY POSITION

3.19 As Laguna has subsequently received the Ethias transfer and is actively seeking opportunities to acquire additional portfolios of life assurance business (in addition to the Transferring Policies), the company is, therefore, in quite an evolving situation. This means that it is not particularly useful or appropriate to focus on the historic balance sheet and solvency position. Instead, it is more appropriate to consider projections of the company's future solvency development, taking into account the Ethias transfer, the proposed Scheme and other planned initiatives.

3.20 I have been provided with a copy of the plan, which has been approved by the board of Laguna ("**Laguna Board**") and submitted to the Central Bank in connection with its application to the Central Bank for authorisation to transact Class III and Class IV business. That document includes projections of Laguna's future solvency development on three scenarios – a central scenario, an optimistic scenario and a pessimistic scenario.

- The central scenario allows for the proposed Scheme, as well as the Ethias transfer, and then assumes that there will be further acquisitions each year (starting in 2019), with each of those future acquisitions assumed to be unit-linked in nature and with technical provisions of approximately €1.5 billion.

- The optimistic scenario assumes that future acquisitions (from 2020 onwards) would run at double the rate assumed in the central scenario.
- The pessimistic scenario allows for the proposed Scheme, as well as the Ethias transfer, and then assumes future unit-linked acquisitions in 2019 (with technical provisions of approximately €1.5 billion), but that there would be no further acquisitions thereafter.

3.21 The projections are summarised in Table 9, Table 10 and Table 11.

Table 9: Laguna – Projected solvency development – Central scenario (€m)

	31-Dec-17 € millions	31-Dec-18 € millions	31-Dec-19 € millions	31-Dec-20 € millions	31-Dec-21 € millions
(1) Net assets before deducting Technical Provisions	7.9	219.2	2143.8	3465.3	4646.6
(2) Technical Provisions	1.6	193.5	2112.3	3429.6	4606.3
(3) Other adjustments to arrive at eligible own funds	0.0	0.0	0.0	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**6.3**	**25.7**	**31.5**	**35.7**	**40.3**
(5) Solvency Capital Requirement (SCR)	1.4	2.5	8.1	10.6	12.6
(6) Minimum Capital Requirement (MCR)	3.7	3.8	3.8	3.9	4.0
(7) Solvency II capital requirement (= Max(5 & 6))	3.7	3.8	8.1	10.6	12.6
(8) Coverage ratio (= (4) / (7))	171%	680%	389%	337%	319%
(9) Excess of own funds over cap. reqmnt. (= (4) - (7))	2.6	21.9	23.4	25.1	27.7

Source: “Laguna Life - Update to Scheme of Operations” (27 July 2018)

Table 10: Laguna – Projected solvency development – Optimistic scenario (€m)

	31-Dec-17 € millions	31-Dec-18 € millions	31-Dec-19 € millions	31-Dec-20 € millions	31-Dec-21 € millions
(1) Net assets before deducting Technical Provisions	7.9	219.2	2143.8	5017.5	7582.0
(2) Technical Provisions	1.6	193.5	2112.3	4977.0	7531.7
(3) Other adjustments to arrive at eligible own funds	0.0	0.0	0.0	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**6.3**	**25.7**	**31.5**	**40.5**	**50.3**
(5) Solvency Capital Requirement (SCR)	1.4	2.5	8.1	13.6	18.4
(6) Minimum Capital Requirement (MCR)	3.7	3.8	3.8	3.9	4.0
(7) Solvency II capital requirement (= Max(5 & 6))	3.7	3.8	8.1	13.6	18.4
(8) Coverage ratio (= (4) / (7))	171%	680%	389%	298%	274%
(9) Excess of own funds over cap. reqmnt. (= (4) - (7))	2.6	21.9	23.4	26.9	31.9

Source: “Laguna Life - Update to Scheme of Operations” (27 July 2018)

Table 11: Laguna – Projected solvency development – Pessimistic scenario (€m)

	31-Dec-17 € millions	31-Dec-18 € millions	31-Dec-19 € millions	31-Dec-20 € millions	31-Dec-21 € millions
(1) Net assets before deducting Technical Provisions	7.9	219.2	2143.8	1913.0	1711.1
(2) Technical Provisions	1.6	193.5	2112.3	1882.3	1680.8
(3) Other adjustments to arrive at eligible own funds	0.0	0.0	0.0	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**6.3**	**25.7**	**31.5**	**30.7**	**30.3**
(5) Solvency Capital Requirement (SCR)	1.4	2.5	8.1	7.6	7.1
(6) Minimum Capital Requirement (MCR)	3.7	3.8	3.8	3.9	4.0
(7) Solvency II capital requirement (= Max(5 & 6))	3.7	3.8	8.1	7.6	7.1
(8) Coverage ratio (= (4) / (7))	171%	680%	389%	404%	428%
(9) Excess of own funds over cap. reqmnt. (= (4) - (7))	2.6	21.9	23.4	23.1	23.2

Source: "Laguna Life - Update to Scheme of Operations" (27 July 2018)

3.22 The three sets of projections all indicate that, in the absence of any further dividends being paid, Laguna's solvency position is expected to improve (when measured in terms of the coverage ratio) over the coming years – from 171% at end-2017 to either 274%, 319% or 428% at end-2021, depending on the scenario in question. The company's policy regarding target solvency coverage and dividend payments is summarised below, starting at paragraph 3.45.

3.23 The expansion of the company's business will, in addition, bring additional risks and alter the company's risk profile. These issues are explored further in the following paragraphs.

Risk profile and risk management

3.24 The range of risks to which Laguna is exposed includes 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.

3.25 As 31 December 2017 Laguna's SCR amounted to €1.4 million, with market risks contributing €0.6 million, life underwriting risks contributing €1.0 million, operational risk contributing €0.1 million and diversification benefits reducing the overall total by €0.3 million.

3.26 However, as can be seen from the financial projections in Table 9, Table 10 and Table 11, Laguna's business is projected to develop very materially in the coming years and, therefore, the end-2017 SCR is of very limited use in understanding the company's future risk profile.

3.27 The risk profile of Laguna's business, allowing for the Ethias transfer, is summarised in the following paragraphs.

LEGACY UK AND SPANISH TERM LIFE BUSINESS:

3.28 The key risks for this portfolio are mortality risk and lapse risk (i.e. the risk of adverse mortality and/or lapse experience). Laguna currently uses reinsurance to protect against adverse claims experience. The reinsurance recoverables on the Solvency II balance sheet at 31 December 2017 amounted to €0.1 million.

3.29 In addition, as Laguna was a small entity in run-off, there would historically have been a major long-term expense risk associated with this portfolio. This has now been largely mitigated by outsourcing administration to MISL on a largely variable cost basis (although this depends on MISL having sufficient income from other sources to make up for the decline over time in revenues from this run-off portfolio), by the transfer of the Ethias business which helps to give economies of scale, and by the intention to use Laguna as a vehicle for further acquistions.

3.30 The assets backing this portfolio are primarily investment grade corporate bonds, which are relatively low risk. Laguna monitors its exposure to these assets on a regular basis.

ETHIAS BUSINESS

3.31 The Ethias policies are savings contracts with guaranteed roll-up rates. These rates range from 2.33% to 4.50%, and are considerably higher than yields currently available on suitable backing assets. Laguna is therefore exposed to financial market risks, especially interest rate risk given the nature of the guaranteed minimum accumulation benefits provided to policyholders.   This risk is somewhat mitigated by the consideration received from Ethias being higher than the BEL for the transferring policies, but risks remain.

3.32 Laguna has reinsured 90% of the Ethias business to Monument Re, but will be exposed to investment risk in relation to the 10% that it retains. This risk will be monitored on an ongoing basis by Laguna's Risk Committee and will also result in a capital requirement for the residual market risk.

3.33 Laguna has commenced a 'surrender campaign' which will run for approximately two months following its take-on of the Ethias business, whereby policyholders will be offered enhanced surrender values if they surrender in that period. A number of similar campaigns have been run by Ethias in the past. Nevertheless, Laguna will need to manage this process carefully from a reputational risk perspective (i.e. ensuring that the policyholders involved are treated fairly).

THE TRANSFERRING POLICIES

3.34 The Transferring Policies are a mixture of unit-linked, VA and non-linked business.

3.35 Unit-linked business passes all investment risk to the policyholder, but some risks remain. In particular, errors in unit pricing, fund administration or policy administration can result in compensation payable to policyholders and can also result in additional resource needs (and heightened regulatory scrutiny).

3.36 The other main risks associated with unit-linked business is the potential volatility of the future net income stream for the company (particularly as revenues are largely dependent on the level of fund values whereas expenses may be largely independent of movements in financial markets). This risk will be reduced by the use of reinsurance to Monument Re, where Monument Re will seek to use derivative strategies to reduce the risk of falling net income.

3.37 For the VA business, falls in interest rates can increase the value of the guarantee, as too can falls in equity markets. The company is therefore also exposed to market risk on this business. This risk will be mitigated by 100% reinsurance of the financial guarantees to MRB. The resulting counterparty default risk will be mitigated by a collateral structure.

3.38 The remaining transferring business (i.e. the ALIL non-linked business and the FTA business) brings investment risk and mortality risk. These risks will be mitigated by 90% reinsurance to Monument Re.

3.39 In relation to operational risk, almost all of the Transferring Policies are administered by specialist outsourced service providers and it is likely that this will continue to be the case, post-transfer. A small number of policies are currently administered in-house by MetLife Europe personnel.

3.40 The Transferring Policies have policyholders in a range of EEA territories, including some that are new to Laguna (including Germany, Greece, Ireland, Italy, Norway and Poland). This brings additional complexity in terms of local market compliance and therefore increases the level of operational risk.

FUTURE ACQUISITIONS

3.41 Laguna's stated strategy is to acquire run-off blocks of unit-linked business. This strategy should not result in the introduction of any new types of risk, beyond those already discussed above in connection with unit-linked business.

RISK MANAGEMENT

3.42 The key risk mitigating actions that Laguna will take with respect to its business are set out above.

3.43 More generally, Laguna 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.

3.44 The Risk Management Framework provides for the continuous and forward-looking identification and assessment of the company's risks. On an annual basis, Laguna 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 Laguna Board reviews the conclusions drawn from the ORSA and agrees potential actions to be taken.

Capital management policy

3.45 The Laguna 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%.

3.46 Enhanced solvency coverage oversight is required if the coverage ratio falls below 140%: 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% level: management action required if solvency cover falls below this comfort level.

3.47 Where solvency coverage exceeds 150%, management will present dividend proposals to the Laguna 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.

3.48 The policy also provides that Laguna 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.

Laguna's position within the Monument group

3.49 As noted above, Laguna is ultimately owned by Monument Re.

3.50 Monument Re is a Bermudan reinsurer and, either directly or through its subsidiaries (including Laguna), an acquirer of asset-intensive European insurers, often in run-off. 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.

3.51 Monument Re acquired the Irish insurance subsidiaries of Barclays in March 2017. The Barclays business is a run-off book of life and non-life protection risks. The acquisition of Laguna followed in August 2017. In March 2018, Monument Re acquired ABN AMRO Life Capital in Belgium (now renamed Monument Assurance Belgium). In July 2018, it announced that it had reached an agreement, subject to regulatory approval to acquire Robein Leven, a Dutch life insurer in run-off. In October 2018, it completed the acquisition of Aspecta Assurance International Luxembourg, and on 8 November 2018 it announced that it had (subject to regulatory approval) acquired a run-off portfolio of life business from Alpha Insurance S.A., a Belgian insurance company. Monument Re continues to pursue further opportunities in a number of countries.

3.52 Although Laguna 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 ultimate parent, Monument Re, should it need additional capital to support its business.

3.53 I have been provided with the most recent (May 2018) Group Solvency Self Assessment report for Monument Re Limited. This report, which is a requirement of the Bermudan 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 and also has access to further capital (a substantial amount having been already committed by its shareholders, with the possibility of raising additional capital if needed). In addition, Monument Re has also published (on its website), its Financial Condition Report for 2017 (similar to the SFCR under Solvency II), which discloses information on its solvency position as at 31 December 2017.

Operational arrangements

3.54 Laguna 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 Laguna in respect of its business.

3.55 Laguna currently also outsources a number of other key functions to external third-parties, including investment and asset management, IT infrastructure support and internal audit.

3.56 Laguna has identified a 'target operating model' for how it intends to organise its activities following the proposed Scheme, and how it intends to organise itself in the medium to long-term, on the assumption of further acquisitions. It has communicated those plans to the Central Bank in the context of its application for Class III and Class IV authorisation.

- In relation to the Transferring Policies that are the subject of the proposed Scheme, five external outsourced service providers currently administer those policies and Laguna's stated intention is to continue with an outsourced model. Laguna is currently undertaking a due diligence assessment of the existing external outsourcers to decide whether to continue with them or to seek alternatives. The current view is that it is likely that all but one of the incumbents will be retained. In addition, a small number of employees, who are currently involved in administering some of the transferring internal linked funds, would transfer from MetLife Europe to Laguna under the proposed Scheme.
- Going forward, Laguna has stated that the target operating model for each subsequently-acquired portfolio will be determined on a case-by-case basis, based on its assessment of the portfolio in question. This assessment will allow Laguna 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.

4 THE PROPOSED SCHEME

Introduction

4.1 The Transferring Policies will be transferred to Laguna 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.

Effective date

4.2 It is envisaged that the proposed Scheme will become effective and the transfer take place at 00:01 hours on 1 April 2019, or such other date as may be specified by the Court (the **"Effective Date**"). If the proposed Scheme does not become effective before 31 July 2019, or such later date as the Companies may approve and the Court may allow, it shall lapse.

Pre-conditions

4.3 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 4.7 and 4.8 below);
- satisfying all relevant pre-transfer policyholder notification requirements (see paragraph 4.16 below); and
- the sanction of the Court.

Business to be transferred

4.4 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 Laguna, which will become the insurer of those contracts from the Effective Date.

4.5 Under the proposed Scheme, any rights, powers, obligations and liabilities of MetLife Europe under, or by virtue of, such policies will be transferred to Laguna (subject to the provisions regarding 'extra-contractual obligations' as set out in paragraph 4.6 below). All property and assets held by MetLife Europe in respect of the Transferring Policies will also be transferred to Laguna.

4.6 In relation to 'extra-contractual obligations' – meaning all liabilities arising out of or relating to the Transferring Policies, other than liabilities arising under the express terms and conditions and within the policy limits of the Transferring Policies, as such terms are reasonably interpreted by MetLife Europe – the position is as follows:

- If the conduct giving rise to the liability occurred prior to the date of the Framework Agreement between the Companies, MetLife Europe shall retain the liability.
- If the conduct giving rise to the liability occurred on or after the date of the Framework Agreement but prior to the Effective Date, Laguna shall assume the liability in the following circumstances (otherwise liability shall be retained by MetLife Europe):
  - if such conduct was committed by Monument Group; or
  - if such conduct was committed by MetLife Europe but either conformed with standards, practices or directions agreed with Monument Group, or was requested by, or consented to, by Monument Group.
- If the conduct giving rise to the liability occurred on or after the Effective Date, Laguna shall retain the liability.

EEA and non-EEA policies

4.7 Policies issued to any EEA-resident policyholders who reside outside Ireland cannot be transferred unless the relevant supervisory authority in the other EEA Member State has been notified of the transfer, and either agrees to it or does not object within three months from the notification. MetLife Europe has confirmed that it has policyholders residing in a number of EEA Member States. I understand that MetLife Europe has provided the Central Bank with a list of the territories in question and has asked the Central Bank to notify the relevant supervisory authorities as required.

4.8 MetLife Europe also has policyholders residing in non-EEA countries. I understand that the transfer of non-EEA resident policyholders does not require any further regulatory approvals to be obtained.

Maintenance and operation of funds

4.9 Following the publication in August 2017 of the European Union (Insurance and Reinsurance) (Amendment) Regulations (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.

4.10 Furthermore, as neither MetLife Europe nor Laguna operate any "ring-fenced funds", as defined under Solvency II, all asset and liabilities of MetLife Europe relating to the Transferring Policies will simply transfer to Laguna's ownership, without any allocation or ring-fencing to any particular fund.

4.11 MetLife Europe maintains a number of notional funds for its unit-linked business ("**internal linked funds**"). After the Effective Date, MetLife Europe's internal linked funds will be replaced by equivalent funds in Laguna. The assets appropriated to each MetLife Europe internal linked fund immediately prior to the Effective Date will be appropriated on the Effective Date to an equivalent internal linked fund within Laguna. The rules of operation (including unit pricing) of the internal linked funds following the Effective Date will comply with the following principles:

- Laguna may exercise any discretion formerly available to MetLife Europe under the terms and conditions of any policy, but will do 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 Laguna; and
- Laguna may modify the terms and conditions of any policy or internal linked fund to the same extent as MetLife Europe formerly could, but will do 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 Laguna,

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

Exercise of options

4.12 Any policy options that currently exist under MetLife Europe policies will continue to exist. If the exercise of such options requires the issuance of an additional or replacement policy, Laguna will issue any new policies required to be issued under the terms of the policy options in place of MetLife Europe, or if such policies are not available, the nearest available alternative policies.

Laguna's rights in relation to Transferring Policies

4.13 The proposed Scheme provides that Laguna 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 Laguna; 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 Laguna,

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 Laguna's Head of Actuarial Function.

Costs of the proposed Scheme

4.14 Each of the Companies will bear its own costs incurred in connection with the preparation and carrying into effect of the proposed Scheme. No costs or expenses will be borne by policyholders of either of the Companies.

Modification or additions

4.15 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 Laguna and MetLife Europe both agree, subject to Court approval.

Policyholder communications

4.16 Section 13 of the 1909 Act requires that, unless the Court otherwise directs, certain materials must be transmitted to each policyholder of both MetLife Europe and Laguna. These materials include a statement summarising the proposed Scheme together with an abstract summarising the main terms of the Portfolio Transfer Agreement and the Independent Actuary's Report (together the "**Circular**").

4.17 MetLife Europe will send a copy of the Circular to all transferring Irish and UK-resident policyholders. I understand, however, that the Companies intend to petition the Court for an exemption from the requirement to provide the Circular to all other policyholders (i.e. those transferring policyholders who are not resident in the UK or Ireland, as well as all remaining (i.e. non-transferring) MetLife Europe policyholders, and those existing (pre-Effective Date) policyholders of Laguna), except at the request of an individual policyholder (or their agent) or unless specifically required to do so under local law.

4.18 The Companies' principal argument for not automatically sending the Circular to non-UK or Irish resident policyholders is that those policyholders may be confused by the Circular as it contains detailed technical documents relating to an Irish legislative requirement (whilst UK policyholders may be more familiar with this type of communication, as it is also a feature of the UK insurance legislative regime).

4.19 The Companies also note that transferring policyholders who are resident in certain other EU Member States benefit from a right under local law to terminate their contracts of insurance in the event of a transfer (a right which is not available under Irish law) and contend that it is of greater benefit to them to be notified of the existence of that right and the times at which it may be exercised (which cannot be done through the Circular).

4.20 The Companies also contend that, in many instances, as there is no pattern of direct interaction between the policyholders and/or the insured persons and MetLife Europe, direct communication may only lead to more confusion for the policyholder and/or for the insured persons.

4.21 The Companies' argument for not automatically sending the Circular to all remaining MetLife Europe policyholders and for not automatically sending it to all existing policyholders of Laguna is 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. (Please refer to section 5 of this report for details of my conclusions and the basis on which I reached them).

4.22 I further understand that, depending on the country in question, MetLife Europe may publish notice of the proposed Scheme in one or more national newspaper, and/or in the national legal gazette, and/or send a letter to transferring policyholders.

4.23 In addition, the materials will be available on both the MetLife Europe website (www.metlife.eu) and the Laguna website (www.lagunalifedac.com).

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

5 ASSESSMENT OF THE PROPOSED SCHEME

Introduction

5.1 In this section, I set out my assessment of the proposed Scheme.

Context of assessment

5.2 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 of MetLife Europe, the remaining policyholders of MetLife Europe, and the existing policyholders of Laguna. 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.

5.3 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.

5.4 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.

5.5 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.

5.6 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

5.7 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.

5.8 In the following paragraphs 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.

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

- Policyholders transferring from MetLife Europe;
- Policyholders remaining in MetLife Europe; and
- Existing (pre-Effective Date) policyholders of Laguna.

Security of policyholders' benefits

INTRODUCTION

5.10 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 strategic plans).

5.11 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 paragraph 5.15 below).

5.12 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.

5.13 In my view, the relevant factors to be considered are the outlook for the two Companies' respective solvency positions, their respective risk profiles and their capital management plans.

OVERVIEW OF THE REGULATORY REGIME FOR IRISH INSURERS

5.14 MetLife Europe and Laguna are both Irish life assurance companies and are therefore subject to the same regulatory regime. The current regulatory regime for Irish life assurance companies is set out in the Solvency II Regulations, supplemented by additional requirements and guidelines issued by the Central Bank.

5.15 In summary, the Solvency II Regulations require insurers to value their assets at market value, coupled with a requirement to value liabilities to policyholders on a best estimate basis with the addition of an explicit risk margin. The resulting excess of assets over liabilities (termed the insurer's "**own funds**") is then compared with a minimum capital requirement, termed the Solvency Capital Requirement ("**SCR**")[1], which is a risk-based capital requirement, intended to ensure that the insurer can meet its obligations to policyholders over the following 12 months with a 99.5% probability. Both MetLife Europe and Laguna use the so-called Standard Formula approach to determining their respective SCRs.

5.16 In addition, under Solvency II, 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.

5.17 Furthermore, every insurer is required to conduct an ORSA on at least an annual basis and to report the findings to the Board and the Central Bank. 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**").

5.18 The paragraphs above focus on matters of prudential regulation. As both MetLife Europe and Laguna are 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 territory to the next but both MetLife Europe and Laguna are required to comply with them on a territory-by-territory basis.

METLIFE EUROPE – SOLVENCY POSITION AT 31 DECEMBER 2017 ALLOWING FOR TRANSFER

5.19 Table 12 sets out the solvency position of MetLife Europe as at 31 December 2017, pre and post-transfer, had the transfer taken place as at that date.

[1] When an insurer is very small, the Minimum Capital Requirement ("MCR") can be higher than the SCR and is, therefore, be the relevant capital requirement in such cases. This was the case for Laguna as at 31 December 2017, and is expected to be the case at 31 December 2018, but is not subsequently expected to be the case given the growth in Laguna's business.

Table 12: MetLife Europe – Solvency position as at 31 December 2017, pre and post-transfer (€ millions)

	Total Pre-transfer € millions	Transferring policies € millions	Total Post-transfer € millions
(1) Net assets before deducting Technical Provisions	10701	594	10107
(2) Technical Provisions	9496	573	8923
(3) Other adjustments to arrive at eligible own funds	0	0	0
(4) Total eligible own funds (= (1) - (2) + (3))	**1205**	**21**	**1184**
(5) Solvency Capital Requirement (SCR)	**813**	**12**	**801**
(6) Coverage ratio (= (4) / (5))	148%		148%
(7) Excess of eligible own funds over SCR (= (4) - (5))	393		384

Source: Public QRTs appended to MetLife Europe's SFCR for 2017 and author's calculations

5.20 Table 12 shows that the impact of the proposed Scheme on MetLife Europe's solvency position is marginal, with the solvency coverage ratio remaining unchanged.

5.21 The (pre-Scheme) solvency position at 30 June 2018 was very similar to the end-2017 position. As a result, the impact of the proposed Scheme on MetLife Europe's solvency position at that date would be expected to be very similar to that outlined above.

LAGUNA – PROJECTED SOLVENCY DEVELOPMENT ALLOWING FOR TRANSFER

5.22 As previously stated, given Laguna's recent history and its future plans, I do not believe it is particularly useful to focus on Laguna's recent solvency position (whether at 31 December 2017 or 30 June 2018) when considering the impact that the proposed Scheme would be expected to have on the company's solvency position. Instead, I believe it is preferable to look at the projected future solvency position.

5.23 Table 13 sets out Laguna's projected solvency position as per the central scenario approved by the Laguna Board and submitted to the Central Bank in support of the application for a Class III and Class IV licence extension (see paragraph 3.20 above).

Table 13: Laguna – Projected solvency position (central scenario) (€ millions)

	31-Dec-17 € millions	31-Dec-18 € millions	31-Dec-19 € millions	31-Dec-20 € millions	31-Dec-21 € millions
(1) Net assets before deducting Technical Provisions	7.9	219.2	2143.8	3465.3	4646.6
(2) Technical Provisions	1.6	193.5	2112.3	3429.6	4606.3
(3) Other adjustments to arrive at eligible own funds	0.0	0.0	0.0	0.0	0.0
(4) Total eligible own funds (= (1) - (2) + (3))	**6.3**	**25.7**	**31.5**	**35.7**	**40.3**
(5) Solvency Capital Requirement (SCR)	1.4	2.5	8.1	10.6	12.6
(6) Minimum Capital Requirement (MCR)	3.7	3.8	3.8	3.9	4.0
(7) Solvency II capital requirement (= Max(5 & 6))	3.7	3.8	8.1	10.6	12.6
(8) Coverage ratio (= (4) / (7))	171%	680%	389%	337%	319%
(9) Excess of own funds over cap. reqmnt. (= (4) - (7))	2.6	21.9	23.4	25.1	27.7

Source: "Laguna Life – Update to Scheme of Operations" (27 July 2018)

5.24 These projections show the Transferring Policies arriving in 2019, so that the solvency coverage ratio at the first year-end following their arrival is projected to be 389%.

RISK PROFILES

5.25 In my view, any consideration of the solvency coverage position needs to be made in conjunction with an assessment of the potential future volatility of the coverage position as a result of differences in the Companies' risk profiles.

5.26 I have summarised the risk profiles of MetLife Europe and Laguna in section 2 and section 3 respectively. In my view, although quite different in scale, the two Companies exhibit broadly similar risk profiles – post-transfer, both Companies will have substantial books of non-guaranteed unit-linked business, as well as substantial exposure to non-linked business which brings investment risk; both Companies will be exposed to similar risks (market/financial risk, insurance risks, operational risks etc.); and both Companies have, or will have had, made extensive use of reinsurance as a risk mitigation tool.

5.27 The main difference between the two Companies with regard to their risk profiles is that MetLife Europe has written substantial amounts of VA business, whereas Laguna currently has no VA business, but will have a modest amount if the proposed Scheme is approved. However, in both cases, the VA guarantees are (or will be) reinsured to the same reinsurer (MRB) and in both cases the resulting counterparty default risk is (or will be) mitigated through collateral arrangements.

5.28 The principal additional risks for Laguna as a result of the proposed transfer are as set out in paragraphs 3.34 to 3.40, together with the mitigation strategies that Laguna intends to adopt.

5.29 There are no risks present in the existing Laguna business (including the business from the Ethias transfer) that are not present in the MetLife Europe business. Laguna's intended acquisition of further unit-linked portfolios in the future would not alter this situation.

5.30 Finally, both of the Companies are subject to the same risks in relation to Brexit (see paragaphs 5.71 to 5.74 below).

5.31 In summary, therefore, I conclude that the risk profiles of the two Companies are similar and that the proposed Scheme will not, therefore, materially change the risks to which the various groups of policyholders are currently exposed.

CAPITAL MANAGEMENT PLANS

5.32 As set out in sections 2 and 3 respectively, the capital management policies of MetLife Europe and Laguna respectively are relatively similar. In summary, MetLife Europe intends to operate a target solvency coverage level of 130% (but notes that it may be somewhat higher than that in the short to medium-term until further balance sheet management exercises have been completed), whereas Laguna operates a target solvency coverage level of 150%. In both cases, any dividend proposals must have regard to the target solvency coverage levels, as informed by the most recent ORSA projections.

CONSIDERATION OF DIFFERENT GROUPS OF POLICYHOLDERS

5.33 As noted in paragraph 5.9, it is necessary to consider the position separately for each group of policyholders. In the following paragraphs I set out my analysis of the implications of the proposed Scheme for:

- Policyholders transferring from MetLife Europe (the "Transferring Policies");
- Policyholders remaining in MetLife Europe; and
- Existing (pre-Effective Date) policyholders of Laguna.

5.34 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 plans, the implications of the transfer for the security of benefits of each of the categories of policyholders are considered further in paragraphs 5.35 to 5.42 below.

Policyholders transferring from MetLife Europe

5.35 My assessment of the position for those policyholders transferring to Laguna from MetLife Europe is that they would be moving to another Irish-authorised and Central Bank-supervised insurer, with a similar risk profile and similar, or potentially higher, levels of solvency coverage (taking into account the two companies' respective business plans and capital management policies).

5.36 In my opinion, for the reasons set out above, the security of benefits for the transferring MetLife Europe policyholders will not be materially adversely affected by the proposed Scheme.

Policyholders remaining in MetLife Europe

5.37 The impact on the proposed Scheme on the policyholders remaining in MetLife Europe is very minor. The solvency position of MetLife Europe is projected to be virtually unchanged by the transfer and, in addition, the transfer will have no material impact on the company's risk profile.

5.38 In my opinion, for the reasons set out above, the security of benefits for the remaining MetLife Europe policyholders will not be materially adversely affected by the proposed Scheme.

Laguna's policyholders

5.39 The Laguna policyholders will be impacted by the proposed Scheme as the assets and liabilities of the Transferring Policies will transfer into Laguna. Laguna will be exposed to some new risks from the proposed Scheme – notably, this will be the first time that Laguna has taken on unit-linked business (which brings particular operational risks) and it will also see an expansion of the number of territories in which Laguna does business (introducing policyholders in Ireland, Germany, Greece, Italy, Norway and Poland as well as a small number of non-EEA countries), which brings additional compliance risks.

5.40 However, although the proposed transfer brings additional risks, it also brings benefits for Laguna's existing policyholders. The central financial projections adopted by the Laguna Board and submitted to the Central Bank, envisage a solvency coverage ratio of 389% at end-2019 (assuming the completion of the proposed Scheme as well as the acquisition of one other unit-linked portfolio), compared to a coverage ratio of 171% at end-2017.

5.41 Laguna's existing policyholders will also benefit from economies of scale resulting from the further expansion of the company's business. In the medium to longer term, Laguna would struggle to continue to run the existing business on a profitable basis as a stand-alone entity due to diseconomies of scale from a declining run-off book.

5.42 In my opinion, for the reasons set out above, the security of benefits for the existing Laguna policyholders will not be materially adversely affected by the proposed Scheme.

SUMMARY & CONCLUSIONS – SECURITY

5.43 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 Policies, the policyholders remaining in MetLife Europe post-transfer, and Laguna's existing policyholders.

Fair treatment and policyholder benefit expectations

INTRODUCTION

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

5.45 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 policyholder premiums and/or benefits;
- Any areas where the Companies are required to 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; the ability to vary the level of non-guaranteed charges; and the ability to vary premiums on policies with reviewable premium, amongst others; and
- The levels of customer service to policyholders.

5.46 There is no statutory regulation in relation to policyholders' reasonable expectations ("**PRE**"), although the Central Bank does require the Head of Actuarial Function to set out, in his or her annual report to the Board on technical provisions, his or her interpretation of PRE and how these have been considered in establishing the technical provisions. 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.

GENERAL

5.47 Under the terms of the proposed Scheme:

- Laguna may exercise such discretions in respect of the Transferring Policies as are available to it under the terms and conditions of those policies, in accordance with the applicable principles and having regard, as appropriate, to such considerations as apply in relation to such business in Laguna.

- Laguna may modify the terms and conditions applicable to any of the Transferring Policies or the associated linked funds, in accordance with the applicable principles, and having regard, as appropriate, to such considerations as apply in relation to such business in Laguna.
- All options and guarantees available to policyholders of MetLife Europe under their policies will continue to be met without any alteration that would adversely affect the policyholders in question. If any of the Transferring Policies includes an option, the exercise of which would require the issue of a new, additional or replacement policy, then the option will be satisfied by the issue of a new Laguna policy complying with the terms of the option or the issue by Laguna of the nearest available alternative policy.

5.48 I have been informed that the provisions of any and all previous schemes relating to the transferring MetLife Europe policyholders will remain in force and unaltered by the application of the proposed Scheme.

5.49 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 various groups of policyholders.

POLICYHOLDERS TRANSFERRING FROM METLIFE EUROPE

Contractual obligations

5.50 Given the relevant terms of the proposed Scheme as set out above, the terms and conditions of the Transferring Policies will not be impacted by the proposed Scheme.

5.51 With effect from the Effective Date, Laguna will maintain the internal linked funds previously maintained by MetLife Europe in respect of the transferring unit-linked policies. The assets appropriated to each MetLife Europe internal linked fund immediately prior to the Effective Date will be appropriated on the Effective Date to an equivalent internal linked fund within Laguna. There will, therefore, be continuity of value for transferring unit-linked policyholders and the operation of the internal linked funds to which their benefits are linked will be unchanged.

Tax treatment of premiums and benefits

5.52 MetLife Europe 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 MetLife Europe post-transfer. The reports and opinions of the external tax experts support the conclusion that the implementation of the proposed Scheme will not affect the tax position of either group of policyholders.

5.53 Laguna has confirmed that the proposed Scheme will have no tax implications for its existing (pre-Effective Date) policyholders.

5.54 I have been provided with a summary of the tax advice provided on the impact of the proposed Scheme and, in forming my view on the proposed Scheme, I have relied on the information provided to me in this regard.

Exercise of discretion

5.55 As noted above, there are a number of areas where insurers may need to exercise discretion in fulfilling their contracts with policyholders.

5.56 In relation to the operation of internal linked funds, this typically includes aspects such as the investment criteria, unit-pricing rules, and level of charges for those funds.

5.57 In its submission to the Central Bank for authorisation to write Class III business, Laguna has stated that it will adopt the Association of British Insurers' 'Guide to Good Practice for Unit Linked Funds'[2], putting the requisite governance arrangements in place to ensure that unit-linked funds are managed appropriately and in accordance with policy disclosures.

5.58 Laguna has also stated (in its submission to the Central Bank) that it will act in accordance with the 'Principles of Business'[3] set out by the UK's Financial Conduct Authority, one of which is that *"a firm must pay due regard to the interests of its customers and treat them fairly"*.

[2] https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2014/conduct/abi-guide-to-good-practice-for-unit-linked-funds.pdf

[3] https://www.handbook.fca.org.uk/handbook/PRIN/2/1.html

5.59 The governance of Laguna's unit-linked funds will be entrusted to a 'Linked Investment Committee'. In June 2018, the Laguna Board approved of the creation of such a committee, which will report directly to the Laguna Board. The following high-level principles were agreed by the Board at that meeting:

"This committee will consist of senior managers, to oversee the operation of the Laguna unit-linked funds. This includes fund valuation; fund pricing; and the use of discretion in order to treat all policyholders fairly. It would be expected that this committee would meet on a regular basis and would regularly report to the Board Committee.

In addition, the Linked Investment Committee will also oversee the investment strategy of the unit-linked funds. This includes ensuring that each fund is invested in a way that meets its investment objectives, and will formally recommend actions to the Board if needed.

It would be expected that the unit-linked business would be managed in a manner consistent with the Association of British Insurers ("ABI") guide to good practice for unit linked funds."

5.60 The details of the Linked Investment Committee, including its formal Terms of Reference, are yet to be finalised. Nevertheless, I am satisfied, based on the high-level commitments provided to date, that Laguna's proposed approach to the governance of the internal linked funds is fair and reasonable.

5.61 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 the proposed Scheme stipulates that the exercise of such discretion by Laguna post-transfer must have regard, where relevant, to the opinion of Laguna's Head of Actuarial Function. MetLife Europe has informed me that it has not exercised any discretionary powers on the Transferring Policies in the past in relation to aspects of their terms and conditions such as the level of charges levied. I would expect Laguna's Head of Actuarial Function to have regard to past practice within MetLife Europe when assessing any proposals to exercise discretion by Laguna post-transfer.

Customer service

5.62 The Transferring Policies are currently administered by five external outsourced service providers, with the fund administration (a back-office function) for a small number of unit-linked policies carried out by a couple of MetLife Europe employees.

5.63 Laguna's stated intention is to continue with an outsourced model. Laguna is currently undertaking a due diligence assessment of the existing external outsourcers to decide whether to continue with them or to seek alternatives. I understand that the current view is that it is likely that all but one of the incumbents will be retained. In addition, those MetLife Europe employees who are currently involved in administering some of the Transferring Policies, would transfer from MetLife Europe to Laguna under the proposed Scheme.

5.64 Therefore, based on the information provided, it seems reasonable to conclude that the administration arrangements for the Transferring Policies will be almost entirely unchanged should the proposed Scheme proceed.

5.65 In my opinion, for the reasons set out above, the fair treatment and reasonable benefit expectations of the transferring MetLife Europe policyholders will not be materially adversely affected by the proposed Scheme.

POLICYHOLDERS REMAINING IN METLIFE EUROPE

5.66 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of those policyholders remaining in MetLife, nor will there be any changes to the way in which MetLife Europe will exercise its discretionary powers. There will be no adverse tax consequences and there will be no change to the administration and customer service arrangements.

5.67 In my opinion, for the reasons set out above, the fair treatment and reasonable benefit expectations of the transferring MetLife Europe policyholders will not be materially adversely affected by the proposed Scheme.

LAGUNA'S POLICYHOLDERS

5.68 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of existing (pre-Effective Date) policyholders in Laguna, nor will there be any changes to the way in which Laguna will exercise its discretionary powers. There will be no adverse tax consequences and there will be no change to the administration and customer service arrangements.

5.69 In my opinion, for the reasons set out above, the fair treatment and reasonable benefit expectations of the existing (pre-Effective Date) Laguna policyholders will not be materially adversely affected by the proposed Scheme.

Miscellaneous aspects

CLASSES OF BUSINESS FOR WHICH LAGUNA IS AUTHORISED

5.70 Laguna is currently authorised to write Class I life business, but will require authorisation for Classes III and IV in order to accept the Transferring Policies. Laguna has submitted an application to the Central Bank for authorisation to write those classes. I note that the proposed Scheme is conditional on the Companies obtaining the non-objection of the Central Bank, and I understand that the Court would not sanction the proposed Scheme unless such non-objection had been provided.

BREXIT

5.71 Acting on the results of the referendum held on 23 June 2016, the UK government gave notice in March 2017, under the provisions of Article 50 of the Treaty on European Union, of the UK's intention to leave the EU. Therefore, as things stand the UK is scheduled to leave the EU in March 2019.

5.72 The exit of the UK from the EU could lead to considerable disruption in the market for financial services across Europe and in particular for UK and non-UK companies relying on so-called "passporting rights" to write business via the EU's freedom of establishment or freedom of services rules into the rest of the EEA or the UK respectively.

5.73 However, at the time of writing this report, there remains considerable uncertainty as to what form the UK's exit from the EU might ultimately take. I have made no particular assumptions in preparing this report about the possible consequences of the UK leaving the EU, but have focussed on the implications of the implementation of the proposed Scheme for the policyholders of MetLife Europe and Laguna.

5.74 I note in any case, that the proposed Scheme will not alter the situation for UK-resident transferring policyholders, in that they will continue to be policyholders of an Irish-authorised insurance company. 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.

POLICYHOLDER COMMUNICATIONS

5.75 The proposed communications plan is summarised in paragraphs 4.16 to 4.23 above.

5.76 I am satisfied that the proposed approach of communicating with the MetLife Europe transferring policyholders is reasonable.

5.77 As noted in 4.17 above, I understand that (subject to the agreement of the Court), the Circular will not be sent to existing Laguna policyholders, nor will it be sent to remaining (i.e. non-transferring) MetLife policyholders. Given my conclusions, as set out above, that neither the security of benefits nor the fair treatment and reasonable benefit expectations of either the existing Laguna policyholders or the remaining MetLife policyholders will be materially adversely affected by the proposed Scheme, I confirm that I am satisfied that the proposal not to provide the Circular to those policyholders is fair and reasonable.

EFFECT ON PREVIOUS SCHEMES

5.78 MetLife Europe has reviewed the previous schemes to which some of the Transferring Policies have been subject. I understand from MetLife Europe that, on the basis of this review, it is satisfied that the implementation of the proposed Scheme is not expected to have a material effect on any of the previous schemes to which some of the Transferring Policies have been subject.

5.79 I consider that it is reasonable and appropriate for me in the circumstances to rely on this confirmation.

COSTS OF THE PROPOSED SCHEME

5.80 Each of the Companies will bear its own costs incurred in connection with the preparation and carrying into effect of the proposed Scheme. No costs or expenses will be borne by policyholders of either of the Companies. I confirm that I have no objections to this arrangement.

MATTERS NOT CONSIDERED

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

6 CONCLUSIONS ON THE PROPOSED SCHEME

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

- Policyholders transferring from MetLife Europe;
- Policyholders remaining in MetLife Europe; and
- Existing (pre-Effective Date) policyholders of Laguna.

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

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

- the security of benefits under the policies of MetLife Europe and Laguna;
- the reasonable expectations of the policyholders of MetLife Europe and Laguna with respect to their benefits; and
- the standards of administration, service, management and governance that apply to the MetLife Europe and Laguna policies.

Michael Culligan
Fellow of the Society of Actuaries in Ireland

15 November 2018

7 APPENDIX A – LIST OF PRINCIPAL DATA SOURCES

7.1 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 MetLife Europe or Laguna unless otherwise noted.

Legal documents

- Constitution of MetLife Europe
- Constitution of Laguna
- The Scheme and other related legal documents (provided by McCann FitzGerald on 31 October 2018)
- The Circular to be provided to each UK and Irish resident transferring MetLife Europe policyholder (provided by McCann FitzGerald on 31 October 2018)
- The formal letter of notification to the Central Bank from MetLife Europe in respect of the proposed Scheme dated 18 October 2018

Reports from the Heads of Actuarial Function

- Report from the Head of Actuarial Function to the Board of MetLife Europe in respect of the year ended 31 December 2017
- Report from the Head of Actuarial Function to the Board of Laguna in respect of the year ended 31 December 2017

Solvency & Financial Condition Reports

- Solvency and Financial Condition Report (SFCR) for MetLife Europe for the year ended 31 December 2017
- Solvency and Financial Condition Report (SFCR) for Laguna for the year ended 31 December 2017

Own Risk & Solvency Assessment (ORSA) Reports

- ORSA Report for MetLife Europe dated 6 December 2017
- ORSA Report for Monument Insurance (including Laguna) dated 23 February 2018

Directors' Reports and Financial Statements

- Directors' Report and Financial Statements for MetLife Europe for the financial year ended 31 December 2017
- Directors' Report and Financial Statements for Laguna for the financial year ended 31 December 2017

Product documentation

- Sample policy documents for the Transferring Policies

Other documents

- Updated 'Scheme of Operations' for Laguna dated 27 July 2018
- Capital Management Policy for MetLife Europe dated December 2017
- Capital Management & Dividend Policy for Laguna dated September 2018
- Group Solvency Self Assessment at 31 December 2017 for Monument Re Limited dated 29 May 2018

Correspondence

- E-mail correspondence with MetLife Europe in relation to the proposed Scheme
- E-mail correspondence with Laguna in relation to the proposed Scheme
- E-mail correspondence with McCann FitzGerald in relation to the proposed Scheme

8 APPENDIX B: THE TRANSFERRING POLICIES

8.1 This Appendix provides more detail on the Transferring Policies.

The ALIL unit-linked business

8.2 The ALIL unit-linked business contains German, Italian and Spanish regular premium unit-linked business. It also contains German, Italian, Spanish and UK single premium unit-linked business.

8.3 The German business comprises the following products

- Foundation Investment (regular premium)
- Private Solution (single premium)

8.4 The Italian business comprises the following products:

- Xelion Rendita (single premium)
- Xelion Rendita (regular premium)
- AIG Foundation Investments 1&2 (single premium)
- AIG Foundation Formula (single premium)
- AIG Private Solution (single premium)
- AIG Private Solution Plus (single premium)
- AIG Private Portfolio (single premium)
- MetLife Protezione in Crescita
- La Centrale

8.5 The Spanish business comprises the following products:

- Foundation Formula (single premium)
- MetLife Formula PIAS (regular premium)

8.6 The UK business comprises the following products (all single premium):

- Capital Investment Bond
- Private Placement Life Policy

The ALIL non-linked business

8.7 The ALIL non-linked business comprises a number of non-linked term assurance, income protection and group protection policies.

- Protection Plus (Ireland)
- Income Protection (Ireland)
- Group Life, Disability and Medical Invalidity (Norway)

The VA business

8.8 The VA business comprises VA policies sold in Greece, Spain and Poland.

8.9 The VA product (common to all three countries) is called the MetLife Europe Income Guarantee Solution. It is a single premium unit-linked contract with guaranteed minimum withdrawal benefits and guaranteed minimum death benefits.

The HNW business

8.10 The HNW business comprises single premium sterling-denominated unit-linked investment policies. The products in question are:

- Premier Access Bond
- Premier Bond and Premier Bond Guaranteed
- Personal Investment Bond

The FTA business

8.11 The FTA business comprises sterling-denominated fixed term annuity policies. There are two products:

- Freedom Income Plan
- Living Time

Summary

8.12 The following table summarises the Transferring Policies as at 31 December 2017

Table 14: MetLife Europe – Details of Transferring Policies as at 31 December 2017 (€ millions)

<table>
<tr><th></th><th>No. of policies</th><th>Technical Provisions</th></tr>
<tr><td>ALIL unit-linked</td><td>4724</td><td rowspan="2">209</td></tr>
<tr><td>ALIL non-linked</td><td>232</td></tr>
<tr><td>VA</td><td>1568</td><td>134</td></tr>
<tr><td>HNW</td><td>125</td><td>64</td></tr>
<tr><td>FTA</td><td>2806</td><td>166</td></tr>
<tr><td>Total</td><td>9455</td><td>573</td></tr>
</table>

Source: Data provided by MetLife Europe.

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

9 APPENDIX C: GLOSSARY OF TERMS

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

Term	Definition
1909 Act, The	The Assurance Companies Act 1909
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
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 intended exit from the EU
Central Bank, The	The Central Bank of Ireland, which is the supervisory authority with responsibility for the prudential supervision of the Companies
Companies, The	MetLife Europe and Laguna, collectively
Court, The	The High Court of Ireland
EEA	The European Economic Area. The EEA comprises the EU plus Iceland, Liechtenstein and Norway
Effective Date, The	00:01 hours on 1 April 2019, or such other date as may be specified by the Court
Ethias	Ethias S.A. (a Belgian insurance company)
EU	The European Union
Freedom of establishment	The right of an insurer located in one EEA member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state (typically a branch)
Freedom of services	The right to provide business services on a cross-border basis within the EEA. For insurance contracts, this means that the contract can be underwritten by an insurer based in an EEA member state that is different from the member state where the risk is located
FSAI	Fellow of the Society of Actuaries in Ireland
GAAP	Generally Accepted Accounting Principles
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
Independent Actuary	Mr Michael Culligan, a Fellow of the Society of Actuaries in Ireland and a Principal with Milliman
Independent Actuary's report	This report
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
Laguna	Laguna Life 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, Inc.
MetLife Europe	MetLife Europe dac
Milliman	Milliman Ltd., Consultants & Actuaries, 7 Grand Canal Street Lower, Dublin 2
MISL	Monument Insurance Services Limited
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)
Non-linked business	Life assurance business which is not unit-linked business
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
Passporting	The colloquial term for Freedom of Establishment and/or Freedom of Services
Proposed Scheme, The	The legal scheme of transfer by which it is proposed that the Transferring Policies and their associated assets and liabilities be transferred from MetLife to Laguna. Under the relevant provisions of the 1909 Act (see), 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)
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
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	The European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No 485 of 2015)
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
Transferring Policies	The policies that are proposed to be transferred from MetLife Europe to Laguna under the proposed Scheme
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
VA	Variable Annuity, a term used to describe a form of unit-linked policy with significant financial guarantees such as guaranteed minimum withdrawal benefits and/or guaranteed minimum death benefits