

## Red Sands Life Assurance Company (Europe) Limited

### Addendum to the Updated Review of Transfer of Policies to

Generali Życie Towarzystwo Ubezpieczeń S.A.,  
and Generali Towarzystwo Ubezpieczeń S.A.

Addendum to the Independent Actuary's Report

*Prepared by*

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*28 September 2020*

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# 1. Executive Summary

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## 1.1 Introduction

I have been requested to prepare an addendum to the Independent Expert's report in respect of the proposed transfer of policyholder liabilities of Red Sands Life Assurance Company (Europe) Limited ("RSL") to Generali Życie Towarzystwo Ubezpieczeń S.A ("GLP") for life insurance business written in Poland.

This addendum has been prepared as a result of a material change made to the Scheme and notified to me following the issue of the report dated 5 March 2020, entitled "Red Sands Life Assurance Company (Europe) Limited Updated Review of Transfer of Policies to Generali Życie Towarzystwo Ubezpieczeń S.A., and Generali Towarzystwo Ubezpieczeń S.A." ("the Updated Report"). The Updated Report was prepared on the basis of the non-life business written in Poland being transferred to Generali Towarzystwo Ubezpieczeń S.A ("GIP"). All non-life policies have now been converted to life policies by adding an amount of life cover to the policies (PLN 100zł, circa GBP20, per policy). It is now the intention that all policies that were proposed to be transferred to GIP will now be transferred to GLP instead.

I have prepared this addendum to the Updated Report ("the Addendum") as the Independent Actuary in accordance with Part I of Schedule 10 of the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020, prepared for the purposes of the Supreme Court of Gibraltar, in respect of policyholder liabilities which are distributed under RSL's license to write life and annuity business, comprising a portfolio of the long term (life) policies underwritten by RSL in Poland. The individual long term (life) policies to be transferred are to be agreed by RSL and the transferee (as part of Schedule 2 (Transferring Policies) of the relevant Portfolio Instrument of Transfer), but I am informed by RSL that it is the intention to transfer all in-force policies in Poland.

Throughout this report and unless otherwise stated, all references to the Financial Services (Insurance Companies) Act should be read as the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020.

The portfolio transfers have been prompted by the prospective withdrawal of the United Kingdom (including Gibraltar – the jurisdiction in which RSL is domiciled and licensed) from the European Union.

## 1.2 Purpose of the Addendum

After the transfer, the liabilities will be the responsibility of the transferee. For this addendum, I have considered those issues which I believe are most likely to be of concern to policyholders in respect of the transfer. In particular, I have considered the following:

- The security of the benefits,
- The contractual entitlements of the policyholders, and
- The reasonable expectations of the policyholders arising from past practices and statements from RSL or the transferee.

# 1. Executive Summary (continued)

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## 1.3 Conclusions

I have considered the impact of the Scheme on RSL's and the transferee's policyholders.

My analysis and rationale for conclusions has been set out in the following sections and with reference to the Updated Report. I confirm that I have read the Updated Report in full and agree with its conclusions.

I am content both for RSL's and the transferee's policyholders that the Scheme is not expected to have any material adverse impact on their

- Benefit expectations
- Service standards
- Security of benefits

Therefore, I am content that there is no reason in my view that the Scheme should not proceed.



Jonathan Kemp

Fellow of the Institute and Faculty of Actuaries

## 2. Introduction

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### 2.1 Report Framework

I have been requested to prepare an addendum to the Independent Expert's report in respect of the proposed transfer of policyholder liabilities of Red Sands Life Assurance Company (Europe) Limited ("RSL") to Generali Życie Towarzystwo Ubezpieczeń S.A ("GLP") for life insurance business written in Poland.

This addendum has been prepared as a result of a material change made to the Scheme and notified to me following the issue of the report dated 5 March 2020, entitled "Red Sands Life Assurance Company (Europe) Limited Updated Review of Transfer of Policies to Generali Życie Towarzystwo Ubezpieczeń S.A., and Generali Towarzystwo Ubezpieczeń S.A." ("the Updated Report"). The Updated Report was prepared on the basis of the non-life business written in Poland being transferred to Generali Towarzystwo Ubezpieczeń S.A ("GIP"). All non-life policies have now been converted to life policies by adding an amount of life cover to the policies (PLN 100, circa £20 per policy). It is now the intention that all policies that were proposed to be transferred to GIP will now be transferred to GLP instead.

I have prepared this addendum to the Updated Report as an Independent Actuary in accordance with Part I of Schedule 10 of the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020, prepared for the purposes of the Supreme Court of Gibraltar, in respect of policyholder liabilities which are distributed under RSL's license to write life and annuity business, comprising a portfolio of the long term (life) policies underwritten by RSL in Poland. The individual long term (life) policies to be transferred are to be agreed by RSL and the transferee (as part of Schedule 2 (Transferring Policies) of the relevant Portfolio Instrument of Transfer), but I am informed by RSL that it is the intention to transfer all in-force policies in Poland.

Throughout this report and unless otherwise stated, all references to the Financial Services (Insurance Companies) Act should be read as the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020.

I have been appointed by RSL to act as an Independent Actuary.

I understand that this report will be submitted to the Supreme Court of Gibraltar ("the Court") in respect of the proposed long-term (life) transfers.

### 2.2 Background Information

Refer to section 2.2 of the Updated Report for background information on RSL.

### 2.3 Purpose of the Addendum

This report was requested for the purposes of the Court application as noted in section 2.1 in connection with the proposed transfer of the long term (life) business ("the Scheme") from RSL to the transferee. Details of the Scheme are set out in the documents referenced in Appendix A. In brief, certain assets and policy liabilities attributable to the long term and general business of RSL will be transferred to the transferee.

## 2. Introduction (continued)

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After the transfer, the liabilities will be the responsibility of the transferee. For this Addendum in conjunction with the Updated Report, I have considered those issues which I believe are most likely to be of concern to policyholders in respect of the transfer. In particular, I have considered the following:

- The security of the benefits,
- The contractual entitlements of the policyholders, and
- The reasonable expectations of the policyholders arising from past practices and statements from RSL or the transferees.

I have reviewed and relied upon reports which discuss the finances of RSL and the transferee. A summary of documents and reports considered is shown in Appendix A.

### 2.4 COVID-19

Towards the end of 2019 a novel coronavirus virus emerged in China. By late February 2020 the virus had spread to Europe. On 11 March 2020 the World Health Organisation declared COVID-19 to be a global pandemic. The UK, along with many other countries, has implemented a range of measures in an attempt to control the spread of the virus and, although it is hoped that the peak of the pandemic has now passed, much uncertainty still remains.

At this stage it is difficult to predict the impact on future claims that this specific pandemic will cause. Broadly speaking, insurers writing life will be impacted directly, but it is likely that all insurers will be impacted through secondary effects. It is possible that further disruptions in the investment markets could lead to liquidity issues which could disrupt the payment of claims. There may also be further, unpredictable, effects on exposures, claims, investments or operations of the insurer itself.

I have considered the impact of COVID-19 in sections 5.7 and 6.1.9 on those issues I believe are most likely to be of concern to the policyholders in respect of the transfer as set out in section 2.3.

### 2.5 Limitations

The Addendum has been prepared for the benefit of the following parties:

- The Court,
- The directors of RSL and the directors of the transferees,
- The GFSC,
- The professional advisers of the above parties.
- To the extent necessary, the insurance regulators of any EEA country which requests a copy of this report.

This Addendum must be read and considered in conjunction with the Updated Report.

Refer to section 2.4 of the Updated Report for further limitations that apply.

I am available to any of the above parties to assist in understanding or interpreting this addendum to the Updated Report.

## 2. Introduction (continued)

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### 2.6 Professional Guidance

The Addendum has been prepared in accordance with, and complies with all the applicable principles and provisions of, the following Actuarial Profession Standards (“APSs”) issued by the Institute and Faculty of Actuaries and Technical Actuarial Standards (“TASs”) issued by the Financial Reporting Council:

- APS X1: Applying Standard to Actuarial Work (version 1.1 effective from 19 March 2019)
- APS X3: The Actuary as an Expert in Legal Proceedings (version 2.0, effective from 20 April 2018)
- TAS 100: Principles for Technical Actuarial Work (version 1.0 effective from 1 July 2017)
- TAS 200: Insurance (version 1.0 effective from 1 July 2017)

### 2.7 Disclosures

I am a Fellow of the Institute and Faculty of Actuaries and I have been a qualified actuary for 19 years.

I am a Senior Manager and Director of BWCI Limited. The work has been subject to appropriate peer review.

I have acted as actuary or adviser to a range of life companies in the UK, Guernsey, Malta and the Isle of Man. I worked closely with Mr Ian Morris (the signatory of the Updated Report) in the preparation of the Updated Report and am content that I have the same level of understanding of the proposed transfer as Mr Morris.

I have no financial interest in RSL or any of the transferees. Neither I nor BWCI Limited has undertaken any work other than this review for either RSL or the transferees.

### 2.8 Reliance on Others

I have been assisted by colleagues within BWCI Limited in the preparation of this report and for a peer review of the report. However, I accept full responsibility for the report.

### 2.9 Declaration

I confirm that I understand that my duty in preparing this report is to help the Court and that this duty overrides any obligations I have to those instructing me and/or paying my fee, that I have complied with my duty and I will continue to do so.

I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

### 3. Outline of Proposed Transfers

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#### 3.1 Consequences of “Brexit”

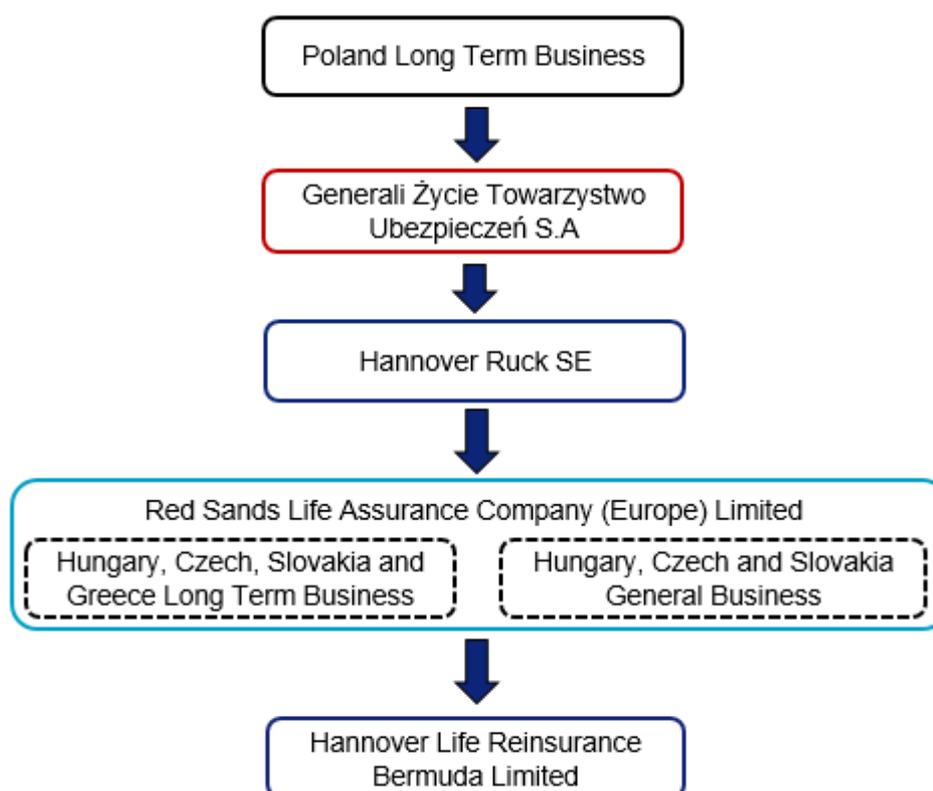
Refer to section 3.1 of the Updated Report.

#### 3.2 Outline of the Scheme

The Scheme as outlined in section 3.2 of the Updated Report has been amended as explained in section 2.1. In brief, all liabilities transferred will now relate to life insurance policies only and as such there will no longer be a transfer of a portfolio of liabilities for non-life business. This has the effect that:

- A portfolio of the liabilities for the life insurance policies written in Poland will be transferred to Generali Życie Towarzystwo Ubezpieczeń S.A (“GLP”);
- Generali Towarzystwo Ubezpieczeń S.A (“GIP”) no longer forms part of the scheme.

The following diagram shows the proposed structure of the transfer scheme including reinsurance arrangements for the business being transferred:



The business written by RSL in Hungary, the Czech Republic, Slovakia and Greece does not form part of any of the schemes of transfer but has been included above for completeness.

#### 3.3 Effect of the Schemes

Refer to section 3.3 of the Updated Report for the effect of the Scheme. Reference to “the Schemes” and “the transferees” in the Updated Report can now read as relating to the Scheme as described in the Addendum and to GLP (“the transferee”) respectively.

## 3. Outline of Proposed Transfers (continued)

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### 3.4 Approach to my Review of the Scheme

My approach to the review can be summarised as follows:

- The nature of the proposal was analysed so that I achieved a clear understanding.
- The potential impact on policyholders (or subgroups of policyholders) was considered both for RSL policyholders and the transferee's policyholders. This covered their security and benefit expectations.
- The financial positions of RSL and the transferee were reviewed and the impact of the transfer considered to the extent it might impact policyholders.
- The potential impact on the service received by policyholders was reviewed.
- I considered the extent to which any potential impact could be deemed material (or not).

### 3.5 Status of the Schemes for Transition Period

Prior to the implementation of this Scheme, RSL will retain the responsibility to service the policies currently in force following the withdrawal of the UK (and Gibraltar) from the European Union. This could mean that RSL may experience a significant conflict of responsibilities; it will no longer have the ability to carry on insurance business in the EU, however, it will also be contractually obliged to provide cover under the insurance contracts.

Both the European and UK Parliaments have ratified the Withdrawal Agreement between the UK and the EU and as a result the UK left the EU on 31 January 2020. The Withdrawal Agreement allows a transition period until at least 31 December 2020 in which insurance business may continue to be carried out by UK (and Gibraltar) insurers in the EU ("the transition period"). Following the transition period, the ability of UK and Gibraltar insurers to continue business in EU jurisdictions is unknown and may vary between different member states. Any such arrangements following the transition period would be expected to be shorter in duration than the outstanding duration of the insurance policies of RSL in a number of the countries in which RSL currently underwrites insurance policies.

### 3.6 Consequences of the Schemes Not Proceeding

As noted above, if RSL still is carrying on insurance business in the European Union after the end of the transitional period it could mean that RSL may experience a significant conflict of responsibilities; it will no longer have the legal ability to carry on insurance business in the EU, however, it will also be contractually obliged to provide cover under the insurance contracts.

There is a risk that the policyholders would be adversely affected as provision of the benefits to which they would be entitled would be a breach of the requirements to be able to offer insurance business in the respective territories. It is unclear how this conflict would be resolved and it is possible that RSL may not be able to provide the benefits due.

If the Scheme does not proceed then the whole of RSL's business is exposed to the above risk. Transferring the Polish business reduces RSL's exposure to the risk and reduces the risk to Polish policyholders that there may be difficulties in servicing their policies after the

### 3. Outline of Proposed Transfers (continued)

transition period. The risks affecting policies other than the Polish business will remain unless addressed by other arrangements.

#### 3.7 Other Specifics of the Schemes

I am not aware of any material changes required to this section since the Updated Report was issued. Refer to section 3.7 of the Updated Report for other specifics of the Scheme not included above.

The asset and liabilities to be transferred under the Scheme are specified by the instrument of Transfer between RSL and GLP (document 3).

#### 3.8 Comparison of gross written premium and best estimate liability

A summary of the gross written premium (GWP) and best estimate liability (BEL) for RSL and the transferee is shown below split by life and non-life business as at December 2019:

Country	Type of Business	Transferring Entity	Data Point	RSL (GBP '000s)	Transferee (GBP '000s)	% of Transferees Existing Business
Poland	Life	Generali Życie Towarzystwo Ubezpieczeń S.A	GWP	15,087	176,261	8.56%
			BEL	(27,630)	661,041	-4.18%
For completeness the other business of RSL is detailed below						
Hungary, Czech, Slovak Republic, Greece	Life	Not Transferring	GWP	10,054		
			BEL	(27,251)		
	Non-Life	Not Transferring	GWP	817		
			BEL	-393		
<b>Total RSL</b>	Life		<b>GWP</b>	<b>25,141</b>		
			<b>BEL</b>	<b>(54,881)</b>		
	Non-Life		<b>GWP</b>	<b>817</b>		
			<b>BEL</b>	<b>(393)</b>		

From the above table I note that:

- The life business transferred to Generali would make up only a small portion of the transferee's total life business.

## 4. Background and Financial data for Red Sands Life

### 4.1 Product Overview

I have not been informed of any material changes in the types of product or the terms of the products other than the addition of life cover described below, since the Updated Report was issued. Refer to section 4.1 of the Updated Report for a detailed overview of RSL's products.

As described in section 2.1, subsequent to the Updated Report being produced, a small amount of life cover (PLN 100, circa £20 per policy) was added to the "health business similar to life techniques" business written in Poland.

A summary of the total volume of business written by RSL as at June 2020 is compared to the numbers included in the Updated Report as at June 2019 is shown below.

#### Life Insurance Products

	Number of Policies	Sum Assured (GBP '000s)	Annual Premiums (GBP '000s)
<b>Total as at June 2020</b>	<b>100,089</b>	<b>240,316</b>	<b>24,236</b>
Poland	56,462	164,740	14,214
Hungary	24,431	33,956	4,958
Czech Republic	9,036	19,407	2,275
Slovakia	9,652	19,337	2,515
Greece	508	2,876	275
<b>Total as at June 2019</b>	<b>100,377</b>	<b>242,850</b>	<b>24,543</b>
<b>% Change</b>	<b>-0.3%</b>	<b>-1.0%</b>	<b>-1.3%</b>

#### General (Non-life Insurance Products)

	Number of Policies	Sum Assured (GBP '000s)	Annual Premiums (GBP '000s)
<b>Total as at June 2020</b>	<b>50,663</b>	<b>308,056</b>	<b>3,145</b>
Poland	36,582	215,276	2,308
Hungary	5,448	40,480	387
Czech Republic	4,670	29,235	224
Slovakia	3,959	22,883	225
Greece	4	182	1
<b>Total as at June 2019</b>	<b>61,287</b>	<b>349,479</b>	<b>3,563</b>
<b>% Change</b>	<b>-17.3%</b>	<b>-11.9%</b>	<b>-11.7%</b>

A summary of the gross written premium and reinsurer's share by territory as at 31 December 2019 is shown below (data taken from document 24).

## 4. Background and Financial data for Red Sands Life (continued)

	<b>Gross Written Premium (£)</b>	<b>Reinsurer's Share (£)</b>	<b>Net Written Premium (£)</b>
Poland	12,953,961	5,306,808	7,647,153
Hungary	5,469,240	1,303,816	4,165,424
Czech Republic	2,025,177	1,057,075	968,102
Slovakia	2,223,073	1,171,217	1,051,856
Greece	336,566	0	336,566
<b>Total as at 31 December 2019</b>	<b>23,008,017</b>	<b>8,838,916</b>	<b>14,169,101</b>
<b>Total as at 31 December 2018</b>	<b>22,006,008</b>	<b>9,245,462</b>	<b>12,760,546</b>

### 4.2 Impact of Reinsurance

I have not been informed of any material changes to the reinsurance arrangements since the Updated Report was issued. Refer to section 4.2 of the Updated Report for details on the current reinsurance arrangements for RSL.

### 4.3 Legal/ Regulatory Disputes

I understand that there have been conduct investigations in Hungary. I have been informed by RSL that since inception of policies there have only been two complaints that led to material proceedings against RSL. The two cases relate to Hungarian business and were initiated in 2014 and 2016 respectively. One case was settled without judgment in 2019, and the second was closed in early 2020 with a financial impact of less than GBP 225,000. The proceedings in respect of these are now closed.

I am advised that there are no open legal proceedings against RSL and the directors are not aware of any pending proceedings outside of the ordinary course of business.

## 4. Background and Financial data for Red Sands Life (continued)

### 4.4 Financial Position of RSL

RSL's balance sheet as at 31 December 2019 as well as a comparison to the 31 December 2018 position included in the Updated Report on both a statutory basis and a Solvency II basis is shown below.

		31 December 2019		31 December 2018	
		Solvency II GBP	Statutory GBP	Solvency II GBP	Statutory GBP
<b>Assets</b>	Property, plant & equipment held for own use		674,671	0	638,717
	Investments (other than assets held for index-linked and unit-linked contracts)	8,035,304	8,035,304	6,615,803	6,615,804
	Loans and mortgages	2,169,545	2,169,545	2,791,670	2,791,670
	Reinsurance recoverables	(14,443,515)	1,500,445	(15,780,243)	1,445,386
	Insurance and intermediaries receivables	0	1,039,401	0	639,709
	Reinsurance receivables	0	1,755,610	0	1,148,452
	Receivables (trade, not insurance)	0	613,166	(11,926)	357,470
	Cash and cash equivalents	6,588,376	6,588,376	3,941,075	3,941,075
	<b>Total Assets</b>	<b>2,349,710</b>	<b>22,376,518</b>	<b>(2,443,621)</b>	<b>17,578,283</b>
<b>Liabilities</b>	Technical Provisions (Life)	(42,819,827)	792,106	(45,339,781)	269,171
	<i>Best Estimate Liabilities</i>	<i>(55,273,982)</i>		<i>(57,091,765)</i>	
	<i>Risk Margin</i>	<i>12,454,155</i>		<i>11,751,984</i>	
	Deposits from reinsurers	24,171	0	0	1,448,502
	Deferred Tax Liabilities	2,763,876	0	2,939,917	0
	Derivatives	13,437	13,437	45,030	45,030
	Reinsurance Payables	550,711	4,628,517	24,436	1,749,336
	Payables (trade not insurance)	719,902	719,902	140,624	140,624
	<b>Total Liabilities</b>	<b>(38,747,730)</b>	<b>6,153,962</b>	<b>(42,189,774)</b>	<b>3,652,663</b>
<b>Excess of Assets over Liabilities</b>	<b>41,097,440</b>	<b>16,222,556</b>	<b>39,746,153</b>	<b>13,925,620</b>	

Total technical provisions amount to GBP (42,819,827) on the Solvency II basis, and net assets amount to GBP 41,097,440.

The figures as at 31 December 2019:

- include, the technical provisions in respect of "health business similar to life techniques" which were transferred to RSL as at 8 February 2019.

## 4. Background and Financial data for Red Sands Life (continued)

- exclude, the change in cover for “health business similar to life techniques” written in Poland as described in section 2.1. We understand that the addition of life cover to the 35,582 policies resulted in an increase in statutory reserves of approximately GBP 52,000 as at 30 June 2020.

### 4.5 Solvency Capital Requirement

RSL’s solvency capital requirement as at 30 June 2020 as well as a comparison to the 31 December 2019 and 31 December 2018 position is shown in the table below (data taken from document 25). RSL comfortably meets its SCR.

	30 June 2020 GBP	31 December 2019 GBP	31 December 2018 GBP
Market Risk	10,117,661	9,739,285	10,062,089
Counterparty Risk	623,901	674,045	574,538
Life Underwriting Risk	24,148,513	22,262,138	21,940,737
Health Underwriting Risk	667,933	654,792	8,595
Non-Life Underwriting Risk	47,617	47,034	38,639
Diversification	(6,776,287)	(6,516,650)	(6,112,184)
<b>Basic Solvency Capital Requirement</b>	<b>28,829,337</b>	<b>26,860,644</b>	<b>26,512,414</b>
Operational Risk	1,038,275	1,038,275	880,240
<b>Loss-absorbing capacity of deferred taxes</b>	<b>(1,974,995)</b>	<b>(1,815,963)</b>	<b>(1,733,057)</b>
<b>Solvency Capital Requirement</b>	<b>27,892,617</b>	<b>26,082,956</b>	<b>25,659,597</b>
<b>Eligible Own Funds</b>	<b>41,598,037</b>	<b>41,097,440</b>	<b>39,746,153</b>
<b>Solvency Capital Ratio</b>	149%	158%	155%

The primary contributors to the SCR are:

- The mass lapse risk under Life Underwriting risk, which amounts to £15.5m (pre-diversification)
- The mortality risk under Life Underwriting risk, which amounts to £12.3m (pre-diversification)
- The currency risk charge under the market risk. This amounts to £9.5m.

### 4.6 Security for RSL Policyholders

Prior to the transfer the security for payment of benefits is provided by the following.

- Technical provisions of RSL

## 4. Background and Financial data for Red Sands Life (continued)

- Surplus assets of RSL – The eligible own funds shown in the table above amount to £41,598,037.
- Reinsurance cover from Hannover Re and VIG Re
- Potential support from owners of RSL (without legal obligation to do so)

### 4.7 Financial position of RSL after the Scheme

Section 4.7 of the Updated Report contains an assessment of the estimated post-transfer solvency position of RSL as at 31 December 2019. I understand there is an intention for the transferees to reinsure a portion of the benefits (see section 3.2) back to RSL through Hannover Re. The figures below include the estimated effect of the reinsurance back to RSL.

	Own Funds	SCR	Surplus	Solvency Ratio
<b>31 December 2019 Actual</b>	41,097,441	26,048,074	15,049,367	158%
<b>After portfolio Transfer</b>	34,643,124	26,717,949	7,925,175	130%
<b>After with Increased Mass Lapse Reinsurance</b>	36,239,617	24,044,237	12,195,380	151%

In addition, I have been provided with a revised forecast of the solvency position of RSL:

	Actual		Forecast (Post Transfer)		
	December 2019	June 2020	December 2020	December 2021	December 2022
<b>Available Capital (GBP '000s)</b>	41,097	41,598	34,132	37,576	40,916
<b>SCR (GBP '000s)</b>	26,048	27,893	24,528	23,950	23,494
<b>Solvency Ratio</b>	158%	149%	139%	157%	174%
<b>Solvency Ratio after potential management actions</b>			151%	169%	187%

I note that:

- RSL's solvency ratio decreased between 31 December 2019 and 30 June 2020.
- The forecasted solvency ratio at December 2020 which includes the effect of the portfolio transfer is expected to be 139%. This is an improvement on the after transfer solvency ratio calculated as at 31 December 2019 of 130% provided in the Updated Report.
- The major cause of the drop in the projected solvency ratio is the credit of future fees to GLP as part of the transfer.
- RSL's solvency is expected to improve over the next 3 years.

## 4. Background and Financial data for Red Sands Life (continued)

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I understand that 130% is the limit of the acceptable solvency ratio set by RSL's Board of Directors. Further, I understand that it is the practice of RSL's Board of Directors to not approve business plans which include the solvency ratio dropping below 130% at any point. Despite the projected position at 31 December 2020 already exceeding this minimum acceptable level, I have been informed that management are considering taking various actions to increase the solvency ratio still further. RSL have confirmed that one such action could be to increase the level of cover associated with the Mass Lapse Stop-Loss Reinsurance Treaty with Hannover Re Bermuda. RSL estimate that the effect of the increased cover will increase the solvency ratio to 151%. The solvency ratio is projected to decrease from 149% as at June 2020 to 139% as at December 2020. Following such a reduction the solvency ratio remains above the minimum acceptable level set by the Board and I do not consider that it represents a material deterioration in the security of benefits for remaining RSL policyholders.

## 5. Effect on Policyholders of Red Sands Life

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### 5.1 Introduction

As discussed in section 2.1 the Scheme now only includes the transfer of policyholders from RSL to GLP.

### 5.2 Benefit Expectations

I am not aware of any material changes other than the additional cover described in section 2.1 as a result of the Scheme that would affect the benefit expectations of the transferring policyholders, since the Updated Report was issued. Refer to section 5.2 of the Updated Report.

### 5.3 Service Standards

I am not aware of any material changes as a result of the Scheme that would affect the service standards of the transferring policyholders, since the Updated Report was issued. Refer to section 5.3 of the Updated Report.

### 5.4 Future Premiums

I am not aware of any material changes as a result of the Scheme that would affect the future premiums of the transferring policyholders, since the Updated Report was issued. Refer to section 5.4 of the Updated Report.

### 5.5 Recourse to Policyholder Compensation

I am not aware of any material changes as a result of the Scheme that would affect the recourse to policyholder compensation of the transferring policyholders, since the Updated Report was issued. Refer to section 5.5 of the Updated Report.

### 5.6 Regulatory Position

RSL is domiciled in Gibraltar and is therefore regulated by the GFSC. GLP is domiciled in Poland and regulated by the Polish Financial Supervision Authority.

As far as solvency regulation is concerned, currently both jurisdictions are governed under Solvency II law and regulations and so there should be no material change following the transfer. I also note that the transferee is a materially larger entity and forms part of a large insurance group.

### 5.7 COVID-19

I have been made aware that RSL has experienced 18 claims, as 14 August 2020, (17 of which in Poland) where COVID-19 has been cited, since the Updated Report was issued.

COVID-19 has not had a material impact on the solvency level of RSL or the transferee. I have been informed that both RSL and the transferee have processes in place to mitigate the impact of COVID-19. The current security of benefits of the transferring policies is not expected to be materially impacted.

However, the COVID-19 pandemic is still developing and it is unclear what the future effects may be either from a claims experience or operational perspective.

## 5. Effect on Policyholders of Red Sands Life (continued)

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### 5.8 Security of Benefits for transferring policyholders

RSL and the transferee meet applicable solvency requirements so there is not expected to be any material change to the current security of benefits.

As noted in section 4.2 of the Updated Report, RSL currently reinsures a significant proportion of the benefits of the policies to Hannover Re and VIG Re and all the existing reinsurance treaties will either be novated to the transferee or treaties with equivalent terms put in place at the time of transfer. At the point of transfer the level of reinsurance and the credit quality of the reinsurers will remain unchanged. I understand that the transferee will in future reinsure some of the retained risk on the transferred policies back to RSL through Hannover Re, and RSL will retain the existing treaty with Hannover Life Reinsurance Bermuda Limited. I understand that this would not affect the level of benefits reinsured with the existing reinsurers.

The business transferred from RSL to the transferee is smaller than the size of the transferee's book, and so it is arguable that the security of the benefits will be improved by the transfer. The transferee is a larger entity with a more diverse range of liabilities and should be expected to be more robust under different scenarios (including the current COVID-19 pandemic) than RSL. The transferee is also part of a large insurance group.

Transferring policyholders will no longer be exposed to the potential risk described in section 3.6 of holding a policy with a company not licensed in the European Union after the transition period.

### 5.9 Security of Benefits for remaining RSL policyholders

The Hungarian, Czech, Slovakian and Greek policyholders will continue to be direct customers of RSL after the transfers. Security for payment of benefits would continue to be provided by:

- Technical Provisions of RSL
- Surplus Assets of RSL – after transfer RSL still remains in a strong solvency position subject to future management actions being implemented (such as the potential changes to the Mass lapse Stop Loss Reinsurance Treaty (see section 4.7)).

### 5.10 Conclusions

For the reasons outlined above and included in the Updated Report, the Scheme is not expected to have any adverse impact for policyholders of RSL or the transferee, or their benefit expectations. Further, it is likely that there will be no appreciable change in the service provided under these contracts as all policyholder administration including communications is already outsourced to the Agents. Finally, it is unlikely that the security of the benefits will be adversely affected by the Scheme and in some aspects could be improved.

## 6. Transfer to Generali Życie Towarzystwo Ubezpieczeń S.A.

### 6.1 Background and Financial Data

#### 6.1.1 Introduction

I have been requested to prepare an addendum to the Updated Report as the Independent Actuary in accordance with Part I of Schedule 10 of the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020, in respect of the proposed transfer of a portfolio of the long term (life) policies of Red Sands Life Assurance Company (Europe) Limited (“RSL”) written in Poland to Generali Życie Towarzystwo Ubezpieczeń S.A. (“GLP”).

#### 6.1.2 Background Information

I am not aware of any material changes to the information provided in section 6.1.2 of the Updated Report.

#### 6.1.3 Product Overview

GLP conducts insurance activity in all life insurance categories defined in the Act on Insurance and Reinsurance activity, except for pension insurance.

The company operates in 3 basic lines of business:

- Unit Linked / Asset linked policies (50% of gross written premium, compared with 62% in the Updated Report)
- Other life insurance policies (49% of gross written premium, compared with 37% in the Updated Report)
- With Profits policies (1% of gross written premium, no change since the Update Report)

I do not consider the changes in the proportions of the different types of business written by GLP since the Updated Report to be material to the Scheme.

#### 6.1.4 Comparison between size of business to be transferred and current business

A summary of the gross written premium and best estimate liability of RSL (taken from document 25) and GLP (taken from document 26 and converted to GBP using an exchange rate of 1 PLN = 0.1981 GBP) is given below:

	<b>GWP (GBP '000s)</b>	<b>BEL (GBP '000s)</b>
<b>RSL (Life)</b>	15,087	(27,630)
<b>GLP (Life)</b>	176,261	661,041
<b><i>Excl Linked and With Profits</i></b>	86,438	22,716

#### 6.1.5 Regulatory Changes required to allow for transfer

None.

## 6. Transfer to Generali Życie Towarzystwo Ubezpieczeń S.A. (continued)

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### 6.1.6 Impact of Reinsurance

I have not been informed of any material changes in the proposed approach to reinsurance for GLP in respect of the transferred policies since the Updated Report was issued including in respect of the transfer of policies that would have been transferred to GIP. Refer to 6.1.6 and 7.1.6 of the Updated Report.

### 6.1.7 Legal Disputes

I have been informed that there are currently no material outstanding legal claims against the company that are not already reflected in the financial statements.

### 6.1.8 Financial Position

The financial position of GLP (on a Solvency II basis) as at 31 December 2019 and 31 December 2018 is summarised below. The figures in PLN have been taken from GLP's Solvency & Financial Condition Report for the respective periods, and converted to GBP using an exchange rate of 1 PLN = 0.1981 GBP at 31 December 2019 and 1 PLN = 0.20984 GBP at 31 December 2018.

## 6. Transfer to Generali Życie Towarzystwo Ubezpieczeń S.A.

(continued)

### Balance sheet

		Value as at 31 Decemb er 2019 (PLN '000s)	Value as at 31 Decemb er 2019 (GBP '000s)	Value as at 31 Decemb er 2018 (PLN '000s)	Value as at 31 Decemb er 2018 (GBP '000s)
<b>Assets</b>	Property, Plant & equipment	7,246	1,435	2,163	454
	Investments (other than assets held for index-linked and unit-linked contracts)	656,763	130,105	533,665	111,984
	Assets held for index-linked and unit-linked policies	3,315,825	656,865	3,534,046	741,584
	Loans and Mortgages	128,130	25,383	114,579	24,043
	Insurance and intermediaries receivable	21,904	4,339	29,914	6,277
	Reinsurance receivables	44,761	8,867	39,101	8,205
	Receivables (trade, not insurance)	22,368	4,431	32,466	6,813
	Cash and cash equivalents	6,151	1,219	6,671	1,400
	Any other assets, not elsewhere shown	1362	270	717	150
	<b>Total Assets</b>	<b>4,204,511</b>	<b>832,914</b>	<b>4,293,322</b>	<b>900,911</b>
<b>Liabilities</b>	Technical provisions – life (excluding health and index-linked and unit-linked)	187,128	37,070	152,605	32,023
	<i>Best Estimate</i>	183,118	36,276	150,470	31,575
	<i>Risk Margin</i>	4,010	794	2,135	448
	Technical Provisions – Unit-linked	3,176,831	629,330	3,370,892	707,348
	<i>Best Estimate</i>	3,153,788	624,765	3,350,733	703,118
	<i>Risk Margin</i>	23,043	4,565	20,159	4,230
	Provisions other than technical provisions	67,753	13,422	61,044	12,809
	Deposits from reinsurers	0	0	0	0
	Deferred Tax Liabilities	50,471	9,998	29,853	6,264
	Insurance & intermediaries payable	72,350	14,333	62,554	13,126
	Reinsurance payables	4,939	978	3,163	664
	Payables (trade, not insurance)	8,063	1,597	7,032	1,476
	Any other liabilities, not elsewhere shown	20,467	4,055	11,037	2,315
	<b>Total Liabilities</b>	<b>3,588,003</b>	<b>710,783</b>	<b>3,698,180</b>	<b>776,026</b>
	<b>Excess of Assets over Liabilities</b>	<b>616,509</b>	<b>122,130</b>	<b>595,143</b>	<b>124,885</b>

## 6. Transfer to Generali Życie Towarzystwo Ubezpieczeń S.A. (continued)

### Solvency Position as at 31 December 2019

	MCR (PLN '000s)	SCR (PLN '000s)	MCR (GBP '000s)	SCR (GBP '000s)
Available Own Funds	570,123	570,123	112,941	112,941
Eligible Own Funds	570,123	570,123	112,941	112,941
Capital Requirement	63,025	140,054	12,485	27,745
Excess of Eligible Own funds above capital requirement	507,098	430,069	100,456	85,197
Ratio of Eligible Own funds to capital requirement	905%	407%	905%	407%
<i>Ratio of Eligible Own funds to capital requirement – December 2018</i>	<i>1079%</i>	<i>486%</i>	<i>1079%</i>	<i>486%</i>

The impact of the inclusion of RSL's assets and liabilities as a result of the portfolio transfer is expected to be minimal.

#### 6.1.9 COVID-19

I have been informed by the transferee (document 26) that, to date (16 September 2020), COVID-19 has not had a material impact the solvency position of GLP.

#### 6.1.10 Security for GLP Policyholders

Security for payment of benefits is provided by the following.

- Technical provisions of GLP – the current value of the technical provisions is positive compared to the negative technical provisions of RSL. The inclusion of RSL's liabilities together with the novation of the existing reinsurance contracts will increase the level of GLP's own funds.
- Surplus assets of GLP – the current value of surplus assets is in excess of £112m. This is a significant buffer in absolute terms in excess of the additional net liabilities to be transferred under the Scheme. GLP's solvency ratio of 407% is significantly higher than RSL's pre transfer solvency ratio of 158%.
- As an EU member state, Polish national law complies with Article 10 of directive 2001/17/EC of the European Parliament which gives priority to policyholders over other creditors during bankruptcy proceedings.

## 6.2 Effect on Policyholders of Generali Życie Towarzystwo Ubezpieczeń S.A.

### 6.2.1 Introduction

The business of GLP is summarised in section 6.1. The impact of the implementation of the Life Scheme on GLP is likely to have little effect on GLP given its much larger size than the volume of business being transferred from RSL.

## 6. Transfer to Generali Życie Towarzystwo Ubezpieczeń S.A. (continued)

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### 6.2.2 Benefit Expectations

I am not aware of any material changes as a result of the Scheme that would affect the benefit expectations of GLP policyholders, since the Updated Report was issued. Refer to section 6.2.2 of the Updated Report.

### 6.2.3 Service Standards

I am not aware of any material changes as a result of the Scheme that would affect the service standards provided to GLP policyholders, since the Updated Report was issued. Refer to section 6.2.3 of the Updated Report.

### 6.2.4 Security of Benefits

I am not aware of any material changes as a result of the Scheme that would affect the security of benefits provided to GLP policyholders, since the Updated Report was issued. Refer to section 6.2.4 of the Updated Report.

### 6.2.5 Conclusions

For the reasons outlined above and in the Updated Report, the Scheme is not expected to have any adverse impact for policyholders of GLP on their benefit expectations, the service standards or the security of their benefits.

## 6.3 Other Considerations

### 6.3.1 Data Protection

I am not aware of any material changes that, as a result of the Scheme would affect the data protection standards provided to GLP policyholders, since the Updated Report was issued. Refer to section 6.3.1 of the Updated Report.

### 6.3.2 Future Business

I am not aware of any material changes to GLP's intention to continue writing new business, since the Updated Report was issued. Refer to section 6.3.2 of the Updated Report.

### 6.3.3 Subsequent Events

I have relied on the financial data for GLP as disclosed in its annual returns. It is possible that any entity can be subject to extreme or unusual stress scenarios. Therefore, I recommend that should RSL become aware of any material changes in the circumstances of GLP that this report is required to be updated.

## 7. Other Considerations

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### 7.1 Introduction

This section considers a number of issues which have not been considered in the specific sections for policyholders of RSL and the transferee above.

### 7.2 Expenses

The expenses of the Scheme are being borne by the shareholders of RSL. This does not represent a change since the Updated Report was issued. Refer to section 8.2 of the Updated Report.

### 7.3 Policyholder Communications

As part of the Scheme RSL is seeking exemption from the statutory requirement to notify policyholders individually of the Scheme in advance. As noted in the Updated Report and analysis above I have not identified any concerns arising from the Scheme and there are risks for the policyholders should the Scheme not proceed. In view of the minimal changes that the policyholders will experience I consider that such an exemption would be reasonable.

### 7.4 Tax

I understand that RSL is content that the Scheme will not have any adverse tax consequences for their policyholders.

### 7.5 Status of the report

I have prepared this report as an Independent Actuary in accordance with Part I of Schedule 10 of the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020, prepared for the purposes of the Supreme Court of Gibraltar, in respect of policyholder liabilities which are distributed under RSL's license to write life and annuity business, comprising a portfolio of the long term life policies underwritten RSL in Poland.

Throughout this report and unless otherwise stated, all references to the Financial Services (Insurance Companies) Act should be read as the Financial Services (Insurance Companies) Act, as saved by the Financial Services (Insurance Business Transfers) (Saving) Regulations 2020.

## 8. Conclusions

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### 8.1 Conclusions

I have considered the impact of the Scheme on RSL's and the transferee's policyholders.

My analysis and rationale for conclusions has been set out in the preceding sections and with reference to the Updated Report. I confirm that I have read the Updated Report in full and agree with its conclusions.

I am content both for RSL's and the transferee's policyholders that the Scheme is not expected to have any material adverse impact on their

- Benefit expectations
- Service standards
- Security of benefits

Therefore, I am content that there is no reason in my view that the Scheme should not proceed.

I have relied upon the following documents as referenced in the Updated Report:

#### Documents from Updated Report

- 1 The Petition to the Supreme Court of Gibraltar in the matter of Red Sands Life Assurance Company (Europe) Limited and Generali Życie Towarzystwo Ubezpieczeń S.A
- 2 The Affidavit of Shaun Cawdery to the Supreme Court of Gibraltar in the matter of Red Sands Life Assurance Company (Europe) Limited and Generali Życie Towarzystwo Ubezpieczeń S.A
- 3 Portfolio Instrument Of Transfer For The Purposes Of Schedule 10 part I Of The Financial Services (Insurance Companies) Act In Accordance With The Financial Services (Insurance Business Transfers) (Saving) Regulations 2020 Red Sands Life Assurance Company (Europe) Limited And Generali Życie Towarzystwo Ubezpieczeń Spółka Akcyjna
- 4 *Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union* issued by EIOPA on 19 February 2019 (EIOPA-BoS-19/040).
- 5 RSL's returns as at 31 December 2018.
- 6 *Red Sands Life Assurance Company (Europe) Limited Report on the Actuarial Valuation of the Long Term Business Provision as at 31 December 2018* written by Milliman.
- 7 *Red Sands Group Holdings Limited Solvency and Financial Condition Report For the year ending 31 December 2018.*
- 8 *RSL SII position - GP only – 31 Dec 19.xlsb* – a spreadsheet containing the projected solvency position of RSL after transfer.
- 9 *The Solvency and Financial Condition Report of Generali Życie Towarzystwo Ubezpieczeń S.A.* – translated into English
- 10 *Report on The Solvency and Financial Condition of Generali Towarzystwo Ubezpieczeń S.A.* – translated into English
- 11 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) “*Quota Share Reinsurance Treaty RS-NB*”– dated July 2012 and addendums 1-9 of that agreement.
- 12 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) “*Quota-Share Reinsurance Treaty PL Moi Bliscy BAT II (GOP 2011-2013)*”– dated May 2016 and addendum 1 of that agreement.
- 13 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) “*Quota-Share Reinsurance Treaty NB-14*”– dated January 2014 and addendum 1 of that agreement.
- 14 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) “*Quota-Share Reinsurance Treaty BAT-14*” – dated January 2014.
- 15 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) “*Quota-Share Reinsurance Treaty SK NB (GOP 2016+) Tariffs Moji Blizki (SB & SD)*”– dated September 2016.

- 16 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) *“Quota-Share Reinsurance Treaty SK BAT (GOP 2015) Tariffs Moji Blizki (SB)”*– dated July 2016.
- 17 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) *“Quota-Share Reinsurance Treaty CZ NB (GOP 2016+) Tariffs Moji Blizci (CB) and Pro me blizke (CC & CD)”*– dated September 2016.
- 18 A reinsurance agreement between RSL and Hannover Ruckversicherung AG (“Hannover Re”) *“Quota-Share Reinsurance Treaty CZ BAT (GOP 2015) Tariffs Moji Blizci (CB) and Pro me blizke (CC & CD)”*– dated July 2016.
- 19 A reinsurance agreement between RSL and VIG RE zajišťovna, a.s. (“Vig Re”) *“Surplus/ Quota Share Life Reinsurance Agreement On Risk Premium Basis”*– dated August 2018.
- 20 A reinsurance agreement between Red Sands Insurance Company (Europe) Limited and VIG RE zajišťovna, a.s. (“Vig Re”) *“Quota Share Life Reinsurance Agreement On Risk Premium Basis”*– dated August 2018.
- 21 A novation agreement dated July/August 2018 covering the novation of the reinsurance of Red Sands Insurance Company (Europe) Limited to RSL in respect of the *“Quota Share Life Reinsurance Agreement”* provided by Vig Re. (Novation of item 25 above)
- 22 A reinsurance agreement between RSL and Hannover Life Reassurance Bermuda Limited (“Hannover Re Bermuda

I have received and relied upon the following documents as referenced in this addendum.

**Documents for this addendum**

- 23 RSL’s returns as at 31 December 2019.
- 24 *Red Sands Group Holdings Limited Solvency and Financial Condition Report For the year ending 31 December 2019.*
- 25 *The Solvency and Financial Condition Report of Generali Žycie Towarzystwo Ubezpieczeń S.A.* – untranslated
- 26 A letter from Generali’s management with the subject *Portfolio Transfer – Red Sands Life Assurance Company (Europe) Limited*