

PRUDENTIAL RULES ON INSURANCE

The legal provisions governing the life assurance sector in Luxembourg are unique in Europe and ensure that clients are safeguarded. The Commissariat aux Assurances (CAA, the supervisory authority for the insurance sector) plays an important role in the supervision of Luxembourg companies and participates fully in implementing a security framework.

THE DEPOSIT OF ASSETS AND THE TRIPARTITE AGREEMENT

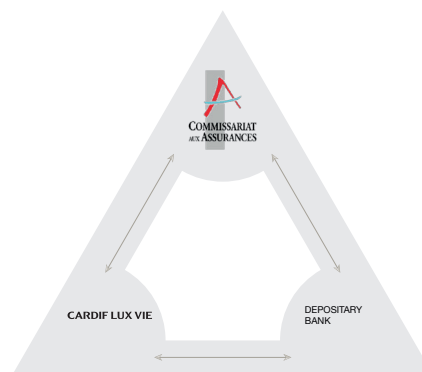
Generally, Luxembourg life assurance companies account for underwriting commitments entered into with their clients on the liabilities side in the form of technical provisions. These technical provisions must be represented by an equivalent amount of assets selected on the basis of their quality and deposited in bank accounts (assets to cover the technical provisions).

As a general rule, life insurance companies in Luxembourg record their financial commitments towards clients in the form of technical provisions, with respect to their liabilities and engagements, on a balance sheet. Financial regulations in Luxembourg require that these technical provisions must be represented by an equivalent amount of assets, based on their quality and deposited with a custodian bank.

These assets to cover the technical provisions must be deposited in a credit institution previously approved by the Commissariat aux Assurances, regardless of whether the policy's investment vehicles are made up of Internal Funds (Internal Collective Funds, Internal Dedicated Funds, Specialised Insurance Funds), General Fund or External Funds.

The terms and conditions for the deposit shall be formalised in a tripartite agreement between the insurance company, the depositary institution and the CAA. This tripartite agreement lays down that the deposits made up of assets to cover technical provisions must be kept separately from other commitments and assets held by the Company at the institution.

The Commissariat aux Assurances, being a party to the deposit agreement, undertakes a number of regular checks to ensure the suitability of the Company's commitments and the assets covering the technical provisions, as well as the solvency of Luxembourg companies. Furthermore, under the terms of the deposit agreement, the Company cannot pledge the account or, more generally, the account cannot be used to guarantee the interests of people other than their clients.



These deposits must then be placed in separate bank accounts and kept apart from the other assets held by the insurance company. A permanent inventory of the assets covering the technical provisions must be kept by the Company. A quarterly statement is sent to the Commissariat aux Assurances. This inventory will enable the Commissariat aux Assurances to check compliance with the rules governing the investments of assets covering technical provisions and to ensure that the Company's commitments towards its clients are fully covered.



CAA SUPERVISION

The Company is subject to supervision by the CAA which, by means of an actuarial report, will check every month whether the assets are sufficient to cover the technical provisions. In addition, once a year the CAA will check compliance with the following obligations:

- That the assets to cover the technical provisions have been deposited in bank accounts under a tripartite agreement;
- That the Company has a sufficient solvency margin for all its activities;
- That the Company has a good administrative and accounting organisation, and suitable monitoring procedures;
- Lastly, every year the CAA checks the accounts of insurance companies that are issued along with the management report.

SEGREGATED ASSETS AND SUPER PRIVILEGE

Luxembourg companies can have two kinds of assets: the Company's own assets (or "free assets") and the assets underlying the life assurance policies and capitalisation contracts which make up the "segregated assets".

If the CAA finds that an insurer is likely not to be able to honour all its commitments to its clients, the CAA can request that the assets deposited with the various credit institutions are blocked.

If this should happen, the CAA may instruct the banks and the financial managers to continue to manage the assets. In the event of persistent financial difficulties leading to the liquidation of an insurance company, clients have a "Super Privilege" over the deposited assets, which safeguards their credits with the Company. This Super Privilege gives them priority over the privileges of all other creditors, including the Luxembourg Public Treasury, Social Security bodies and the employees of the Company. It should be noted that the Super Privilege is common to all clients and only covers the value of the contract and not the amount of premiums paid.

If the assets held in accounts under a deposit agreement are insufficient to reimburse all the clients, the clients will have priority over the company's other assets (own assets). Nevertheless, the policy holders' privilege over the company's own assets comes after other more privileged creditors such as employees, the Treasury and Social Security bodies.

FOR INFORMATION

- There is no government guarantee on life assurance contracts in Luxembourg.
- Bank accounts opened with banks established in Luxembourg enjoy a guarantee provided by the AGDL (Association pour la Garantie des dépôts – Luxembourg association for deposit guarantee).

LAW ON THE INSURANCE SECTOR OF 7 DECEMBER 2015, AS AMENDED

These are the main points of the Law on the insurance sector with regard to Super Privilege:

Art.118. All the assets covering technical provisions constitute segregated assets allocated by privilege to guarantee the payment of insurance debts. This privilege takes precedence over all the other privileges as soon as the assets covering the technical provisions are recorded in the permanent inventory provided for in the 3rd alinea or once the mortgage registration provided for in Article 121 has been acted.

Art.202, 224, 225. The CAA may also take "all measures necessary to safeguard the interests of policyholders".

Tripartite agreement – Article 2: Super Privilege proviso: "The insurance company declares, and the credit institution takes note, that the assets included in the accounts which are not shown in the Annex are recorded in the permanent inventory of the assets covering the technical provisions which the insurance company has to keep in accordance with Article 118 of the Act and form part of the segregated assets which, under the terms of Article 118 of the Law, are allocated by privilege to guarantee the payment of insurance debts".