INTERVENTION GUIDELINES FOR QUÉBEC LIFE INSURERS AND ASSURIS MEMBER COMPANIES

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PREAMBLE

The Intervention Guidelines (the "Guidelines") for Québec Life insurers and Assuris Member Companies (the "Insurers") outline the actions and measures that can be implemented by the Autorité des marchés financiers (the "AMF") and by Assuris respectively, or by both organizations jointly, as soon as an Insurer experiences difficulties that may jeopardize its ability to meet its commitments to its Policyholders. The Guidelines allow effective and efficient collaboration to ensure that the Insurers are able to meet their commitments to their policyholders.

In addition, the Guidelines summarize the respective roles of the receiver and the liquidator.

The actions and measures outlined in these Guidelines are not exhaustive and should not restrict the discretion of the AMF and Assuris, under the laws and statutes that govern each of them.

COMMON GOAL TO PROTECT POLICYHOLDERS

The AMF and Assuris are committed to working together to mitigate solvency risk, assess and improve the Resolvability of an Insurer and maintain the industry's stability. If an Insurer fails, the AMF and Assuris will work together to achieve the best resolution to protect policyholders and minimize their losses. The AMF has the power to recognize compensation bodies and Assuris is recognized as such.

A Participation Agreement[1] establishes the cooperative relationship between the AMF and Assuris. This includes sharing information, working together, co-ordinating and collaborating to deal with deficiencies that may impact the Insurer's financial condition and its ability to meet their commitments to their policyholders.

THE ROLE OF THE AUTORITÉ DES MARCHÉS FINANCIERS

The AMF is the body mandated by the Québec government to regulate Québec's financial markets and assist consumers of financial products and services, in particular in the areas of insurance, securities, derivatives, deposit institutions – other than banks – and the distribution of financial products and services.

THE ROLE OF ASSURIS

Assuris is the not-for-profit organization that protects Canadian policyholders if their life insurance company fails. It has developed expertise in solving unique, and largely unprecedented, issues in life insurance company insolvencies. Assuris protects policyholders by minimizing the loss of benefits and seeking a quick transfer of their policies to a solvent company, where their benefits will continue to be honoured.[2]

1 Participation Agreement between the Gouvernement du Québec and the Canadian Life and Health Insurance Compensation Corporation — signed August 24, 1990
2 For complete information about Assuris' protection of policyholders, please visit Assuris' website at www.assuris.ca

1. OVERVIEW OF INTERVENTION STAGES

Based on the AMF's assessment of the Insurer's risk profile, the stages of intervention are as follows:

- Solvency stages
  - – Stage 1 – No Significant Problems
  - – Stage 2 – Early Warning
  - – Stage 3 – Watch Condition
  - – Stage 4 – Solvency Seriously Compromised
- Stade d'insolvabilité – Assureur insolvable

The actions and measures that can be implemented, by the AMF and Assuris, at each intervention stage are outlined below. The AMF may stage an Insurer for other reasons than solvency risks, for example governance issues. In such instances, no action may be required by Assuris.

The determination of the Intervention Stage is not necessarily a linear process. An Insurer assessed staged 2 can be reassessed stage 4 on its next assessment.

1.1 Stage 1 - No Significant Problems

The AMF considers that the Insurer generally adhere to sound and prudent management practices and that the Insurer's financial condition is satisfactory.

The AMF follows its *Financial Institutions Supervisory Framework* (the "Supervisory Framework"). At Stage 1, the Insurer's Risk profile is low or moderate and there are no solvency risk concerns.

The AMF may have identified one or more deficiencies in sound and prudent management practices that are not expected to have a material impact on its solvency or business continuity if they are corrected with due care.

The AMF implements its three-year supervisory plan. It revises the Insurer's risk profile on an ongoing basis and ensures that the intervention stage continues to be appropriate.

Assuris conducts a solvency analysis based on the information obtained directly from the Insurer as per the Assuris By-Law No. 1. Each Insurer provides Assuris with information concerning the Insurer, its parent or affiliates as requested. The requested information includes, but is not limited to, regulatory filings such as LIFE return, Capital Adequacy Requirements Guideline for Life and Health Insurers (CARLI), the Dynamic Capital Adequacy Testing (DCAT) and the Own Risk and Solvency Assessment (ORSA). Assuris will share the results of its analysis with the AMF.

The AMF and Assuris exchange information and discuss any questions Assuris may have regarding the Insurer at their semi-annual meeting.

1.2 Stage 2 – Early Warning

The AMF has concerns regarding the Insurer's financial condition and/or has identified deficiencies in the Insurer's sound and prudent management practices that if they are not corrected within the timeframes prescribed by the AMF can have a material impact.

The AMF follows its Supervisory Framework. At Stage 2, the Insurer's Risk Profile is moderate or high. The Insurer's High-Risk Profile is mainly due to deficiencies on the effectiveness of the functions represented by the lines of defence or the governance bodies.

The deficiencies in sound and prudent management practices that have been identified can have a material impact on the Insurer's solvency or business continuity if they are not corrected within the timeframes prescribed by the AMF.

Although the Insurer complies with the capital adequacy standards, concerns may have been raised with regard to its current or future financial condition.

In accordance with their Supervisory Framework, the AMF modifies its three-year Supervisory Plan on an ongoing basis to increase the frequency and scope of its supervisory activities.

The AMF will revise the Insurer's Risk Profile on an ongoing basis and will ensure that the intervention stage continues to be appropriate.

Assuris conducts an in-depth analysis based on the information obtained, from the AMF and directly from the Insurer, including but is not limited to, regulatory filings such as LIFE return, Capital Adequacy Requirements Guideline - Insurance of persons (CARLI), the Dynamic Capital Adequacy Testing (DCAT) and the Own Risk and Solvency Assessment (ORSA). Assuris shares the results of its in-depth analysis with the AMF.

The AMF and Assuris discuss their respective concerns regarding the Insurer at their semi-annual meeting.

1.3 Stage 3 – Watch Conditions

The AMF has identified serious concerns in the Insurer's financial condition and/or substantial or repeated deficiencies in sound and prudent management practices. These may have a material impact in the short term on the Insurer's solvency or business continuity if they are not corrected immediately.

At Stage 3, the Insurer's Risk Profile is high.

Substantial or repeated deficiencies in sound and prudent management practices that have been identified can compromise the viability of the Insurer's governance bodies or ultimately affect its business continuity if they are not corrected immediately.

Insurer's financial condition is problematic, not to say unsatisfactory. For example, the Insurer's capital falls below its target ratio, actuarial liabilities are considered insufficient or profitability has deteriorated substantially. The AMF issues a letter informing the chief executive officer and the audit committee chair that the Insurer is under watch conditions. In addition to intensifying its scrutiny of the Insurer, the AMF may:

- Periodically request additional information from the Insurer;
- Carry out special inspections;
- Meet with the Insurer's senior management or Board of Directors;
- Request a special/expanded audit by an outside firm;
- Request a valuation by an independent actuary;
- Require the Insurer to provide an action plan.

The AMF may give the Insurer written instructions or may issue an order for the Insurer to cease a course of action or; implement specified measures or adopt a Compliance Program with a prescribed timeline and to rectify specific deficiencies.

The AMF may further impose restrictions or conditions related to the authorization to carry on insurer activities in Québec or may apply to a court for an injunction in respect of any matter relating to the carrying out of the *Insurers Act*.

The AMF informs Assuris of the supervisory measures and powers exercised with respect to the Insurer. The AMF will revise the Insurer's risk profile on an ongoing basis and will ensure that the intervention stage continues to be appropriate.

Assuris continues to thoroughly analyze all the relevant information received from the Insurer including any additional information received from discussions with the AMF. In accordance with Participation Agreement, the AMF informs Assuris on any additional information obtained from the Insurer as well as reports from special inspections, special audit, actuarial valuations and enhanced monitoring.

Assuris may also request from the AMF, the Insurer's Compliance Program outlining corrective actions to be taken.

Assuris hires consultants to conduct detailed analysis on critical areas of solvency risk concerns for the Insurer. In addition, while keeping the AMF informed, Assuris may hire a restructuring professional to determine restructuring options if the Insurer's financial condition continues to deteriorate.

In accordance with the collected or received information, Assuris assesses the Resolvability and the progress of the Insurer on implementing corrective actions.

The AMF and Assuris hold more in-depth and more frequent discussions regarding the Insurer's deficiencies, which includes evaluating the Insurer's progress on its corrective actions to improve its financial viability. In addition, the AMF and Assuris may agree to set up a Crisis Management Group. The AMF may invite participants to join the Crisis Management Group.

At the AMF's invitation, Assuris may also participate in meetings with the Insurer.

1.4 Stage 4 – Solvency Seriously Compromised

The Insurer's financial viability or solvency is deteriorating. The Insurer may no longer be able to meet its financial obligations in the short term.

At Stage 4, the AMF's supervisory activities on the Insurer reveals material deficiencies or the Insurer fails to meet capital adequacy standards. These deficiencies are a serious solvency risk and the Insurer may not be able to meet its policyholder obligations.

At this stage, the AMF may suspend or partially revoke the Insurer's authorization to carry on insurer activities in Québec. Under the *Insurers Act*, this revocation will be final only once the Insurer ceases to be bound by the contracts entered into in accordance with its authorization.

The AMF informs Assuris that they will apply for an order of appointment of a receiver by the Superior Court of Québec (the "Court"), as it has reasonable grounds to believe that the assets of the Insurer are insufficient to meet its obligations. The AMF will inform Assuris of any other relevant information concerning the receivership order.

Assuris Board of Directors declares the Insurer to be a Troubled Member as per the *Assuris By-Law No.1*.

Assuris continues to work with the restructuring professional to develop a Restructuring Plan, including restructuring options that could be implemented.

The AMF serves notice of the receivership order application to the Insurer at least 10 days prior to the motion being presented to the Court.

The AMF applies to the Court to order the appointment of a receiver.

As part of the receivership order application process, the AMF establishes the criteria in order to determine who could act as a receiver and recommends to the Court persons who could act as such. Assuris will recommend a person who could act as a receiver who meets the criteria established by the AMF. This may be the restructuring professional previously hired by Assuris in Stage 3.

The receiver is appointed by the Court and may exercise any power or function the Court grants it. In accordance with the receivership order, the receiver may take possession and control of all the Insurer's assets; conduct a sale process to find the best possible transaction or; develop and implement a Restructuring Plan.

Assuris determines whether it should provide a guarantee or financial assistance to support the measures taken by the receiver. In accordance with the *Assuris Memorandum of Operation* (MOO), the Board of Directors may enter Assuris into financial commitments with respect to a Troubled Member that is not an insolvent Insurer. Those commitments include loans, guarantees of compensation in respect of the sale of assets, other guarantees or other types of commitments such as the acquisition, by Assuris or one of its subsidiaries, of shares, assets or the assumption of liabilities.

If Assuris provides a guarantee or financial assistance, Assuris enters into an agreement with the receiver. Assuris may proceed with assessments to raise funds from its member companies.

Assuris also develops a Liquidation Plan in case the Insurer's financial viability or solvency continues to deteriorate.

The receiver may coordinate the action plan together with the AMF and Assuris. The AMF can request from the receiver any information on their findings, their management or their investigation conclusions or any information collected within the scope of the receivership. At any time during the receivership, if the AMF or Assuris,[3] is not satisfied with the duties performed by the receiver, either organization may request that the Court modify the receiver's powers or end the receivership.

In accordance with the receivership order and to ensure policyholders' priority in the transaction, the receiver may seek to transfer the policyholders to a solvent Insurer.

Once all policyholders have been transferred and the Insurer ceases to be bound by the contracts entered into in accordance with its authorization, the revocation of the Insurer's authorization to operate is final. If the company is solvent but not viable, the receiver may proceed with the liquidation and winding-up of the Insurer in accordance with the receivership order.

The receiver may also complete the transaction under the *Winding-up and Restructuring Act* (WURA).

The AMF and Assuris continue to participate in the Crisis Management Group. In addition, the AMF and Assuris coordinate on a communication plan. This may include communication to the industry, the media and the policyholders.

3 As an interested person, see section 19.11, Act respecting the regulation of the financial sector.

1.5 Insolvency Stage – Insolvent insurer

The Insurer is insolvent such that it can no longer meet its liabilities or pay its debts as they become due. The Insurer is wound up under the WURA.

At this stage, the Insurer's assets are insufficient to meet its liabilities or pay its debts as they become due. The Insurer is insolvent.

The AMF may suspend or partially revoke the Insurer's authorization to carry on insurer activities in Québec.

The AMF and Assuris may discuss the steps leading to the appointment of a liquidator. Assuris recommends to the Court a person who may be appointed liquidator. This may be the restructuring professional previously hired by Assuris in Stage 3 or the receiver previously appointed by the Court.

The Court appoints a liquidator to liquidate and wind-up the Insurer. The liquidator may, according to the winding-up order, transfer the Insurer's assets and liabilities to a third party or a bridge institution or; place the remaining assets and liabilities in liquidation.

Assuris will work with the appointed liquidator to ensure an orderly liquidation and winding-up, including:

- Implementing the Liquidation Plan together with the liquidator in order to ensure the continuity of the Insurer's activities during liquidation;
- Implementing the communication plan;
- Entering into a funding agreement with the liquidator to provide for any shortfall to policyholder benefits under Assuris' protection rules.

Assuris proceeds with assessments to raise the funds required to protect policyholders.

The liquidator manages the liquidation of the Insurer, which includes reporting progress and recommendations to the Court and meeting with inspectors, if appointed. The AMF and Assuris can be appointed inspector for the winding-up under WURA.

The revocation of the authorization to carry on insurer activities in Québec is final once the Insurer ceases to be bound by contracts entered into in compliance with that authorization.

The AMF and Assuris continue to participate in the Crisis Management Group. In addition, the AMF and Assuris coordinate on a communication plan. This may include communication to the industry, the media and the policyholders.

2. COOPERATION WITH OTHER COMPENSATION CORPORATIONS

2.1 Cooperation with the Property and Casualty Insurance Compensation Corporation

Assuris and the Property and Casualty Insurance Compensation Corporation (PACICC) are compensation corporations established and funded by Insurers. Their respective missions are to provide financial protection to policyholders if an Insurer fails. Where the Insurer is both a member of Assuris and PACICC and, if that Insurer fails, Assuris and PACICC will coordinate with the AMF, to discuss and evaluate resolution strategies. Where possible and for the benefit of policyholders, each organization agrees to cooperate with the resolution, liquidation or restructuring of an Insurer. [Ref: *Assuris / Property and Casualty Insurance Compensation Corporation Cooperation Agreement, November 28, 2018*]

2.2 Cooperation with AMF as Deposit Insurer for Québec Depositors

Where the Insurer can take deposits, the AMF, in its role as a deposit insurer, will protect the depositors of the Insurer. The AMF maintains a deposit insurance fund in respect of its obligation as well as for the performance of certain powers of intervention. If that Insurer fails, the AMF guarantees, under certain conditions and for anyone making a deposit or deposits at a registered Insurer, the repayment of such deposit or deposits up to a maximum of $100,000 including accrued interest, per person. Where possible and for the benefit of the policyholders and depositors, the AMF and Assuris agrees to cooperate with the resolution, liquidation or restructuring of an Insurer.

GLOSSARY

Risk Profile: It corresponds to the combination of ratings given to the institution's aggregate net risk, its financial condition and its commercial practices. The Risk Profile is used solely for internal purposes and is not disclosed to insurers.

Insurer: Québec life insurer and Assuris member company.

Liquidation Plan: A detailed plan for managing the liquidation including Assuris' plan for funding its coverage commitments.

Restructuring Plan: A detailed restructuring plan drawn up by a restructuring professional that outlines a clear path to the resolution of the company. This may include the steps to be taken to recapitalize and transfer the company to new owners or to transfer the blocks of business to a solvent life insurance company.

Compliance Program:[4] A plan of action established by the Insurer and approved by the AMF and describing the measures the Insurer must take to improve its financial condition with a view to meeting regulatory requirements and regaining the soundness of its operation.

Resolvability: The ability to restructure a company, which is needed for achieving an effective resolution if recovery measures are not feasible or have proven ineffective.

Supervisory Activities: The AMF's off-site supervisory activities including the analysis of the financial and non-financial information on an insurer, collected pursuant to laws, regulations and guidelines, and any other information required upon review of the insurer's activities.

Supervisory Plan: The AMF's three-year supervisory plan based on each insurer's Risk Profile, orientations and priorities set by the AMF, and available resources.

Troubled Member: Troubled Member is defined under the *Assuris By-Law No.1* as follows: "Troubled Member" means any Member that is an Insolvent Member, and any other Member as to which the Board has determined that there is a serious possibility that the Member may become an Insolvent Member.

4 The Compliance Program may also be referred to as Recovery Plan for operational purposes.