

**Report of the Independent
Actuary on the proposed
transfer of the Offshore Bond
Portfolio business of Athora
Ireland plc to Utmost Ireland
dac**

12 July 2018

Table of Contents

Section 1 : Introduction	1
<i>Background.....</i>	<i>1</i>
<i>The role of the Independent Actuary</i>	<i>2</i>
<i>Scope of my report.....</i>	<i>3</i>
<i>Terms of reference</i>	<i>4</i>
<i>Reliances and Limitations</i>	<i>5</i>
Section 2 : Information on which this report is based	7
<i>Schemes of Transfer.....</i>	<i>7</i>
<i>Athora Ireland</i>	<i>7</i>
<i>Utmost Ireland.....</i>	<i>9</i>
<i>Reliances.....</i>	<i>10</i>
Section 3 : Background to Athora Ireland and Utmost Ireland	11
<i>Athora Ireland history</i>	<i>11</i>
<i>The business of Athora Ireland.....</i>	<i>12</i>
<i>The Transferring Policies.....</i>	<i>14</i>
<i>Utmost Ireland history.....</i>	<i>16</i>
<i>The business of Utmost Ireland</i>	<i>17</i>
Section 4 : Main features of the Schemes	21
<i>Scope of transfer.....</i>	<i>21</i>
<i>Effective Time</i>	<i>22</i>
<i>Contractual rights.....</i>	<i>22</i>
<i>Splitting of certain unit linked funds.....</i>	<i>23</i>
<i>Unit-linked funds</i>	<i>24</i>
<i>Unit linked charges.....</i>	<i>25</i>
<i>Tax</i>	<i>25</i>
<i>Continuity of Proceedings</i>	<i>25</i>
<i>Costs of the schemes.....</i>	<i>26</i>
<i>Policyholder communications</i>	<i>26</i>

Section 5 : Effects of the Schemes on policyholders	29
<i>General considerations.....</i>	29
<i>Security of transferring policyholders' benefits</i>	30
i) <i>Background</i>	30
ii) <i>Opening Solvency position.....</i>	32
iii) <i>Risk Profile.....</i>	41
iv) <i>Projected Solvency.....</i>	45
<i>Projected future solvency position – Utmost Ireland</i>	46
<i>Summary - Security.....</i>	47
<i>Reasonable expectations of transferring unit-linked policyholders</i>	49
i) <i>Funds.....</i>	49
ii) <i>Reinsurance arrangements.....</i>	50
iii) <i>Pricing basis for unit linked funds</i>	51
iv) <i>Charges</i>	51
v) <i>Complaints</i>	54
vi) <i>Service</i>	54
vii) <i>Options</i>	55
viii) <i>Tax.....</i>	55
<i>Impact of transfer on existing Athora Ireland policyholders</i>	55
<i>Impact of transfer on existing Utmost Ireland policyholders.....</i>	56
<i>Policyholder communication regarding the proposed transfer</i>	57
<i>Conclusion.....</i>	58
<i>Athora Ireland</i>	58
<i>Utmost Ireland.....</i>	59
Section 6 : Summary and overall conclusions	61
Appendix A : Reliances and Limitations.....	63
<i>Reliances.....</i>	63
<i>Limitations</i>	63
<i>Legal jurisdiction.....</i>	65
Appendix B : Definitions.....	67

Section 1: Introduction

Background

- 1.1 On 3 April 2018, Athora Life Re Ltd (“Athora”) completed the acquisition of Aegon Ireland plc (to be renamed Athora Ireland plc) (“Athora Ireland” or “AI”) from Aegon N.V.. Subsequently, on 9 April 2018 Athora announced that the Life Company Consolidation Group (“LCCG Group”) through its Irish subsidiary Utmost Ireland dac (“Utmost Ireland” or “UI”) was to purchase Athora Ireland’s non-guaranteed offshore unit linked investment bonds business (“Offshore Bond Portfolio” or “Transferring Business”).
- 1.2 The Offshore Bond Portfolio business in question comprises unit-linked policies which were concluded in the United Kingdom and with some policies held by persons resident in the Channel Islands (Jersey and Guernsey).
- 1.3 LCCG Group is a Guernsey based financial services group operating in the European life assurance sector. Its principal activity is the acquisition and consolidation of books of life assurance business in Europe combined with a targeted approach towards new business opportunities. Utmost Ireland is a subsidiary of Utmost Holdings Ireland Limited, which in turn is part of LCCG Group.
- 1.4 In order to complete the acquisition of the Offshore Bond Portfolio, a court-approved portfolio transfer is proposed from Athora Ireland to Utmost Ireland in 2018. It is proposed that the transfer will take effect on 31 December 2018 (“the Effective Time”). It is proposed that the policies written by Athora Ireland under the product names Wealth Management Portfolio, Private Client Portfolio, Wealth Planning Account, Investment Portfolio, Money Market Portfolio, Estate Planning Portfolio and Flexible Investment Plan (“the Transferring Policies”) will be transferred to Utmost Ireland at the effective date via a scheme of transfer (“the Irish Scheme”) approved by the High Court of Ireland (“the Irish Court”).
- 1.5 Included within the Offshore Bond Portfolio that forms part of the proposed transfer from Athora Ireland to Utmost Ireland are policies that have been sold to residents of Jersey (“the Jersey Policies”). To the extent the Jersey Policies fall within the scope of the Insurance business (Jersey) Law 1996, as amended (“Jersey Insurance law”), the Jersey Policies will not transfer to Utmost Ireland pursuant to the terms of the Irish Scheme but instead will transfer pursuant to a Jersey scheme of transfer (“the Jersey Scheme”) under the Jersey Insurance Law as amended. As at 31 March 2018 there were 24 Transferring Policyholders which had been concluded with persons resident in Jersey. Having reviewed the Jersey Scheme, I am satisfied that the Jersey Scheme incorporates and reflects the Irish Scheme. The Jersey Scheme will be subject to the approval of the Royal Court of Jersey (“the Jersey Court”).

- 1.6 In addition, included within the Offshore Bond Portfolio are policies that have been sold to residents of Guernsey (“the Guernsey Policies”). The Guernsey Policies will not transfer to Utmost Ireland pursuant to the terms of the Irish Scheme but instead will transfer pursuant to a Guernsey scheme of transfer (“the Guernsey Scheme”) under the Insurance Business (Bailiwick of Guernsey) Law 2002 (“Guernsey Insurance Law”), as amended. As at 31 March 2018 there were 29 Transferring Policyholders which had been concluded with, and currently held by, persons resident in Guernsey. Having reviewed the Guernsey Scheme, I am satisfied that the Guernsey Scheme incorporates and reflects the Irish Scheme. The Guernsey Scheme will be subject to the approval of the Royal Court of Guernsey (“the Guernsey Court”).
- 1.7 The Irish Scheme, the Jersey Scheme and the Guernsey Scheme will be referred to collectively in this report as “the Schemes”.
- 1.8 It has been agreed by the Board of Directors of Athora Ireland and Utmost Ireland to approve the draft Schemes, subject to the requirements of; the Central Bank of Ireland (“the CBI”); the Financial Conduct Authority of the United Kingdom; the Jersey Financial Services Commission; the Guernsey Financial Services Commission; the sanction of the Irish Court in respect of the Irish Scheme; the sanction of the Guernsey Court in respect of the Guernsey Scheme; and the sanction of the Jersey Court in respect of the Jersey Scheme.

The role of the Independent Actuary

- 1.9 Under Section 13 of the Assurance Companies Act 1909 (“the 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 Irish Court.
- 1.10 The Irish Court will consider the 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.
- 1.11 For the purposes of Section 13 of the Act, and subject to the provisions of Section 36 of the Insurance Act 1989, Article 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (the “Solvency II Regulations”) provides the following:

“An insurance undertaking whose head office is in the State may, after consultation with the Bank, transfer all or part of its portfolios of contracts, including those concluded either under the right of establishment or the freedom to provide services, to an accepting undertaking whose head office is in the State or another Member State.

A transfer shall not be effected unless -

- (a) The supervisory authority of the home Member State of the accepting undertaking certifies that, after taking the transfer into account, the accepting undertaking*

possesses the necessary eligible own funds to cover the Solvency Capital Requirement referred to in Regulation 113, and

(b) The supervisory authorities of every Member State where the contracts were concluded, either under the right of establishment or the freedom to provide services, and (in a case within paragraph (2)) the supervisory authority of the Member State in which the branch is situated, have consented.

- 1.12 The Actuarial Standard of Practice LA-6 (“ASP LA-6”), “Transfer of long-term business of an authorised insurance company – role of the independent actuary”, issued by the Society of Actuaries in Ireland, sets out the statutory and professional responsibilities of the Independent Actuary.
- 1.13 I have been jointly appointed by Athora Ireland and by Utmost Ireland to act as the Independent Actuary in connection with the Irish Scheme pursuant to Section 13 of the Act and in connection with the Jersey Scheme and the Guernsey Scheme. My appointment is also made in fulfilment of the requirement of paragraph 3 of the Second Schedule to the Jersey Insurance Law and the requirement of Section 45(2)(a) of the Guernsey Insurance Law. The Schemes refer to the schemes of transfer which are the legal documents that set out the terms of the proposed transfer of business from Athora Ireland to Utmost Ireland. The policies that are proposed to be transferred under the Schemes are referred to in the schemes of transfer and this report as the Transferring Policies.
- 1.14 I am a Fellow of the Society of Actuaries in Ireland. I am a Consulting Actuary at Willis Towers Watson (Ireland) Limited (“Willis Towers Watson”) of Elm Park, Merrion Road Dublin 4, Ireland. I have no personal connection with either Athora Ireland or Utmost Ireland. I have previously acted as Independent Actuary for Utmost Holdings Ireland Limited in 2017 and in 2018. In 2017 I acted as Independent Actuary in relation to a transfer of a book of business from AXA Life Europe dac to Utmost Ireland. In 2018 I acted as Independent Actuary in relation to a number of simultaneous transfers of business from 3 companies owned by Utmost Holdings Ireland Limited to Harcourt Life Ireland dac, another company within the Utmost Holdings Ireland Group. Other consultants in Willis Towers Watson have worked for and carried out consultancy work for various companies in the Aegon N.V Group (“Aegon Group” the previous owners of the Athora Ireland), including Athora Ireland, and the LCCG Group in the UK, although none of these projects were related in any way to the proposed transfer discussed in this report.

Scope of my report

- 1.15 This report has been prepared in respect of the Schemes to be presented to the Irish Court, the Guernsey Court and the Jersey Court for the transfer from Athora Ireland to Utmost Ireland of the Transferring Policies in compliance with the requirement for an independent actuary’s report in Ireland, Guernsey and Jersey respectively. As Independent Actuary, I am required to examine the consequences and potential consequences of the proposed transfer. In

particular, I must consider the implications of the Schemes on the security of policyholders' benefits and the impact on the benefits ultimately payable.

- 1.16 This report considers the consequences of the Schemes for the policyholders of Athora Ireland (being those whose policies shall transfer to Utmost Ireland pursuant to the Schemes (the "Transferring Policyholders") and also those whose policies shall not transfer to Utmost Ireland) and for the policyholders of the transferee company, Utmost Ireland. I have only considered the Schemes proposed and I have not considered any alternative schemes. However, this report compares the position of the life assurance policyholders of the two companies after implementation of the Schemes against the position if the Schemes were not to proceed.
- 1.17 This report applies equally to the life assurance business comprising of policies issued to residents of Guernsey and policies that fall within the scope of the Jersey Scheme as it does to other life assurance business written by Athora Ireland. It may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the Jersey Scheme and the terms of the Guernsey Scheme.
- 1.18 In particular, I have considered in this report:
 - the likely effects of the Schemes on life assurance policyholders including, but not limited to, the security of their benefits and their reasonable expectations; and
 - the adequacy of any safeguards in the Schemes to protect the interests of Transferring Policyholders in the transferee life company.

Terms of reference

- 1.19 Terms of reference for my review of the Schemes and my performance of the role of Independent Actuary have been agreed with Athora Ireland and Utmost Ireland and have been discussed with the CBI. These terms are set out above under the headings "The role of the Independent Actuary" and "Scope of my report".
- 1.20 In preparing this report I have taken account of the professional standards of practice set out in ASL LA-6 issued by the Society of Actuaries in Ireland.
- 1.21 This report should be read in conjunction with the following documents:
 - The Irish Scheme;
 - The Jersey Scheme;
 - The Guernsey Scheme;
 - The report by the Head of Actuarial Function of Athora Ireland on the Schemes;

- The report by the Head of Actuarial Function of Utmost Ireland on the Schemes; and
- The Policyholder Circular (as defined in paragraph 4.25 of this report).

Reliances and Limitations

- 1.22 This report is subject to the reliances and limitations as set out in Appendix A of this report.

Section 2: Information on which this report is based

- 2.1 In the course of preparing this report, I have been provided with a number of documents. These may be broken down into 3 different categories; those relating specifically to the Schemes, those relating to Athora Ireland and those relating to Utmost Ireland. Details of these documents are listed below.
- 2.2 In addition, I have participated in a number of meetings involving the management of Athora Ireland and Utmost Ireland. These included meetings with the Heads of Actuarial Function of Athora Ireland and Utmost Ireland.

Schemes of Transfer

- 2.3 The following documents relating to the proposed Schemes have been considered:
- The proposed Irish Scheme document;
 - The proposed Jersey Scheme document;
 - The proposed Guernsey Scheme document;
 - The report by the Head of Actuarial Function of Athora Ireland on the Scheme;
 - The report by the Head of Actuarial Function of Utmost Ireland on the Scheme;
 - The Policyholder Circular
 - The business sale deed dated 4 April 2018 relating to the sale and purchase of the Offshore Bond Portfolio of Athora Ireland (the "Business Sale Deed"); and
 - The CBI notification document relating to the proposed transfer.

Athora Ireland

- 2.4 The key Athora Ireland documents I have considered in preparing this report are:
- Head of Actuarial Function Report on the proposed transfer dated 15 June 2018;
 - Actuarial Function Report as at 31 December 2017 dated 5 April 2018;
 - Actuarial Opinion on Technical Provisions as at 31 December 2017;

- Head of Actuarial Function Opinion on the proposed variable annuity reinsurance dated 28 March 2018;
- Athora Ireland's Own Risk and Solvency Assessment report ("ORSA") for financial year 2017 (see Appendix B for a description of the ORSA);
- Head of Actuarial Function Opinion dated 15 December 2017 on the 2017 ORSA report;
- Audited Directors' report and financial statements for the financial year ended 31 December 2017;
- The annual returns of Athora Ireland as at 31 December 2017 submitted to the CBI;
- Solvency II audit opinion dated 19 April 2018;
- Letter from the CBI to Athora Ireland dated 29 March 2018 relating to a review of the solvency II capital add-on;
- Quarterly returns to the CBI as at 31 March 2018;
- Athora Life Re business plan relating to Athora Ireland dated 15 February 2018;
- External tax advice dated 21 May 2018 received by Athora Ireland in respect of the tax impacts of the proposed transfer on transferring policies;
- Athora capital management policy dated March 2018;
- Spreadsheets detailing the Athora Ireland modelled expenses (EY17 Projected VA Disc Expenses.xlsx and EY17 OSB Projected Expense Cashflows.xlsx);
- Athora risk strategy dated March 2018;
- External Peer Review Report on Technical Provisions as at 31 December 2016 dated 2017 in compliance with the CBI's "Domestic Actuarial Regime and Related Governance Requirements under Solvency II – December 2015";
- Product brochures, policy conditions and sample policy illustrations relating to the transferring business issued by Athora Ireland; and
- Fund link contracts proposal.

Utmost Ireland

2.5 The key Utmost Ireland documents I have considered in preparing this report are:

- Head of Actuarial Function Report on the proposed transfer dated 11 July 2018;
- Actuarial Report on Technical Provisions as at 31 December 2017, dated April 2018, prepared by the Head of Actuarial Function;
- External Peer Review Report on Technical Provisions dated 4 May 2018 in compliance with the CBI's "Domestic Actuarial Regime and Related Governance Requirements under Solvency II – December 2015";
- Actuarial Opinion on Technical Provisions as at 31 December 2017 dated 2 May 2018;
- Utmost Ireland's ORSA for financial year 2017 dated 8 December 2017;
- Head of Actuarial Function Opinion dated 14 December 2017 on the 2017 ORSA report;
- Utmost Ireland's ad-hoc ORSA report in response to the proposed acquisition of the Offshore Bond Portfolio of Athora Ireland dated May 2018;
- Audited Directors' report and financial statements for the financial year ended 31 December 2017;
- The annual returns of Utmost Ireland as at 31 December 2017 submitted to the CBI;
- Solvency II audit opinion dated 19 April 2018;
- Quarterly returns to the CBI as at 31 March 2018;
- External tax advice dated 17 May 2018 received by Utmost Ireland in respect of the tax impacts of the proposed transfer on transferring policies;
- Utmost Ireland capital management policy dated December 2016;
- Post transfer financial projections prepared by Utmost Ireland;
- Utmost Ireland risk appetite update presented to the risk committee dated March 2018;
- Product descriptions of pre transfer Utmost Ireland business;
- Utmost Ireland post transfer servicing model dated May 2018;

- Note on spreadsheet model used for supporting HoAF report and ad-hoc ORSA (HoAF modelling note v0.2_sections1- 4(1).docx);
- Note and backing spreadsheet on spreadsheet model used for supporting HoAF report and ad-hoc ORSA (HoAF modelling note v0.2_sections1- 4(1).docx and HoAF Tables v2.0_HC.xlsx);
- Floating charge deed between Aviva Life & Pensions UK Limited and Aviva Life International Limited;
- Reinsurance agreements between Aviva Life & Pensions UK Limited and Utmost Ireland ; and
- Utmost Holdings Ireland Limited CBI submission relating to acquisition of Generali PanEurope dac.

Reliances

- 2.6 In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form, by Athora Ireland and Utmost Ireland, particularly in relation to the financial information concerning the solvency position of each company.
- 2.7 All information requested by me has been provided by both companies.

Section 3: Background to Athora Ireland and Utmost Ireland

Athora Ireland history

- 3.1 Athora Ireland or Aegon Ireland plc (previously called (i) Scottish Equitable International (Dublin) plc and (ii) Aegon Scottish Equitable International plc) was authorised as a life insurance undertaking in July 2002. Its target market at that time was UK clients seeking to invest in unit-linked life insurance investment policies.
- 3.2 In 2006, Aegon Group selected Athora Ireland as the hub within the Group writing and reinsuring of unit-linked life policies offering income and capital guarantees (typically referred to as variable annuity business or VA business) targeting the European market. Variable annuity contracts are unit-linked contracts that offer a variety of guarantees to policyholders, often linked to performance in the underlying investment.
- 3.3 Athora Ireland launched its first VA product in the UK in 2006 and subsequently launched into the Dutch and German markets in 2009 and 2013 respectively. The company also entered into agreements to provide reinsurance services to other companies within the Aegon Group based in the UK and France in 2008 and 2009 respectively in respect of VA business.
- 3.4 Athora Ireland closed its own VA products to new business in the Netherlands in 2013 and in the UK in 2016 but remained open to new business in Germany and to VA reinsurance. New business, excluding top-ups on existing policies, in respect of the Offshore Bond Portfolio business was suspended in December 2017.
- 3.5 In August 2017, Aegon Group signed a Share Purchase Agreement (“SPA”) with AGER Bermuda Holdings Ltd (“AGER”), a subsidiary of Athene Holdings Ltd. (“Athene”). AGER sought to acquire Athora Ireland from Aegon N.V. in 2018, subject to approval from the CBI and the terms set out in the SPA. Subsequently in January 2018, AGER announced a deconsolidation from Athene, although Athene did retain a minor shareholding in AGER. Shortly afterwards, AGER changed its name to Athora Holding Ltd. The acquisition of Athora Ireland by Athora was completed on 3 April 2018. Athora Ireland then closed all its remaining VA products and VA reinsurance to new business and closed its Offshore Bond Portfolio business to new business and top-ups at this point in time.
- 3.6 In April 2018, shortly after the completion of the acquisition, Athora Ireland reinsured a significant proportion of the risk related to its VA portfolio with New Reinsurance Company Ltd, a 100% subsidiary of Münchener Rückversicherungs-Gesellschaft in Munich. Athora Ireland has retained some of the risk related to guaranteed minimum withdrawal benefit (“GMWB”) claims from the time the underlying unit-linked fund becomes extinguished; the

reinsurer will pay Athora Ireland a lump sum (determined using an agreed mortality, lapse and interest rate basis) as a full settlement for GMWB claims that arise once the fund has been exhausted and Athora Ireland will then incur the remaining longevity risk on these payments.

- 3.7 Subsequently, on 9 April 2018, Athora announced that it would sell Athora Ireland's Offshore Bond Portfolio business to Utmost Ireland. The Offshore Bond Portfolio business comprises unit-linked policies concluded in the United Kingdom but with some policies issued to persons resident in the Channel Islands (Jersey and Guernsey).
- 3.8 Policy administration in respect of the Transferring Policies is undertaken in Dublin by the administrative function sitting within the Client Services Team of Athora Ireland. Investment administration and other services such as unit pricing are undertaken the Investment Administration Team of Athora Ireland, based in Dublin. The Athora Ireland Business Actuarial Team, based in Dublin, works with the Investment Administration Team and Client Services Team where necessary, for example where a manual process is needed.

The business of Athora Ireland

- 3.9 Athora Ireland is authorised by the CBI to undertake life assurance business in the following classes:
 - Class I: life assurance and contracts to pay annuities on human life, but excluding Classes II and III;
 - Class III: Life assurance contracts linked to investment funds (i.e. unit linked business and VA business); and
 - Class VI: capital redemption business.
- 3.10 Athora Ireland currently has two distinctive product groupings, the Offshore Bond Portfolio business and the VA business. The liability of the company in respect of its variable annuity policies varies with the following factors:
 - Market movements, such as interest rate risk, market volatility and equity market risk;
 - Policyholder optionality, where the rate at which policyholders surrender their policies may vary (lapse risk);
 - Policyholder longevity, for those products where the benefit is in the form of annuity or income payments (longevity risk); or
 - a combination thereof.
- 3.11 However, a substantial part of the VA related risks have been reinsured with effect from April 2018. With the exception of retained longevity risk associated with the GMWB, the reinsurance treaty involved Athora Ireland ceding the market and underwriting risk associated with the VA component of the

business. The VA reinsurance reduces the risks to Athora Ireland in respect of the VA business. This resulted in a significant reduction in the prescribed regulatory capital requirements of Athora Ireland.

- 3.12 The Offshore Bond Portfolio is unit linked business whereby the performance of the contract is directly linked to the performance of the underlying funds that the policy has been invested in. The value at any point in time of the policy is by reference to the number of units allocated to the policy and the value of those units. The unit value is determined by direct reference to the value of the underlying investments of the unit-linked funds invested in. Charges are levied on policies principally via a percentage of funds charge (and so are exposed to falls in the markets) and through fixed charge amounts.
- 3.13 A capital redemption contract is an investment contract between the insurance company and the policyholder. It can be distinguished from other classes of business offered by Athora Ireland by the fact that there is no life assured. The Offshore Bond Portfolio includes some single premium unit linked capital redemption contracts.
- 3.14 A more detailed description of the product features is included in the Athora Ireland Head of Actuarial Function's report relating to the proposed transfer.
- 3.15 Table 3.1 below summarises the number of policies, unit liability, non-unit linked best estimate liability ("BEL"), and risk margin which, when taken together, equal the Technical Provisions ("TPs") of the Athora Ireland business as at 31 December 2017 as included in the annual return to the CBI as at 31 December 2017 (see Appendix B for further descriptions of these items). The table also shows the value of the reinsurance asset included the annual return which at 31 December 2017 was zero. The unit linked business that is the subject of the proposed transfer accounted for 7,052 out of the 28,069 policies in force as at December 2017.

Table 3.1 – Athora Ireland as at 31 December 2017

€m (unless stated)	Number of contracts	Unit Liability	non-unit linked Best Estimate Liability (1)	Risk Margin (2)	Reinsurance Asset (3)	Total (1) + (2)
Offshore Bond Portfolio*	7,052	3,520.1	(0.2)	18	0	17.8
Variable Annuity business	21,007	1,346.3	12	48.1	0	60.1
Total	28,059	4,866.4	11.8	66.1	0	77.9

*Business proposed to be transferred

The Transferring Policies

3.16 Table 3.2 below shows a further breakdown of the Transferring Policies by product.

Table 3.2 – Transferring Policies as at 31 December 2017

Product	Number of Contracts	Funds under Management (€m)
Offshore bond portfolio		
Money Market Portfolio	47	21
Private Client Portfolio*	1,366	898
Investment Portfolio**	566	80
Flexible Investment Plan	96	12
Wealth Management Portfolio	4,828	2,427
Wealth Planning Account	149	82
Offshore bond portfolio	7,052	3,520

*This product is available as a life assurance contract or capital redemption version of the contract

**includes 50 policies from the Estate Planning Portfolio

- 3.17 All of the Transferring Policies are single premium policies. In addition, the Flexible Investment Portfolio permits regular premium payments.
- 3.18 The business is invested in a wide range of funds, both internal and external. The external funds are mainly administered by third party asset managers, known as Open Architecture funds, or are managed on a discretionary basis by specialist fund managers, known as Discretionary Fund Managers. Whilst the internal linked funds are managed internally by Athora Ireland.
- 3.19 There are a small number of cash investments directly held by Athora Ireland and invested in by the policyholders through Athora Ireland branded cash funds.
- 3.20 Some of the products are written within a trust arrangement.
- 3.21 A number of Athora Ireland funds invest 100% into an external, publicly available investment fund. Athora Ireland currently permits both VA business and the OffShore Bond Portfolio funds to invest into the same Athora Ireland fund. In advance of the proposed transfer of the Offshore Bond Portfolio to Utmost Ireland, Athora Ireland will set up a second, Offshore Bond Portfolio only version of each of these Athora Ireland funds. This new version of each fund will invest 100% into the same external asset as the original combined VA and Offshore Bond Portfolio fund, and so will have the exact same exposure as the original VA and Offshore Bond Portfolio fund. The exact mechanism for splitting the funds is still to be determined. Athora Ireland has informed me that the splitting of the funds will be purely for administrative purposes and

therefore there will be no impact on the pricing basis of the funds or the charges to policyholders.

- 3.22 All products are subject to policy charges to cover administration and fund management costs. Under the policy terms and conditions certain charges can be amended by Athora Ireland to take account of changes in administrative costs or other costs associated with legislative or regulatory requirements. Also certain charges may be increased automatically in line with inflation.
- 3.23 None of the products include material additional benefits payable to policyholders on death. The payout on death is usually equal to either 101% or 100.1% of the value of the fund.
- 3.24 The capital redemption version of the Private Client Portfolio product provides a guaranteed return of twice the initial investment less withdrawals after a term of 99 years.
- 3.25 The bulk of the Transferring Policies have been written as Pounds Sterling denominated policies which means that charge income is predominantly denominated in Pounds Sterling. Athora Ireland is an Irish company situated within the Eurozone with a material portion of its expenses being denominated in Euros.

Utmost Ireland history

- 3.26 Utmost Ireland is a fully owned subsidiary of Utmost Holdings Ireland Limited (formally LCCG Ireland Limited) (“Utmost Holdings”) which in turn is part of LCCG Group. LCCG Group is a specialist vehicle operating in the European life assurance sector. Its principal activity is the acquisition and consolidation of books of life assurance business in Europe combined with a targeted approach towards new business opportunities.
- 3.27 On 30 June 2017, Harcourt Life Corporation dac (formerly Harcourt Life Assurance dac) made an in-specie dividend to its immediate parent undertaking, Utmost Holdings Ireland Limited, of its interest in the entire issued share capital of Utmost Ireland (Harcourt Life International dac as it was then) on 30th June 2017. Harcourt Life International dac was re-named Utmost Ireland on 30th June 2017.
- 3.28 Utmost Holdings Ireland Limited acquired Generali PanEurope dac (to be renamed Utmost PanEurope dac) on 19th June 2018. It is planned that, subject to regulatory approval being granted, Utmost Holdings Ireland Limited will make a capital contribution of its interest in the entire issued share capital of Utmost Ireland to Utmost PanEurope dac during Q3 2018, such that Utmost PanEurope dac will become the immediate parent undertaking for Utmost Ireland dac.
- 3.29 Utmost Ireland (or Norwich Union International Limited as it was then known) was incorporated on 11 March 1999 and authorised as a life assurance undertaking in Ireland in January 2000. Its business consists of international investment bond business invested in unit-linked and unitised with-profits funds. Utmost Ireland ceased to write new policies and accept top ups on some classes of business in February 2010.
- 3.30 On 21 October 2016 it was announced that the LCCG Group (through Utmost Ireland) was to buy Axa Life Europe dac’s (“ALE”) unit linked offshore investment bonds business which had been distributed and administrated by AXA Isle of Man on behalf of ALE. In addition to the offshore investment bonds business, Utmost Ireland also acquired ALE’s unit linked business sold in Ireland. This business transferred into Utmost Ireland via a scheme of transfer (“AXA Scheme”) approved by the Irish High Court on 30 June 2017.
- 3.31 The products that transferred into Utmost Ireland as part of the AXA Scheme included the Delegation Bond and Selection Bonds. Following the implementation of that Scheme, Utmost Ireland continued to sell Delegation Bond and Selection Bond policies to United Kingdom nationals under the Utmost Wealth Solutions brand.

The business of Utmost Ireland

- 3.32 Utmost Ireland's book of business consists of a range of unit linked bonds, open architecture portfolio bonds and unitised with-profits ("UWP") bonds denominated in Pounds Sterling, Euro and US dollars. Utmost Ireland also acts as a reinsurer for certain with-profits business written by Aviva Life Insurance Company, a Hong Kong incorporated company within the Aviva Group.
- 3.33 All products are subject to policy charges to cover administration and fund management costs. Utmost Ireland has the right to amend management charges on its International Core Funds, Premier Portfolio Bond, Investment Bond, Portfolio Bond and ex-ALE bond to reflect increases in the cost of fund management or other costs associated with legislative or regulatory requirements. Also for some products, such as the Premier Portfolio Bond, the administration charges payable by policyholders are currently increased in line with Consumer Price Index of Ireland.
- 3.34 Utmost Ireland has two distinct classes of business: unit linked business investing in a range of stocks, shares and other funds ("Unit Linked Business") and unit linked business linked to certain UWP funds through a reinsurance arrangement with Aviva UK Life and Pensions Ltd ("Unitised With-Profits Fund Linked Business").

Unit linked business

- 3.35 The unit linked business is where policyholders invest in unit linked funds and where the policyholders bear the investment risks. There are three main product groups, the Premier Portfolio product group, the UK and Italian unit linked product group and the ex-ALE Investment Bond:
- The Premier Portfolio accounts for 22% of the company's policyholder funds as at 31 December 2017 and invests in open architecture external funds.
 - The UK and Italian portfolio group accounts for 13% of the company's policyholder funds as at 31 December 2017 and consists of Investment, Portfolio and Core Funds Bonds. The funds available for investment are mirrored funds and are priced by Capita Life and Pensions Services Ireland Limited on behalf of the company.
 - The ex-ALE Investment Bonds accounts for 44% of the company's policyholder funds as at 31 December 2017.
- 3.36 The benefits are linked either to the performance of unit linked funds or specific externally managed funds.
- 3.37 The business is invested in a wide range of funds. The funds are mainly administered by third party asset managers, known as Open Architecture Funds, or are managed on a discretionary basis by specialist fund managers, known as Discretionary Fund Managers.

- 3.38 13% of the investments backing the Utmost Ireland policies are “mirror funds”. These are funds maintained internally by Utmost Ireland, through a third-party service arrangement with Capita Life and Pensions Services (Ireland) Ltd (“Capita”) and Utmost Administration Ltd, that have sole investments in specific third-party funds.
- 3.39 The ex-ALE Legacy Planning Bond is written within a trust arrangement. A number of Legacy Planning Bonds have appointed Utmost Trustee Solutions Limited, which is a member of the LCCG Group in the Isle of Man, as their trustee.
- 3.40 The death benefits on Utmost Ireland’s unit linked products are not significant and are typically of the order of a 1% or 0.1% uplift to the fund value on death or simply the fund value or £1 per policy segment on certain products.
- 3.41 The capital redemption version of the International Core Funds Bond provides a guaranteed amount at the 99th policy anniversary. The guarantee is the higher of the value of the unit funds or 101% of the original investment, reduced for any partial withdrawals. Typically these policies provide policyholders with a 5% per annum regular withdrawal.

Unitised With-Profits Fund Linked Business

- 3.42 The International With-Profits Bond and the With-Profits element of the Core Funds Bond, along with the business reinsured into Utmost Ireland from Aviva Life Insurance Company in Hong Kong, has been 100% reinsured to Aviva UK Life and Pensions Limited (“ALAP”). The with-profits business written directly by Utmost Ireland represents 21% of the funds under management as at 31 December 2017. The current reinsurance arrangement came into effect in 2009 when a reorganisation of ALAP’s with-profits funds took place.
- 3.43 Under the reinsurance arrangement the premium paid by the policyholder on the with-profits product is paid to ALAP (or for a product which is invested partially in with-profits investments the premium is pro-rated in accordance with the proportion of the investment in the product attributed to with-profits investments).
- 3.44 The UWP fund linked policies increase in value through increases in unit prices which will exactly match those of ALAP. The ALAP unit prices grow with regular bonuses set by ALAP’s With-Profits Actuary having been reviewed by ALAP’s With-Profits Committee and subsequently the ALAP Board. In setting with-profits bonus rates ALAP is obliged to take account of its Principles and Practices of Financial Management, policyholders’ reasonable expectations and the principle of Treating Customers Fairly.
- 3.45 The UWP business includes certain investment guarantees. Payments made by Utmost Ireland to with-profits policyholders in the form of death, withdrawal and maturity claims are reimbursed by ALAP via the reinsurance arrangement. For those policies which have a guaranteed death benefit or withdrawal benefit or a guaranteed minimum return, the cost of the guarantee is met by ALAP.

- 3.46 Utmost Ireland is exposed to the credit risk of the failure of ALAP in respect of this with-profits business. In order to mitigate this risk Utmost Ireland and ALAP have entered into a Deed of Charge whereby Utmost Ireland has been granted a floating charge on the assets of ALAP which crystallises into a fixed charge on the occurrence of certain events specified in the Deed of Charge.
- 3.47 On death, for those policyholders with UWP products, no market value adjustment is made when the policy benefits are paid.
- 3.48 The bulk of Utmost Ireland's business is written in the United Kingdom which means that the income is denominated in Pounds Sterling. Utmost Ireland is an Irish company situated within the Eurozone with a material portion of its expenses, in addition to its capital requirements, being denominated in Euros.
- 3.49 The Utmost Ireland business is managed by staff employed by Utmost Services Ireland Limited ("USIL"), a services company which is part of LCCG. In addition, in 2010 Utmost Ireland entered a 10 year agreement with Capita Life and Pensions (Ireland) Limited for the customer servicing aspects of the administration of the business.
- 3.50 At the end of December 2017, Utmost Ireland had the following mix of policies in-force:

Table 3.3: Split of Utmost Ireland policies and funds under management at 31/12/2017

Products	Number of policies	€ funds under management
International Core Funds Bonds (life assurance basis)	1,042	180
International Core Funds Bonds (capital redemption basis)	60	18
International Investment Bond	760	95
International Portfolio Bond	317	77
International Premier Portfolio	740	469
International With Profits Bond	2,011	375
Union Star	17	1
ex ALE Investment Bond	775	950
ex-ALE Legacy Planning Bond	19	9
Ex-ALE Irish legacy Bond	24	3
Total	5,765	2,177

Section 4: Main features of the Schemes

4.1 I have been provided with copies of the proposed Schemes. The main purpose of the Schemes is to provide for the transfer to Utmost Ireland of the Transferring Policies so that from the effective date of the Schemes the Transferring Policies will become part of the life assurance business of Utmost Ireland.

4.2 The principal features of the Schemes are set out in the following paragraphs.

Scope of transfer

4.3 Under the Schemes the life assurance business liabilities of the Transferring Policies will be transferred to Utmost Ireland at the Effective Time (the time and date when the Schemes will become operative). The assets that will transfer under the Schemes at the Effective Time will be all the unit linked assets, including assets held with external managers or custodians and all cash, backing the unit liabilities of the Transferring Policies.

4.4 The contracts to which Athora Ireland is a party which relate wholly to Offshore Bond Portfolio business ("the Transferring Contracts") shall also transfer to, and vest in, Utmost Ireland at the Effective Time. The Transferring Contracts consist of:

- the contracts relating to the administration of the Transferring Policies;
- the terms of business with independent financial advisors;
- investment management and custodian agreements with external fund managers;
- certain insured fund external link agreements\arrangements which are used to facilitate the investment of assets of the Offshore Bond Portfolio by Athora Ireland, on behalf of policyholders, into external funds; and
- other relevant customer contracts.

4.5 The CBI is obliged to notify the relevant supervisory authority of the Irish Scheme in EEA Member States where the Transferring Policies were concluded. The relevant supervisory authority then has a period of 3 months from the date of notification to either agree to the transfer or object. In the absence of a response within the 3 month period from the relevant supervisory authority its agreement to the transfer shall be deemed to have been given.

- 4.6 Excluded policies are defined within the Irish Scheme as “The Jersey Policies and the Guernsey Policies” which are the policies to be transferred under the Jersey Scheme and Guernsey Scheme respectively.

Effective Time

- 4.7 It is proposed that the Irish Scheme will take effect at 23.59 on 31 December 2018 (“the Effective Time”) or such other date as Athora Ireland and Utmost Ireland may agree and to which the Irish Court consents.
- 4.8 It is proposed that the Jersey and the Guernsey Schemes will take effect on 31 December 2018 (linking the Effective Time of the Jersey and Guernsey Schemes to the Irish Scheme) or other such date as Athora Ireland and Utmost Ireland may agree and to which the Jersey Court and the Guernsey Court consents.

Contractual rights

- 4.9 Following the transfer Utmost Ireland will assume all the obligations to the policyholders of the Transferring Policies. The rights under contracts written by Athora Ireland and Utmost Ireland will not be changed as a result of the transfer. There will be no change to the policy terms and conditions for policyholders of either company as a result of the proposed Schemes.
- 4.10 Currently the contract terms of the Transferring Policies permit policyholders the option of making additional ad-hoc incremental contributions to their policies provided that Athora Ireland was willing to accept such ad-hoc contributions. However, from April 2018 Athora Ireland no longer accepted ad-hoc contributions on any of the Transferring Policies. The proposed Schemes state that any rights that policyholders have under their contracts are transferred to Utmost Ireland under the Schemes. As such post transfer it will be for Utmost Ireland to state whether it will, or will not, accept ad-hoc payments. As such the Schemes make no changes to this aspect of policyholder’s contract terms.
- 4.11 Once the relevant assets of Athora Ireland have been transferred, Utmost Ireland will assume responsibility for the liability to discharge all claims, maturities, death benefits and other amounts arising from the liabilities transferred (including administering and managing the Transferring Policies and the associated costs thereof).
- 4.12 No additional payments will be made to policyholders as a result of implementing the Schemes.

Splitting of certain unit linked funds

4.13 Some of the Athora Ireland funds that invest 100% into an external investment fund currently permits both VA business and the OffShore Bond Portfolio funds to invest into the same fund. The Schemes describe the process that will be used to facilitate the transfer of business invested in these funds. The process is as follows:

1. Splitting of funds

- i) The Schemes require that where the external fund agreement transfers to Utmost Ireland then Athora Ireland shall engage with the fund counterparties in advance of the Sanctions Hearing with a view to entering into an amendment agreement with those counterparties on existing terms.
- ii) The Schemes require that where the external fund agreement does not transfer to Utmost Ireland then Utmost Ireland shall engage with the fund counterparties in advance of the Sanctions Hearing with a view to entering into an amendment agreement with those counterparties on existing terms.
- iii) The Schemes require that where an external fund agreement does not currently exist in writing that Utmost Ireland shall engage with the fund counterparties in advance of the Sanctions Hearing with a view to entering into a new agreement with those counterparties on the same terms as currently enjoyed by Athora Ireland.

- 2. Where terms, as referred to in point 1 i) and 1 ii) above, have not been agreed with the relevant counterparties in advance of the Sanctions Hearing then the Schemes effectively ask the Court to split the current agreements so that the terms of the current agreements continue to apply to both the remaining Athora Ireland policyholders and the Transferring Policyholders.
- 3. Where terms, as described in point 1 i) and 1 ii) have not been agreed in advance of the Sanctions Hearing and the Court declines to split the agreements with the external fund managers, then Athora Ireland and Utmost Ireland will enter into a reciprocal fund linked reinsurance arrangement or other appropriate commercial terms agreed by Athora Ireland and Utmost Ireland. This approach would mean that the Athora Ireland remaining and Transferring Policyholders would continue to enjoy the same terms for, and access to, funds that are being transferred and retained by Athora Ireland respectively.

4. Where agreements as described in point 1 iii) above have not been agreed with the relevant counterparties in advance of the Sanctions Hearing then Athora Ireland and Utmost Ireland will enter into a reciprocal fund linked reinsurance arrangement or other appropriate commercial terms agreed by Athora Ireland and Utmost Ireland. This approach would mean that the Athora Ireland remaining and Transferring Policyholders would continue to enjoy the same terms for, and access to, funds that are being transferred and retained by Athora Ireland respectively

Unit-linked funds

- 4.14 The Transferring Policies, which include policies with externally managed portfolios, are all unit linked contracts. Utmost Ireland will establish new internal linked investment funds for the Transferring Policies. These new internal linked investment funds will correspond to the internal linked investment funds which the Transferring Policies are currently invested in, including the same rules and procedures for the calculation of unit prices and fund-related charges. The ultimate ownership of the assets relating to each fund will change from Athora Ireland to Utmost Ireland.
- 4.15 Transferring policyholders will receive an identical number of units of equal value in the new “host” internal linked funds in Utmost Ireland to those funds in Athora Ireland from which they have transferred.
- 4.16 For Transferring Policies which have externally managed portfolios, on the Effective Time, Utmost Ireland shall establish records corresponding to all of the records maintained, on an individual policy by policy basis, by Athora Ireland immediately prior to the Effective Time for such policies.
- 4.17 On the Effective Time, Utmost Ireland shall record which externally managed portfolios are designated in favour of each Transferring Policy and shall ensure that such designations are identical to those that were held in the records of Athora Ireland immediately prior to the Effective Time.
- 4.18 In summary, this means that:
 - the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer;
 - the value of transferring policyholders’ funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place; and
 - the underlying unit linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.

- 4.19 The investment criteria of the Athora Ireland internal linked funds and the fund managers and custodians will also transfer unchanged to the new “host” internal linked funds in Utmost Ireland.
- 4.20 As all contractual terms remain unchanged under the Schemes, any powers contained within the Transferring Policies for funds to be merged, closed or sub-divided, or for the approach to unit pricing to be changed, will be preserved under the Schemes with such powers being transferred to Utmost Ireland post transfer. Nothing within the Schemes prevents any such changes in accordance with the terms and conditions of such Transferring Policies and as is approved by the board of directors of Utmost Ireland having taken account of policyholders’ reasonable expectations and the advice of the Head of Actuarial Function in relation to the interpretation of policyholders’ reasonable expectations.

Unit linked charges

- 4.21 As all contractual terms remain unchanged under the Schemes any powers contained within the Transferring Policies for changes to be made to unit linked charges will be preserved under the Schemes with such powers being transferred to Utmost Ireland post transfer. Nothing within the Schemes prevents any such changes in accordance with the terms and conditions of such Transferring Policies as is approved by the board of directors of Utmost Ireland having taken account of policyholders’ reasonable expectations and the advice of the Head of Actuarial Function in relation to the interpretation of policyholders’ reasonable expectations.

Tax

- 4.22 The Scheme states that any tax liabilities which crystallise as a result of the transfer of policyholders’ assets will not be borne by the policyholders.

Continuity of Proceedings

- 4.23 Any judicial, quasi-judicial, arbitration proceedings or any complaint to the ombudsman or other proceedings for the resolution of a dispute or claim, which are pending by or against Athora Ireland in respect of the assets and liabilities comprising the Transferring Business, shall be continued by or against Utmost Ireland.
- 4.24 All actual and potential proceedings by or against Athora Ireland in connection with the assets and liabilities falling outside the Transferring Business shall be continued by or against Athora Ireland.

Costs of the schemes

- 4.25 All costs and expenses relating to the preparation of the Schemes and application for the sanctions of the Schemes, including the costs of the Independent Actuary, counsel representing the parties in each of the Schemes and complying with the orders made by the Irish Court, the Guernsey Court and the Jersey Court respectively arising from the directions hearing or the substantive hearing in which the Irish Court, the Guernsey Court and the Jersey Court are respectively petitioned to sanction the Schemes, shall be borne by Utmost Ireland. Subject to this, Athora Ireland and Utmost Ireland shall each bear their respective costs incurred in effecting the proposed transfer. No costs will be directly borne by policyholders.

Policyholder communications

- 4.26 Section 13 of the Act requires that, unless the Court otherwise directs, certain materials must be transmitted to each policyholder of both Athora Ireland and Utmost Ireland (the “Policyholder Circular”). The Policyholder Circular should include a statement summarising the proposed Scheme together with a copy of the Independent Actuary’s Report.
- 4.27 It is proposed by Athora Ireland and Utmost Ireland, subject to relevant court approvals, to transmit the Policyholder Circular, including a summary of this report prepared by me as Independent Actuary, only to Transferring Policyholders. It is further proposed that the Policyholder Circular will be made available on request to Utmost Ireland policyholders and non-transferring Athora Ireland policyholders.
- 4.28 Confirmation of the date of the sanctions hearings will be placed in the following publications:
- Relating to the Irish Scheme:
 - Ireland: A notice will be placed in Iris Oifigiúil, Irish Independent and Irish Examiner;
 - United Kingdom: A notice will be placed in the following newspapers - London, Edinburgh and Belfast Gazettes and in two national newspapers in the United Kingdom;
 - Relating to the Jersey Scheme: A notice will be placed in the Jersey Gazette;
 - Relating to the Guernsey Scheme: A notice will be placed in Guernsey La Gazette Officielle on at least two occasions; and

- International: A notice will be placed in the international edition of The Financial Times.
- 4.29 In addition, the following information will be available to any relevant parties from the offices of Athora Ireland and Utmost Ireland and will also be made available on their respective websites at www.athora.com and www.utmostwealth.com respectively and at the offices of each of Athora Ireland and Utmost Ireland in Dublin, as well as the offices of William Fry in Dublin and London and to the extent required by the Jersey Insurance Law, the offices of Carey Olsen in Jersey:
- The Petition to the Courts including the Schemes;
 - The full Report of the Independent Actuary;
 - The Policyholder Circular;
 - The Report of Athora Ireland's Head of Actuarial Function; and
 - The Report of Utmost Ireland's Head of Actuarial Function.

Section 5: Effects of the Schemes on policyholders

General considerations

- 5.1 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that contractual benefit entitlements will be met), for the level of benefits payable to policyholders (including the impact of variable charges on such benefits) and for the reasonable expectations of policyholders in both Athora Ireland and Utmost Ireland. In particular, I need to consider the effect of the Schemes on any charges which may be varied at the discretion of the company, both immediately after the transfer and also how these charges may vary in the future, and whether any changes to such discretionary charges are consistent with policyholders' reasonable expectations. Separate consideration is required for each group of policyholders affected by the Schemes.
- 5.2 The factors I must consider in assessing the implications of the transfer for the security of policyholder benefits include:
 - The current solvency positions of Utmost Ireland and Athora Ireland;
 - The risk profiles of Utmost Ireland and Athora Ireland;
 - The capital targets as set out in each company's Risk Management Framework; and
 - The expected future solvency position of Utmost Ireland and Athora Ireland.
- 5.3 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders include:
 - Contractual obligations to policyholders;
 - Investment criteria for the corresponding new funds in the transferee company;
 - The pricing basis for the new equivalent unit linked funds in the transferee company;
 - The level of charges to be deducted from the new equivalent unit-linked funds in the transferee company;

- Any changes, caused by the transfer, to the taxation of policyholder benefits;
 - Application of discretion by Utmost Ireland;
 - The levels of customer service to policyholders following the transfer;
 - Current strategic plans for Utmost Ireland including current LCCG restructuring plans; and
 - Current strategic plans for Athora Ireland.
- 5.4 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.
- 5.5 All of my conclusions take into account the effect of the Jersey Scheme and the Guernsey Scheme and apply equally to policies issued to residents of Guernsey or policies that fall within the scope of the Jersey Scheme and policies governed by Jersey law or Guernsey law, as they do to the policies issued to residents in the United Kingdom.

Security of transferring policyholders' benefits

i) Background

- 5.6 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that their contractual benefit entitlements will be met).
- 5.7 My analysis of the impact of the Schemes on policyholder security depends heavily on the level of capital available to the participating companies, and their ability to satisfy their respective solvency requirements now and in the future.

5.8 Most companies are required by the CBI to determine their capital requirements under the Solvency II Regulations. Under these regulations companies are required to hold sufficient assets to be able to cover the TPs associated with a portfolio of insurance contracts, where the TPs are the sum of the following 2 items:

1. BEL which is the sum of the following:

- the policyholder unit liabilities (for unit-linked and UWP fund linked business);
- the best estimate view of the value of future expected expenses and guarantee claim costs less future expected income (from the company's perspective) associated with the insurance policies in question (which may have a negative value). Where the BEL excluding unit liabilities is shown as a positive figure this represents a liability for the company (i.e. expenses are greater than income) and likewise where the BEL is a negative figures this represent an asset for the company (i.e. a negative liability to the company) ;

2. The risk margin (as described in Appendix B).

5.9 Under the Solvency II Regulations each life assurance company must then hold further additional assets at least equal to the Solvency Capital Requirement ("SCR") associated with its life assurance business. The SCR is the amount of capital that insurance undertakings are required to hold to ensure that they can meet their obligations to policyholders over the following 12 months with a 99.5% probability. Appendix B contains a further description of the approach used to calculate the SCR.

5.10 Under the Solvency II Regulations companies may use a Standard Formula Approach¹ or an Internal Model Approach², or a combination thereof, when calculating its SCR. Both Athora Ireland and Utmost Ireland use a Standard Formula Approach. If the CBI concludes that the risk profile of a company significantly deviates from the assumptions underlying the SCR defined by the Standard Formula Approach then it can specify that the company increase the amount of their SCR capital, over and above that specified by the Standard Formula. Typically the Standard Formula Approach would not fully reflect the risks within VA businesses and as a result the CBI required Athora Ireland to increase its SCR, over and above that calculated by the Standard Formula, as at 31 December 2017.

5.11 In addition to the capital requirements described above, each company is required by the CBI to set out within its risk management framework what

¹ Standard Model Approach: refer to definition in Appendix B

² Internal Model Approach: refer to definition in Appendix B

additional assets it intends to hold over and above the SCR. This additional capital is frequently expressed as a percentage of the SCR. The purpose of this additional capital, sometimes referred to as “buffer capital”, is to provide additional security to policyholder benefits consistent with the company’s own view of the volatility of its balance sheet (including the appropriateness of the SCR Standard Formula Approach) and its appetite for risk.

- 5.12 The solvency position of the participating companies is an important indicator in assessing whether sufficient assets have been set aside to fulfil the current and future obligations to the policyholders in respect of their insurance contracts. The principal measure used to assess the solvency of each company is the ratio of Own Funds (refer to Appendix B) to the SCR. These ratios are also referred to as solvency coverage ratios.
- 5.13 The target solvency coverage ratios for each participating company will be determined according to the company’s capital policy and risk appetite in the context of the risk profile of the company. This could be in the form of a minimum target percentage of the SCR that the company will not want to fall below expressed as a percentage of SCR. Furthermore, the capital policy may require that a different target ratio (i.e. higher) should be used in deciding whether dividends can be paid e.g. such that any dividends paid would not result in the company having a solvency capital ratio of less than Y% of SCR.
- 5.14 As such the security of policyholder contractual benefits is provided by the assets that the company has set aside in respect of those contractual benefits which are the assets, including the unit linked assets, held in respect of the BEL. Further security is provided by the assets held in respect of the Risk Margin. Additional security is provided by the shareholder assets held to cover the target capital ratio (or solvency coverage ratio) which will typically be expressed as a percentage (greater than 100%) of the SCR.

ii) Opening Solvency position

- 5.15 In order to assist me in forming my judgement regarding the security of policyholder benefits, I have considered the solvency position of Athora Ireland and Utmost Ireland, both before and after the proposed transfer, based on the assumption that the transfer had taken place as at 31 December 2017.
- 5.16 Note all numbers quoted in this section of the report are in Euros. However, Athora Ireland’s reporting currency is Pounds Sterling. For ease of understanding all Athora Ireland’s reported numbers have been converted to Euros for the purpose of this report at a rate of 1.1271 (exchange rate used by Athora Ireland as at 31 December 2017).

Athora Ireland

- 5.17 As at 31 December 2017, Athora Ireland had funds under management of €4.9 Billion (£4.3Bn). However, as mentioned in paragraph 3.6 Athora Ireland reinsured most of the risk related to its VA portfolio in April 2018. This is a material transaction in the context of considering the security of policyholder benefits within Athora Ireland. As such the actual reported year end TPs and SCR have been recalculated by Athora Ireland assuming that the VA reinsurance had occurred as at 31 December 2017. When considering the pre-transfer solvency position of Athora Ireland I have done so by reference to the TPs and SCR that were recalculated by Athora Ireland as at 31 December 2017 and which allow for the impact of the VA reinsurance transaction (i.e. the calculations assume that the VA reinsurance contract had been in place as at 31 December 2017).
- 5.18 The following table shows a breakdown of TPs by product grouping and shows the figures both before and after allowing for VA reinsurance discussed in paragraph 5.17 above.

Table 5.1 – Athora Ireland TPs and SCR as at 31 December 2017

€000s	As reported	After allowing for VA reinsurance
VA business		
Unit liability	1,346.3	1,346.3
BEL (excluding unit liability)	12	12
Risk margin	48.1	42.5
Total TPs	1,406.4	1,400.8
Reinsurance	0	42.8
Total TPs after VA reinsurance	1,406.4	1,443.6
Offshore bond business		
Unit liability	3,520.1	3,520.1
BEL (excluding unit liability)	(0.2)	(0.2)
Risk margin	18.0	14.9
Total TPs	3,537.9	3,534.8
Grand Total TPs	4,944.3	4,978.4
SCR	162.0	75.8
Own Funds	242.0	155.2
Solvency Coverage	149%	205%

5.19 The following point should be noted in relation to Table 5.1:

- There is positive BEL in respect of the VA business. This means that the value as at 31 December 2017 of future guarantee claims, commissions and an allowance for future expenses was greater than the value of future charges that Athora Ireland expects to receive. The BEL in respect of the Offshore Bond Portfolio business was close to zero which means that the value as at 31 December 2017 of the expected future commissions the company expects to pay and an allowance for company expenses was broadly equal to the value of expected charges that the company expected it would receive on this business over the expected future lifetime of the business.
- The expense allowances within the BEL calculations in the year end 2017 reported solvency numbers adopted a prospective view of future expenses which assumed that future expense efficiencies would be achieved. This meant that as at year end 2017 the company expected to incur expenses in relation to managing the book of business over and above those allowed for within the BEL calculations (i.e. overrun expenses). No allowance for these expected overrun expenses is included within the numbers in Table 5.1.
- The VA reinsurance transaction removes a proportion of the activity that had been associated with managing some of the VA risks. As a result it is expected that some of the VA related costs will also be removed from the business. No change has been made to the allowance for expenses within the BEL numbers in Table 5.1 to reflect changes to expected expenses with the VA reinsurance in place. However, the expectation is that the overrun expenses would reduce as a result of the VA reinsurance.
- The risk margin captures the cost to Athora Ireland of holding capital to cover the non hedgeable risks associated with this business. Athora Ireland assumes that market related risks are fully hedgeable and so they are excluded from the calculation of the risk margin. As a result, for the VA business the risk margin relates primarily to longevity risk, lapse risk, expense risk and operational risk. For the Offshore Bond Portfolio business the risk margin relates primarily to lapse risk, expense risk and operational risk.
- The VA reinsurance transaction removes a significant proportion of the risk associated with VA business, principally market risks. As a consequence of the VA reinsurance, the SCR and the risk margin falls reflecting the change in risk exposures within the business. A significant proportion of the VA risks are now ceded to the reinsurer which results in a significant decrease in the prescribed regulatory capital requirement. The remaining capital

requirements primarily relate to expense and lapse risk, as well as the VA longevity risk that remains with the company.

- The risk margin relating to the Offshore Bond Portfolio business also reduces reflecting the removal of the additional capital requirement discussed in paragraph 5.10, some of which had been allocated to this business.
- Post the implementation of the VA reinsurance the company must include a reinsurance liability on the Solvency II balance sheet. This liability reflects the fact that future reinsurance premiums are projected to exceed future reinsurance recoveries.
- At 31 December 2017, Athora Ireland had a reported solvency coverage ratio of 149%. However, allowing for the reinsurance of the VA business, the net effect of the reinsurance transaction was to increase the solvency coverage ratio to 205% (i.e. the reduction in capital requirements more than offset the fall in own funds arising from the payment of the initial reinsurance premium and the allowance for future reinsurance premiums).

5.20 For the purpose of my review I have focused on the post VA reinsurance solvency position of Athora Ireland.

5.21 Tables 5.2 and 5.3 below summarise the solvency positions of Athora Ireland and Utmost Ireland before and after the proposed transfer, assuming that the effective date of the transfer had been 31 December 2017. These numbers have been provided by Athora Ireland and Utmost Ireland (and I have relied on their accuracy in preparing this report). The split of the SCR between VA and the Offshore Bond Business and the diversification amount in Table 5.2 below has been estimated by Athora Ireland as it only reports an overall SCR.

Table 5.2 – Athora Ireland solvency position as at 31 December 2017 (assuming VA reinsurance)

€millions	Athora Ireland (non transferring p/hs)	Athora Ireland (transferring p/hs)	Impact of diversification	Athoraon Ireland Total (pre Transfer)	Athora Ireland Total (post Transfer)
Total Assets				5,216.8	1,716.7
Unit Liability	1,346.3	3,520.1		4,866.4	1,346.30
Best Estimate Liability (non unit)	12.0	(0.2)		11.8	12
Risk Margin	42.5	14.9		57.4	42.5
TPs before Reinsurance	1,400.8	3,534.8		4,935.5	1,400.80
Reinsurance	42.8	0		42.8	42.8
Total TPs including reinsurance	1,443.6	3,534.8		4978.4	1,443.60
Other liabilities	83.3	0		83.3	83.3
Total Liabilities	1,526.9	3,534.8		5,061.7	1,526.9
Own Funds (Assets less Liabilities)				155.2	189.8
SCR	54.6	25.7	(4.4)	75.8	54.6
SCR Coverage Ratio				205%	348%

5.22 The following points should be noted in relation to Table 5.2:

- Under the proposed Schemes the assets which have a value on 31 December 2017 of €3,520.1 million will transfer from Athora Ireland to Utmost Ireland. No additional shareholder assets will be transferred to Utmost Ireland under the Schemes in respect of the SCR or Risk Margin associated with the Transferring Policies.
- The table shows that the solvency position of Athora Ireland (as at 31 December 2017), after taking the proposed transfer into account (and

allowing for the VA reinsurance), continues to have sufficient assets to meet its legislative capital requirements.

- It further shows that the solvency position post transfer is significantly higher than its solvency cover before the transfer. This is due to the fact that Athora Ireland receives the proceeds of the sale of the Offshore Bond Portfolio and also benefits from a reduction in the Risk Margin and SCR reflecting the revised nature of the business post transfer.
- The post transfer Athora Ireland position in the table above assumes that the allowance for expenses within the VA business non unit BEL are unchanged relative to the pre-transfer position. As such the post transfer solvency coverage makes no allowance for expense overruns that are expected to be incurred as the company goes through its operational changes following the VA reinsurance and its acquisition by Athora.

5.23 Table 5.2 shows that had the transfer taken place as at 31 December 2017 the post transfer the solvency coverage within Athora Ireland would have significantly increased to 348%. Therefore, on the basis of solvency coverage ratios shown in the table above the non-transferring Athora Ireland policy holders are no worse off as a result of the proposed Schemes. I have been informed that should full allowance be made for expense overruns that the company would continue to meet its capital target and that solvency coverage would remain above the pre-transfer position.

5.24 However, I note that Athora Ireland Head of Actuarial Function report relating to the proposed transfer states that the company plans to use the expected excess capital to fund the acquisition of new business (traditional non-linked life assurance business) in Europe. The report further states that it is likely that the level of excess capital in Athora Ireland will be reduced over time as new business is acquired, such that the company would operate at a level that is closer to its target solvency coverage position of 135% of SCR as set out in its capital policy.

Utmost Ireland

5.25 As at 31 December 2017, Utmost Ireland had funds under management of €2.2 Billion. The following table shows the pre and post Schemes solvency position of Utmost Ireland assuming that the transfer had taken place as at 31 December 2017.

Table 5.3 – Utmost Ireland solvency position as at 31 December 2017

€millions	Utmost Ireland (pre Transfer)	Transferring P/hs*	Impact of diversification & Scheme costs & consideration & capital Injections	Utmost Ireland (post Transfer)
Total assets (before reinsurance recoverables)	1,789.9	3,520.1	17.0	5,327.0
Reinsurance recoverables	462.3			462.3
Total Assets	2,252.2	3,520.1	17.0	5,789.3
Unit Liability	2,177.2	3,520.1	0	5,697.3
Best Estimate Liability	4.5	(61.9)	(5.0)	(62.4)
Risk Margin	11.1	21.5	(3.7)	28.9
Total TPs before Reinsurance	2,192.7	3,479.7	(8.7)	5,663.8
Other Liabilities	11.9	0	3.3	15.2
Scheme and migration costs	0	0	6.0	6.0
Total Liabilities	2,204.7	3,479.7	0.6	5,685.0
Own Funds (Assets Less Liabilities)	47.6	40.4	16.3	104.3
SCR	27.9	51.3	(6.5)	72.6
Excess Assets	19.7	(10.9)	22.8	31.6
SCR Coverage Ratio	171%			144%

*Utmost post transfer expense basis

5.26 The following point should be noted in relation to Table 5.3:

- Under the proposed Schemes the assets which have a value on 31 December 2017 of €3,520.1 million will transfer from Athora Ireland to Utmost Ireland. No additional shareholder assets will be transferred to Utmost Ireland under the Schemes in respect of the SCR or Risk Margin associated with the Transferring Policies.
- Utmost Ireland expects to benefit from material expense synergies in respect of the Transferring Business. This means that Utmost Ireland estimate of the value of the expected future expenses associated with the fulfilment of the Transferring Business is materially lower than those of Athora Ireland. As a result the non unit BEL in respect of the Athora Ireland Offshore Bond Portfolio business is valued by Utmost Ireland as an asset of €61.9 million whereas within Athora Ireland it was valued as an asset of €0.2 million. Given that this asset relates to expected future cashflows it is an illiquid asset. The risks associated with future expenses being higher than expected or future income being lower than expected are considered under the Solvency II SCR calculations.
- Utmost Ireland will pay a consideration of €30 million to Athora Ireland as part of the transaction. Therefore, post transfer Utmost Ireland will have lower capital reserves, given that it will have paid €30 million to Athora Ireland, and will have higher capital requirements, resulting from the SCR and Risk Margin in respect of the Transferring Policies. As a result, Utmost Ireland will require a capital injection in advance of the proposed transfer so that post transfer Utmost Ireland can continue to meet its capital policy requirement.
- It is therefore proposed that ahead of the transfer Utmost Holdings Ireland Limited will inject capital into Utmost Ireland, via Utmost PanEurope dac, so that Utmost Ireland is able to make the payment to Athora Ireland to acquire the Offshore Bond Portfolio, meet any additional costs associated with the acquisition and have sufficient assets at the Effective Time so that its solvency coverage ratio at least exceeds 150% of SCR post transfer.
- Had the Scheme taken effect at 31 December 2017 Utmost Ireland has calculated that, after allowing for a significant capital injection from Utmost Ireland Holdings Limited, deducting the acquisition price and associated costs, including the costs of the Schemes, the post-Schemes solvency coverage ratio would have been 144% at the end of 2017. This is lower than pre-Schemes solvency coverage but remains above the 133% capital policy amount.

- However, the Utmost Ireland ad-hoc ORSA forecasts that, based on best estimate view of 2018, the solvency coverage ratio will be in excess of 150% at the end of 2018 (i.e. the proposed Effective Time).
- The BEL, Risk Margin and the SCR figures in Table 5.3 above relating to the Transferring Business and the post transfer position have been calculated by Utmost Ireland using an actuarial projection model developed to include the Transferring Business. The same actuarial model has been used to prepare the projected solvency position of Utmost Ireland post transfer. I have been informed that there are a number of model and methodology enhancements that Utmost Ireland plans to implement in this model in advance of quarter three 2018 regulatory reporting. These planned enhancements relate primarily to the calculation of the risk margin, the lapse component of the SCR and the expense component of SCR. Utmost Ireland expects that the only impact of the proposed enhancements will be to increase, or decrease, the planned capital injection required to return the solvency coverage to 150% as at the effective date of the transfer.

- 5.27 The above table shows that pre-Scheme Utmost Ireland has a capital ratio of 171%. I note that Utmost Ireland's Head of Actuarial Function report relating to the proposed transfer states that should the Schemes not go ahead then the expectation is that dividends would be paid so as to bring the ratio down to that consistent with the capital policy, i.e. to 150% of SCR. Therefore, in considering the impact of the Scheme I have considered that should the Schemes not proceed then the solvency coverage ratio in Utmost Ireland would be reduced to 150%.
- 5.28 As a result, assuming that sufficient capital is injected in advance of the proposed Schemes so that the solvency coverage immediately after the proposed transfer is 150%, then the current Utmost Ireland policyholders, on the basis of solvency coverage ratios, may be considered to be no worse off as a result of the proposed Schemes.
- 5.29 On the basis of the figures in the above table the Transferring Policies are moving to a company with a lower SCR Coverage Ratio, i.e. moving from a company with a solvency coverage ratio of 205% to one with 144% of SCR as at 31 December 2017 (or greater than or equal to 150% at the expected transfer date of 31 December 2018). However, solvency coverage will be at a level above the minimum legislative requirement of 100% and also above the current capital policy of Utmost Ireland which at the date of this report was set at 133% (see paragraph 5.52 below for further details). In considering the impact on transferring policyholders I must also take account of the statements made in the Athora Ireland Head of Actuarial Function report. The Head of Actuarial Function stated in that report that the Company plans to use its excess capital to fund the acquisition of new business and that therefore it is

likely that the solvency coverage will be reduced overtime to be closer to its target solvency coverage position, which is currently set at 135% of SCR, in line with its capital policy.

iii) Risk Profile

- 5.30 Given that the risk profile of Athora Ireland differs from that of Utmost Ireland, the SCR Coverage Ratio needs to be considered alongside an assessment of the relative risk profiles of Athora Ireland and Utmost Ireland.
- 5.31 As discussed in Section 3, Athora Ireland is closed to new business (albeit that it has a strategy to acquire\reinsure further books of business). Prior to closing to new business, Athora Ireland wrote a range of products, including variable annuity business and unit linked business. The variable annuity business is complex, is exposed to a range of risks and includes investment guarantees where such guarantees are underwritten by Athora Ireland. However, in April 2018 Athora Ireland, under the new ownership of Athora, put a reinsurance treaty in place that reinsured a significant amount of the risk related to its VA portfolio. Athora Ireland has retained some of the risk related to GMWB claims on its VA business, particularly some of the longevity risk. As a result, in comparing the risk profiles of the business within the two companies I have done so by reference to the risk profile of Athora Ireland post implementation of the VA reinsurance. Athora Ireland is exposed to the credit risk of the failure of the reinsurer in respect of the risks reinsured. In order to mitigate this risk Athora Ireland has put in place collateral arrangements with the reinsurer.
- 5.32 Utmost Ireland's product range includes unit linked and unitised with-profits fund linked business. The UWP fund linked business offers investment guarantees to these UWP policyholders. However, Utmost Ireland reinsures these investment guarantees to ALAP under a reinsurance arrangement, as described in Section 3. Utmost Ireland is exposed to the credit risk of the failure of ALAP in respect of this with-profits business. In order to mitigate this risk Utmost Ireland and ALAP have entered into a Deed of Charge whereby Utmost Ireland has been granted a floating charge on the assets of ALAP which crystallises into a fixed charge on the occurrence of certain events specified in the Deed of Charge.
- 5.33 The SCR is a risk based calculation and therefore takes account of the risks within each company. The SCR is derived by determining the impact on the company of a specified series of adverse movements in the risks to which a company is exposed.
- 5.34 I have received a detailed breakdown of the SCR into its component parts for both Athora Ireland and Utmost Ireland, including separately for the Transferring Business. The component parts of the SCR consist of market risk, life insurance risk, counterparty default risk and operational risk. The

market risk component reflects the exposure of a company to changes in the values of financial market instruments as a result of changes in, inter alia, interest rates, equity markets, credit spreads and exchange rates. The life insurance risk component reflects the exposure to changes in mortality, longevity, expenses and the rate at which policyholders surrender or lapse their policies.

- 5.35 An analysis of the pre transfer (post VA reinsurance) Athora Ireland SCRs compared to the Utmost Ireland SCRs shows that Athora Ireland has a material exposure to a number of risks to which Utmost Ireland has little or no exposure, principally concentration risk and longevity risk. The concentration risk is driven by the investments of assets where the exposure to individual counterparties or single names exceeds a specific threshold. Longevity risk is driven by the retained longevity risk of the VA portfolio.
- 5.36 Athora Ireland is materially exposed to longevity risk from the GMWBs on its VA business. This means that if mortality rates fall (i.e. people live longer than expected), Athora Ireland will be required to pay claims for a longer period. At 31 December 2017 the longevity risk charge would have been €32.4 million in respect of the longevity risk retained post the VA reinsurance. There is no longevity risk associated with the Transferring Business nor is the current business within Utmost Ireland materially exposed to longevity risk.
- 5.37 As at December 2017 there was a material capital charge of €19.6 million within the Athora Ireland SCR in respect of concentration risk. This concentration risk charge was as a result of concentrations of exposures to individual counterparties or single names within the Athora Ireland shareholder assets. As at 31 December 2017 the concentration risk charge within the Utmost Ireland SCR was zero. However, at that date the Utmost Ireland shareholder investments resulted in a capital charge of €6.6 million in respect of credit spread risks. Therefore, the Transferring Business is exposed to market risks in respect of shareholder investments within both companies, albeit that the exact nature of the exposure differs between the two companies. The size of the market exposure within Athora Ireland is greater which reflects the higher absolute amount of shareholder assets within Athora Ireland at 31 December 2017.
- 5.38 Both the Utmost Ireland existing business and the Transferring Business are exposed to market risks in that some of the income from the business is dependent on the size of the funds under management (i.e. if markets fall then charges linked to the size of the funds will also fall). Within both companies some future income is based on fixed charge amounts and so is not as sensitive to adverse market movements. The most material market related risks in respect of the policyholder funds under management relate to currency risk and equity risk. I have compared the market related components of the SCR that arise in respect of the income from policyholder funds under

- management, for both the existing Utmost Ireland business and the Transferring Business. This comparison showed no material differences in the capital charges within the SCRs relating to expected charges from policyholder funds under management when I take account of the different relative sizes of the businesses and the expected level of future charges.
- 5.39 The operating model, and as a consequence the projected expenses, within Athora Ireland differs to that within Utmost Ireland. This results in a number of differences within the SCR components for the Transferring Business when it is examined using the Utmost Ireland operating model and associated expenses relative to that using the Athora Ireland approach. The key difference is that Athora Ireland assumes that should policyholder funds under management fall in value as a result of a market event then a material proportion of the expenses would also reduce. This means that within Athora Ireland it is assumed that if income falls as a result of a market related event then expenses would fall by similar proportion. As a result within Athora Ireland the Transferring Business attracts an equity risk charge of zero whereas within Utmost Ireland it is €16.7 million. In the event of such a market fall Athora Ireland would need to take mitigating actions to achieve the assumed expense savings. Utmost Ireland assumes that its expenses would remain substantially unchanged in such a scenario and it therefore has a material capital charge in respect of equity risk. As a result I conclude that the Transferring Policyholders are not materially worse off despite this capital charge within the Utmost Ireland SCR.
- 5.40 Both companies are exposed to expense risk. Expense risk captures the potential that expenses are higher than expected. The expenses in respect of the Transferring Business within Utmost Ireland will reflect the charges under the Master Services Agreement (“MSA”) with USIL. As such there is a greater level of certainty regarding future expenses associated with managing the Transferring Business within Utmost Ireland relative to that within Athora Ireland given the MSA arrangement with USIL.
- 5.41 Another key component of the SCR is the capital charge relating to lapse risk. Lapse risk reflects the impact on the company should there be an unexpected change in lapse rates (i.e. a higher or a lower number of surrenders or partial withdrawals). Under the Solvency II Standard Formula Approach lapse risk is calculated as the higher of an increase in lapses, a decrease in lapses or that there is a one-off significant lapse event. Both companies are exposed to lapse risk. However, the lapse risk capital charge for the Transferring Business within Utmost Ireland is relatively higher than that in respect of the same business within Athora Ireland. This is due to the fact that the Transferring Business within Utmost Ireland has a non unit negative BEL of €61.9 million (i.e. is an asset on the Solvency II balance sheet) relative to that within Athora Ireland where it had a non unit BEL of close to zero. The Standard Formula Approach recognises the risk that the non unit negative BEL

may not be realised in the future and so attracts a relatively higher capital charge in Utmost Ireland compared to that within Athora Ireland. As a result I conclude that the Transferring Policyholders are not materially adversely impacted despite this capital charge within the Utmost Ireland SCR relative to the position pre transfer.

- 5.42 The Counterparty Default Risk SCR for Utmost Ireland appears relatively high for Utmost Ireland when compared to the Athora Ireland capital charge. However, this is driven by the capital charge for the reinsurance arrangement with respect to the UWP fund linked portfolio as discussed in Section 3. As mentioned in Section 3, this risk has been mitigated by Utmost Ireland by putting in place a floating charge. However, no credit can be taken for this risk mitigation under the Standard Formula Approach whereas the Standard Formula Approach does recognise the risk mitigating effects of the collateral arrangements put in place by Athora Ireland to support the VA reinsurance. Given the risk mitigation that Utmost Ireland has in place, I do not consider the counterparty exposure to ALAP to result in Transferring Policyholders being materially adversely impacted as a result of the proposed transfer.
- 5.43 There are some risks which are not considered by the Standard Formula Approach. One such risk relates to the risks associated with Brexit. The vast majority of the Transferring Policyholders are resident in the UK. As a result Athora Ireland, including the Transferring Policyholders, are exposed to the risks associated with Brexit in relation to how this business may be serviced post Brexit. As a significant proportion of Utmost Ireland's current business is in respect of UK resident policyholders, Utmost Ireland is also exposed to the risks associated with Brexit in terms of servicing UK resident policyholders post Brexit. The Transferring Policyholders are exposed to this risk whether or not the Schemes take effect. In addition, I note that Utmost Ireland has a Brexit plan in place and has taken legal advice regarding the possible implications of Brexit for the company and its policyholders and it continues to monitor the situation.
- 5.44 Another risk not considered in the Standard Formula Approach is the risk associated with writing new business. Athora Ireland closed to new business in April 2018 (albeit that it has a strategy to acquire/reinsure further books of business). However, Utmost Ireland continues to write new retail business. Writing new business brings additional risks in that Utmost Ireland incurs up-front sales, marketing and other acquisition costs that are recovered from future policy charges. However, this risk can be mitigated by writing profitable new business which helps ensure that the long-term solvency position improves as those profits are realised in the future.
- 5.45 The Standard Formula Approach SCR does not consider the risks related to closed to new business. As mentioned above, the current Athora Ireland business has ceased to accept new policies and is therefore in run off, albeit

that the Athora strategy for the company is to acquire further books of business (albeit across different business lines). The Transferring Policyholders are therefore, prior to transfer, potentially exposed to the risks associated with a business in run-off, such as the risk of diseconomies of scale and rising expenses on a per policy basis. In contrast Utmost Ireland, as well as having a strategy to acquire further books of business, continues to be open to new retail business. The fact that Utmost Ireland is open to selling new business means that there may be potentially less risk of diseconomies of scale in relation to expenses for the Transferring Policyholders within Utmost Ireland. In addition, the Utmost Ireland operational model is such that Utmost Ireland is less exposed to diseconomies of scale in a closed to new business scenario relative to that within Athora Ireland.

- 5.46 However, I note that there are some uncertainties regarding the ability of Irish based life assurance companies to sell into the UK post Brexit. Utmost Ireland is monitoring the situation and is taking legal advice. The worst case scenario would appear to be that Utmost Ireland would be unable to write new retail business in the UK post Brexit without seeking a separate authorisation in the UK. Should a scenario unfold whereby Utmost Ireland was no longer selling new business in the UK then the Transferring Policyholders would be within a company that was closed to new business, other than the acquisition of new books of business, which is the same as the position currently within Athora Ireland.
- 5.47 Based on the comments in the paragraphs 5.30 to 5.46 and taking the nature of each company's business into account, it is my opinion that it is reasonable to conclude that the risk profile of Utmost Ireland and that of the Transferring Business are not materially different.

iv) Projected Solvency

- 5.48 Each company is required by the CBI to set out within its risk management framework what additional capital resources it intends to allocate over and above its SCR in order to provide additional security to policyholder benefits.

Projected future solvency position – Athora Ireland

- 5.49 In setting its capital management plan, Athora Ireland takes a multi-factored approach, by reference to the underlying risk profile, local requirements and their volatility, stress tests and the capital requirements associated with an 'A' rating from AM Best and Fitch credit rating agencies.
- 5.50 As at 12 July 2018, the date of this report, the target capital was equal to 135% of Athora Ireland's SCR. Assets in excess of this level are deemed to be available for distribution subject to the approval of Athora Ireland's board of directors. The expectation under the Athora strategic plan for Athora Ireland is

that the current capital management and dividend policy will be followed going forward and that excess capital over and above the targeted capital level will be used to help fulfil the strategic objectives of acquiring books of business across Europe.

- 5.51 The Athora Ireland Head of Actuarial Function report shows the projected solvency position of Athora Ireland, post VA reinsurance. This projected solvency position reflects the current business plan for Athora Ireland under the ownership of Athora. In particular, it assumes implementing a number of material transactions in 2018 and 2019 and the receipt of significant capital injections from its parent to support this new business strategy and continue to meet its solvency capital target.

Projected future solvency position – Utmost Ireland

- 5.52 Utmost Ireland has adopted a capital policy whereby it aims to hold sufficient assets to cover at least 133% of its SCR. Furthermore, the Utmost Ireland directors adopted a policy such that any dividends paid would not result in Utmost Ireland having a solvency capital ratio of less than 150%.
- 5.53 The impact of the transfer (if it was to take effect as at 31 December 2017) after taking account of transfer related payments and costs, as well as the proposed capital injection, is detailed in Table 5.4 below. The table below shows that the impact of the Schemes would be to reduce Utmost Ireland's Solvency Coverage Ratio slightly below the 150% level above which dividends may be distributed. The table also shows that it is projected that the post transfer solvency coverage as at 31 December 2018 (the planned Effective Time) is 151%. It is planned to review these projections when the model enhancements mentioned in paragraph 5.26 are implemented for quarter three 2018 regulatory reporting.

Table 5.4 – Utmost Ireland projected solvency coverage

€millions	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Pre Scheme						
Own Funds	47.6	50.4	53.3	56.2	59.4	62.9
SCR	27.9	25.9	24.6	23.5	22.7	22.2
Solvency Coverage Ratio	171%	194%	217%	239%	261%	283%
Post Scheme						
Own Funds	104.3	102.6	107.1	111.7	116.5	121.6
SCR	72.6	68.1	63.7	60.2	57.5	55.5
Solvency Coverage Ratio	144%	151%	168%	185%	203%	219%

- 5.54 The table above shows that the projected solvency position of Utmost Ireland (before allowing for dividend distributions) pre transfer is expected to increase over time as the Risk Margin is released and SCR requirements fall in line with

the run-off of the business. Furthermore the value of new business expected to be written also supports the growth in Own Funds over the projection period.

- 5.55 Post transfer the projected solvency position is projected to increase from 144% as at 31 December 2017 to 151% as at 31 December 2018 (the Schemes Effective Time) and continues to increase thereafter, for the same reasons mentioned in paragraph 5.54 above. The pre and post Schemes projections above have expected solvency coverage ratios above Utmost Ireland's target solvency coverage ratio of 150% at which dividends may be distributed.
- 5.56 The Utmost Ireland Head of Actuarial Function report states that in practice, it is expected that dividends will be paid at a future date so as to bring the solvency ratio down to 150% (the solvency coverage level required to be in place following payments of dividends as set out under its Capital Policy). Consequently, although the projected position shows an improving solvency position, in considering security of policyholder benefits I also considered the likely impacts of the Capital Policy on future solvency coverage levels.
- 5.57 The Utmost Ireland ad-hoc ORSA report showed the results of a number of stress scenarios. For each of the market, expense and lapse stresses Utmost Ireland's Solvency Coverage Ratio still exceeded 133% after allowing for the impact of the stress event in all but two adverse scenario. However, in both scenarios the coverage remained above 100% and within 2 years had returned to above 133%.

Summary - Security

- 5.58 The following summarises the key points in relation to the security of policyholder benefits:
- The capital position of Utmost Ireland as at 31 December 2017 was 171% of capital in excess of the regulatory capital requirements at that date. This represented €19.7 million of excess assets over the SCR requirement of €27.9 million.
 - Assuming that the policyholders had transferred to Utmost Ireland as at 31 December 2017, and allowing for payments and costs associated with the Schemes and a material capital injection, then the level of capital in Utmost Ireland in excess of the required minimum margin would have been 144%. This represented €31.6 million of excess assets over the SCR requirement of €72.6 million. This also resulted in an expected solvency coverage of 151% at 31 December 2018, the planned Effective Time.

- The capital position of Athora Ireland pre transfer (post VA reinsurance) was €79.4 million in excess of the SCR of €75.8 million, which was 205% of the SCR (where this coverage does not allow for expected expense over runs).
- Both companies are exposed to risks, as documented in the respective ORSA reports, which have the potential in adverse scenarios to materially impact the solvency coverage ratio and in some cases for the ratios to drop below the 100% coverage levels.
- Both companies have a similar acquisitive strategy and as at the date of this report both target materially the same capital solvency coverage ratio (135% for Athora Ireland and 133% for Utmost Ireland.) Both companies state that excess capital (where excess capital within Utmost Ireland is that which is in excess of 150% of SCR) within the companies would be used to pay dividends or to acquire new portfolios of business.
- Given the summary bullets above, the fact that the Transferring Policies are moving from a company with a Solvency Coverage Ratio of 205% as at 31 December 2017 to one with a Solvency Coverage Ratio of 144% at the same date (which is projected to be at least 150% at the Effective Time) does not in my opinion result in any material adverse impact on the security of policyholder benefits taking into account the risk profiles of the companies, their capital and dividend policies and their strategic plans.

5.59 Taking account of the points set out above, on the basis of the information made available to me, and having considered the alternative scenario of the transfer not taking place, I am satisfied that the transfer will not result in a material adverse impact in the level of security of the policyholders' benefits of the Transferring Policies (including the holders of the Jersey Policies and Guernsey Policies), the policyholders remaining in Athora Ireland post transfer or Utmost Ireland's policyholders.

Reasonable expectations of transferring unit-linked policyholders

- 5.60 The Schemes do not affect the contractual obligations to the policyholders of either Athora Ireland or Utmost Ireland.
- 5.61 The returns on the unit-linked policies transferred from Athora Ireland to Utmost Ireland will continue to depend on the investment performance of the unit-linked funds, which includes policies with externally managed portfolios, associated with each policy and on the level of charges applied to those funds and to the policies.

i) Funds

- 5.62 The Transferring Policies, which includes policies with externally managed portfolios, are all unit-linked contracts. The Schemes state that Utmost Ireland will establish new internal linked funds for the Transferring Policies which will correspond to the current Athora Ireland internal linked funds. Furthermore, the Schemes state that externally managed portfolios will be designated in favour of the same individual policies as they were before the Schemes. The Schemes state that the new funds will be subject to the same rules and procedures for the calculation of unit prices and fund-related charges as was the case with the corresponding Athora Ireland.
- 5.63 As discussed in paragraph 3.21 a number of Athora Ireland funds that currently hold both funds relating to VA business and the Offshore Bond Portfolio business will be split in advance of the proposed transfer of the Offshore Bond Portfolio to Utmost Ireland. The exact mechanism for splitting the funds, and subsequently transferring these funds under the Schemes, is still to be determined, although a number of approaches have been identified. Athora Ireland has informed me that the splitting of the funds will be purely for administrative purposes and therefore there will be no impact on the pricing basis of the funds or the charges to policyholders.
- 5.64 Similarly, there may be funds that the Transferring Policyholders invest in that are to be retained by Athora Ireland. In this case Utmost Ireland plans to negotiate with the fund managers the same terms as currently enjoyed by Athora Ireland. Alternatively, Utmost Ireland will seek an order from the Court to split the fund management arrangements.
- 5.65 Athora Ireland and Utmost Ireland have agreed a contingency plan in respect of any splitting of agreements with external fund managers required on account of the splitting of the funds. Should agreement of the external fund managers not be obtained, it is proposed that an appropriate Court order will be obtained to facilitate the splitting of the agreements with the external fund managers. If the Court declines to split the agreements with the external fund managers, Athora Ireland and Utmost Ireland will enter into a reciprocal fund

linked reinsurance arrangement (or other appropriate commercial terms as may be agreed by Athora Ireland and Utmost Ireland). This approach would mean that the remaining and Transferring Policyholders would continue to enjoy the same terms for, and access to, funds that are being transferred and retained by Athora Ireland respectively. The reciprocal reinsurance arrangement would be arranged so as to allow policyholders to access the relevant funds only and would not transfer any other risks between the two companies. In particular, the reinsurance would not transfer any VA risks to Utmost Ireland.

- 5.66 For Transferring Policies with investments in internal linked funds the Transferring Policyholders will receive an identical number of units of equal value in the new “host” internal linked funds in Utmost Ireland compared to their position in the corresponding Athora Ireland fund.
- 5.67 In summary, this means that:
- the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer;
 - the value of Transferring Policyholders’ funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place; and
 - the underlying unit linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.
- 5.68 The investment criteria of the Athora Ireland internal linked funds and the fund management arrangements will be copied by the new “host” internal linked funds in Utmost Ireland. The external and discretionary fund managers, which the internal linked funds invest in, are not parties to the Schemes and consequently the investment criteria of externally managed funds are unaffected by the Schemes.
- 5.69 Any powers contained within the Transferring Contracts for funds to be merged, closed or sub-divided, will be preserved under the Schemes with such powers being transferred to Utmost Ireland post transfer.
- ii) Reinsurance arrangements*
- 5.70 There are no reinsurance arrangements in respect of the transferring business that need to be considered as part of the Schemes.

iii) Pricing basis for unit linked funds

- 5.71 The Schemes state that there will be no change to the approach to unit pricing as a result of the proposed transfer. There will also be no change to the unit pricing procedures affecting policies belonging to the existing Utmost Ireland or Athora Ireland customers as a result of the proposed transfer.

iv) Charges

- 5.72 The policy terms and conditions documents in respect of the Transferring Policies specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.
- 5.73 The terms and conditions of each product sold by Athora Ireland list all the charges that apply to a policy. The charges that may be varied by the company are listed below;

■ Maintenance Charges

A quarterly maintenance charge is deducted from a number of Offshore Bond products to cover administration costs and may be used to cover some general expenses of the company. This charge is expressed as a percentage amount per annum and depending on the product line will either be based on fund value or the maximum of premium or fund value relating to that premium. The policy conditions state that the company reserves the right to vary this charge to cover increases in administration and other costs, the cost of additional levies or taxes or any additional costs associated with legislative or regulatory requirements. Athora Ireland has not increased this charge in the past.

■ Portfolio Charges

A quarterly portfolio charge is deducted from a number of Offshore Bond products to cover administration costs and may be used to cover some general expenses of the company. This charge is expressed as a percentage amount per annum and applies to the full bond value. The charge rate is typically tiered depending on the bond value and therefore the rate applied quarterly can vary depending on the prevailing bond value at the point the charge is levied.

■ Total Expense Ratio

The total expense ratio is the total charge to policyholders invested in Athora Irelands internal funds. This charge is implicitly allowed for in the

daily fund prices. This total charge is generally made up of four components; the Athora Ireland annual management charge (AMC); the external fund manager's AMC, the external fund manager expenses and the external fund manager's rebate (if applicable). The Athora Ireland AMC is the only component of this total charge that the company is entitled to apply a discretionary increase to and no discretionary increases have occurred in the past.

- Establishment Charge

At outset, for a specified term (typically 5 years), a quarterly establishment charge applies to a number of Offshore Bond products and is typically taken to cover the initial commission costs incurred. A small proportion (<50) of the transferring portfolio are still within their establishment charge term. The charge is typically taken as percentage of the maximum of the premium or the net asset value at the point the charge is levied. There are a number of products to which the company can apply a discretionary increase to this charge although this has not occurred in the past.

- Quarterly Administration Charge

A fixed amount product charge applies to a number of Offshore Bond products. This charge is taken quarterly to cover the costs associated with administering an Offshore Bond. The charge is subject to increase without notice by up to the amount of any increase in each calendar year of the Irish Consumer Price Index. This charge has increased in line with inflation in the past, although no other discretionary increases have been applied.

- Dealing Charge

Where products allow access to external investments a fixed amount dealing charge for each trade after a specified number (which could be zero) in any policy year may be levied. In practice, this charge is not levied for trades on internal funds, cash deposits or structured deposits. The charge is subject to increase without notice by up to the amount of any increase in each calendar year of the Irish Consumer Price Index. This charge has increased in line with inflation in the past, although no other discretionary increases have been applied.

- Surrender Charge

For a number of Offshore Bond products a surrender charge may be taken. Typically this charge equal to the outstanding establishment

charge at the point of surrender. The company can apply a discretionary increase to this charge although this has not occurred in the past.

■ **Change of Custodian Charge**

Upon transferring all assets under a bond from one custodian to another a charge is applied. Depending on the value of the bond being transferred the charge is either a fixed amount or a percentage of the transfer value. The company can apply a discretionary increase to this charge although this has not occurred in the past.

■ **Renewal Charge**

A quarterly percentage based charge applied to fund value is taken to cover the cost of explicit renewal commission. The company can apply a discretionary increase to this charge although this has not occurred in the past.

■ **Portfolio Phase Transfer Charge**

Investment portfolio policies that have chosen the bond phase and subsequently take the option to transfer to the portfolio phase are subject to a once-off percentage based charge. The company can apply a discretionary increase to this charge although this has not occurred in the past.

- 5.74 The Schemes state that there will be no change to policy charges as a result of the transfer. It is also necessary to consider the effect of the Schemes on how these charges may vary in the future. In practical terms, changes to these charges are currently at the discretion of the board of directors of Athora Ireland after taking account of policyholders' reasonable expectations and the interpretation of policyholders' reasonable expectations by the Head of Actuarial Function in relation to the application of discretion in this regard. Post transfer these discretionary powers in relation to the alteration of policy charges for the Transferring Policies will rest with the board of directors of Utmost Ireland.
- 5.75 I have discussed with the Head of Actuarial Function of Utmost Ireland her interpretation of policyholders' reasonable expectations. She has confirmed that she does not consider that there would be any significant difference in her interpretation of what would constitute policyholders' reasonable expectations, compared to the interpretation of the Athora Ireland Head of Actuarial Function as pertaining to varying charges in the manner referred to above.
- 5.76 The Schemes therefore do not result in any changes to contractual policy charges nor do they result in any changes to the discretionary powers

available to the company and process by which policy charges may be increased in the future. Consequently, I consider it reasonable to conclude that Transferring Policyholders will not be adversely impacted in relation to the prospect of future changes in the level of charges as a result of the transfer.

v) Complaints

- 5.77 Post transfer the policyholders will have access to a complaints process which will be compliant with the prevailing regulatory requirements. The complaints process post transfer will be equivalent in respect of the service provided to policyholders.

vi) Service

- 5.78 Currently the policy administration activities relating to the Transferring Policies are undertaken by the Dublin based administration function sitting within the Client Services Team of Athora Ireland. Investment administration and other services such as unit pricing are undertaken by the Athora Ireland Investment Administration Team based in Dublin. The Athora Ireland Business Actuarial Team, based in Dublin, works with the Investment Administration Team and administration function where necessary, e.g. where a manual process is needed.
- 5.79 As part of the acquisition of the Offshore Bond Portfolio business the policy administration of the Offshore Bond Portfolio will be moved from the current platform to the Utmost Ireland platform. The recent Utmost Ireland ad-hoc ORSA identified that this policy administration systems migration to be a key operational risk for Utmost Ireland. However, the ad-hoc ORSA listed the various mitigating factors that the business is planning to put in place so as to ensure a successful project implementation, including dual processing for a period as well as a backup of having a transitional services agreement in place with Athora Ireland for policy administration should there be any slippage on the planned project timeline.
- 5.80 The Business Sale Deed provides for circa 18 employees of Athora Ireland that are part of the Client Services, Investment Administration and Business Actuarial teams to transfer to employment with USIL from the effective date of the Schemes, in accordance with the applicable “transfer of undertakings legislation”, for the purposes of continuing the customer servicing functions in relation to the Transferring Business post the effective dates of the Schemes.
- 5.81 Utmost Ireland currently has an outsourcing agreement with Capita Life and Pensions Services Limited and USIL in relation to policy administration of the current Utmost Ireland business. I have been informed that this agreement will not be amended as a result of the Scheme and that post transfer Capita Life

and Pensions and USIL will continue to carry out the policy administration of the current Utmost Ireland business.

- 5.82 On the basis of the points listed above I believe that, from the perspective of levels of customer service, Transferring Policyholders will not be materially adversely impacted as a result of the proposed transfer.

vii) Options

- 5.83 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such Transferring Policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

viii) Tax

- 5.84 Utmost Ireland has sought tax advice from its internal tax adviser in relation to the Transferring Business. The tax advice stated that given that the Schemes effect the novation of the existing policy contracts with no changes to contract terms then there would be no adverse tax consequences for UK tax resident policyholders as a result of the Schemes. The tax advice also noted that the preceding conclusion also applies to the Jersey Policies and Guernsey Policies. For policyholders resident in other jurisdictions, given that the Schemes effect the novation of the existing policy contracts with no changes to contract terms, the tax advice did not foresee a basis on which a charge to tax or other adverse tax consequences could arise.
- 5.85 Athora Ireland has also received tax advice that states that there are no adverse tax consequences for policyholder funds that remain within Athora Ireland post transfer as a result of the Schemes.
- 5.86 Furthermore the Schemes state that any tax liabilities that crystallise as a result of the transfer of the policyholder assets will not be borne by the policyholders.

Impact of transfer on existing Athora Ireland policyholders

- 5.87 It is also necessary for me to consider the effect of the Schemes on the existing policyholders of Athora Ireland who are not transferring to Utmost Ireland.
- 5.88 Table 5.1 above clearly shows that there is no material adverse impact on the solvency position of Athora Ireland as a result of the proposed transfer. Rather the solvency position improves post transfer. There are no changes to policy terms or conditions of the remaining policyholders of Athora Ireland as a result of the Schemes.

- 5.89 As discussed in paragraph 5.19, Athora Ireland expects to incur expenses over and above those allowed for within the BEL numbers in Table 5.1 and 5.2 above (i.e. overrun expenses). I have reviewed the overrun expenses calculated by Athora Ireland, both before the proposed transfer and after the proposed transfer, and I noted that there was no material adverse differences over both a 3 and a 5 year time horizon from the perspective of the remaining policyholders. This is due to the fact that Athora Ireland expect a material reduction in expenses as a result of the proposed transfer.
- 5.90 As such, I consider it reasonable to conclude that the transfer of the Offshore Bond Business of Athora Ireland to Utmost Ireland will have no material adverse impact on non-transferring Athora Ireland business from either the perspective of security of benefits or from the perspective of policyholders' reasonable expectations.

Impact of transfer on existing Utmost Ireland policyholders

- 5.91 It is also necessary for me to consider the effect of the Schemes on the existing policyholders of Utmost Ireland.
- 5.92 As at 31 December 2017 Utmost Ireland had 5,714 contracts with funds under management of €2.2 billion. As at the same date the Transferring Business included 7,052 contracts with funds under management of €3.5 million. This clearly shows that in the context of funds under management this is a material change to Utmost Ireland's business, albeit with a lesser impact in the context of the additional number of contracts that it brings to Utmost Ireland.
- 5.93 The nature and risk profile of the unit-linked business being transferred from Athora Ireland to Utmost Ireland is relatively similar to much of the unit-linked business written by Utmost Ireland, although the Transferring Business will attract proportionally higher or lower capital charges for a range of scenarios considered within the SCR calculation reflecting differences in the underlying asset mix of the policyholders and the sizeable negative non unit linked BEL associated with the Transferring Business.
- 5.94 The Utmost Ireland strategy, which is aligned to the LCCG Group strategy is to acquire further books of business. The acquisition of the Offshore Bond Portfolio is part of that strategy. The acquisition of this portfolio of business means that there is a greater book of business over which overhead costs may be spread resulting in a potentially more cost efficient organisation to the extent that expected expense synergies can be realised. Therefore, it is possible that Utmost Ireland may benefit from expense economies as a result of the Schemes. I have been informed that Utmost Ireland will review its current MSA with USIL in the context of expected expense synergies with a view to reducing the current MSA per policy charges from USIL to Utmost Ireland.

- 5.95 There will be no changes to the basis of determining benefits or charges in respect of Utmost Ireland policies, or to the range of unit-linked and externally managed funds available to those policies, as a result of the proposed transfer.
- 5.96 Under the Schemes only the unit linked assets that underlie the unit linked liabilities will be transferred to support the unit linked liabilities transferring. As such, no additional assets will be transferred to support the additional capital requirements associated with the Transferring Policies. This therefore results in a reduction in the SCR coverage ratio in Utmost Ireland as a result of the transfer, from 171% pre transfer to 144% post transfer (assuming an effective date of 31 December 2017) which is projected to be 150% or greater at the planned Effective Time of 31 December 2018. However, I must also consider the capital policy of Utmost Ireland as discussed in paragraph 5.52 (i.e. that excess capital over 150% of SCR would be paid as dividends or used to make further acquisitions).
- 5.97 Having considered the various points set out above, I consider it reasonable to conclude that for existing Utmost Ireland policyholders the proposed transfer does not have a material adverse impact on the security of their benefits or their reasonable expectations.

Policyholder communication regarding the proposed transfer

- 5.98 I have reviewed the contents of the communications that will be made available to the Transferring Policyholders in relation to the proposed Schemes and in my opinion they are satisfactory.
- 5.99 Relevant documents related to the proposed Schemes, including the full text of this report, will be made available for inspection at the offices of Utmost Ireland in Dublin, Athora Ireland in Dublin and William Fry in Dublin and London and (to the extent required by the Jersey Insurance law) the offices of Carey Olsen in Jersey. In addition, such documents will be available on both Athora Ireland and Utmost Ireland websites and also upon request. Notices will also be placed in various publications as listed in Section 4.
- 5.100 In the circumstances where it is my opinion that the terms of the proposed Schemes are such that there are no material adverse effects on the remaining policyholders of Athora Ireland and taking account of paragraphs 5.98 and 5.99 above, I believe that the proposal not to notify this group of policyholders by letter is satisfactory.
- 5.101 Similarly, in the circumstances where in my opinion the terms of the proposed Schemes are such that there are no material adverse effects on the current policyholders of Utmost Ireland and taking account of paragraphs 5.98 and 5.99 above, I believe that the proposal not to notify this group of policyholders by letter is satisfactory. .

Conclusion

5.102 My conclusions in paragraph 5.103 and 5.104 below are subject to the following:

- That sufficient capital is transferred into Utmost Ireland in advance of the proposed transfer so that post transfer of the business, which is currently planned to transfer on 31 December 2018, solvency coverage would be at least 150% of the SCR;
- That the enhancements that Utmost Ireland plan to implement in its actuarial projection model in advance of quarter three 2018 (primarily relating to the calculation of the risk margin, the lapse component of the SCR and the expense component of SCR) do not result in any changes to my opinion;
- That the final mechanism agreed to split the funds, referred to in paragraphs 5.63, does not result in any adverse impacts on either the Transferring Policyholders or the remaining Athora Ireland policyholders;
- That the final agreement of the terms with the external fund managers required on account of the splitting of the funds, referred to in paragraphs 5.64 and 5.65, does not result in any adverse impacts on either the Transferring Policyholders or the remaining Athora Ireland policyholders; or alternatively (i) that the Court grants an appropriate Court order to facilitate the splitting of the agreements with the external fund managers or (ii) in the event such a Court order is not obtained, Athora Ireland and Utmost Ireland enter a reciprocal fund linked reinsurance arrangement or other appropriate commercial terms as may be agreed by Athora Ireland and Utmost Ireland neither of which result in any adverse impacts on either the Transferring Policyholders or the remaining Athora Ireland policyholders;
- That any review of the MSA agreement between Utmost Ireland and USIL does not result in any changes to my opinion;
- That there are no changes to my opinion following the reorganisation of LCCG Group such that Utmost PanEurope dac will become the immediate parent undertaking for Utmost Ireland dac; and
- Reliances and Limitations as set out in Appendix A

Athora Ireland

5.103 Subject to 5.102, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude

that, for the transferring Athora Ireland policyholders (including the holders of the Jersey Policies and Guernsey Policies) and the remaining Athora Ireland policyholders, the proposed transfer does not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

5.104 Furthermore, the Head of Actuarial Function of Athora Ireland has prepared a report in relation to this transfer based on 31 December 2017 solvency position. In that report the Head of Actuarial Function has concluded that:

- *“The security of benefits of policyholders of Athora Ireland, both those remaining with the Company and those transferring to Utmost Ireland, will not be materially adversely affected by the Scheme of Transfer;*
- *The reasonable benefit expectations and contractual terms of the remaining and transferring policyholders of Athora Ireland will not be materially adversely affected by the Scheme of Transfer.”*

Utmost Ireland

5.105 Subject to 5.102, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that for existing Utmost Ireland policyholders the proposed transfer does not have a material adverse impact on the security of their benefits nor on their reasonable expectations.

5.106 Furthermore, the Head of Actuarial Function of Utmost Ireland has prepared a report in relation to this transfer based on 31 December 2017 solvency position. In that report the Head of Actuarial Function, having considered the impact of the proposed Schemes on existing Utmost Ireland dac policyholders, has concluded that:

- *“the Schemes will have no material adverse impact on the security of the existing Utmost Ireland dac policyholders;*
- *the fair treatment and reasonable benefit expectations of existing Utmost Ireland dac policyholders will not be materially adversely affected by the Schemes; and,*
- *the Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.”*

Section 6: Summary and overall conclusions

6.1 In this report I have considered the effects of the proposed transfer on the current policyholders of Athora Ireland and Utmost Ireland. My conclusion is subject to the following:

- That sufficient capital is transferred into Utmost Ireland in advance of the proposed transfer so that post transfer of the business, which is currently planned to transfer on 31 December 2018, solvency coverage would be at least 150% of the SCR;
- That the enhancements that Utmost Ireland plan to implement in its actuarial projection model in advance of quarter three 2018 (primarily relating to the calculation of the risk margin, the lapse component of the SCR and the expense component of SCR) do not result in any changes to my opinion;
- That the final mechanism agreed to split the funds, referred to in paragraphs 5.63, does not result in any adverse impacts on either the transferring Policyholders or the remaining Athora Ireland policyholders;
- That the final agreement of the terms with the external fund managers required on account of the splitting of the funds, referred to in paragraphs 5.64 and 5.65, does not result in any adverse impacts on either the Transferring Policyholders or the remaining Athora Ireland policyholders; or alternatively (i) that the Court grants an appropriate Court order to facilitate the splitting of the agreements with the external fund managers or (ii) in the event such a Court order is not obtained, Athora Ireland and Utmost Ireland enter a reciprocal fund linked reinsurance arrangement or other appropriate commercial terms as may be agreed by Athora Ireland and Utmost Ireland neither of which result in any adverse impacts on either the Transferring Policyholders or the remaining Athora Ireland policyholders;
- That any review of the MSA agreement between Utmost Ireland and USIL does not result in any changes to my opinion;
- That there are no changes to my opinion following the reorganisation of LCCG Group such that Utmost PanEurope dac will become the immediate parent undertaking for Utmost Ireland dac; and
- Reliances and Limitations as set out in Appendix A

6.2 Subject to 6.1, my conclusions may be summarised by the following statements:

- The proposal provides appropriate protection for the interests of Transferring Policyholders. I do not consider it necessary to put in place any additional protections in addition to those in the Schemes;
- There is no material adverse impact on the security of benefits for any group of policyholders (including the holders of the Jersey Policies and Guernsey Policies) as a result of the proposed Schemes; and
- No group of policyholders (including the holders of the Jersey Policies and the Guernsey Policies) will suffer any reduction in reasonable benefit expectations as a result of the proposed Schemes.



**Rosemary Commons FSAI
Consulting Actuary
Towers Watson (Ireland) Limited**

12 July 2018

**Towers Watson (Ireland) Limited
Elm Park
Merrion Road
Dublin 4**

Appendix A: Reliances and Limitations

Reliances

1. The purpose of the report is to set out my assessment of the likely effects of the proposed Scheme on the long-term policyholders of Athora Ireland and Utmost Ireland and it should not be used for any other purpose or in any other context.
2. In carrying out our review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form, by Athora Ireland and Utmost Ireland. In particular, I have relied upon the accuracy and completeness of the contents of the documents listed in paragraphs 2.3 to 2.5, including all calculations contained therein.

Limitations

3. This report has been produced for use by the various parties involved with this proposed Transfer which include:
 - The Court having jurisdiction over the proposed transfer
 - The Royal Court of Jersey
 - The Royal Court of Guernsey
 - The Directors and the Head of Actuarial Function of Athora Ireland
 - The Directors and the Head of Actuarial Function of Utmost Ireland
 - Policyholders of Athora Ireland and Utmost Ireland
 - The Central Bank of Ireland
 - The Jersey Financial Services Commission
 - The Guernsey Financial Services Commission
 - Professional advisors appointed by any of the above in connection with the proposed transfer
4. No part of this report is to be disclosed to, or relied on, by any third party without the prior written consent of Willis Towers Watson, with the exception of making the report available for inspection by or circulation to policyholders as required by legislation or in order to meet any other specified legal requirements.
5. This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this report must not be relied upon by any person for any purpose. No reliance should be placed on any

advice not given in writing. If reliance is placed contrary to the guidelines set out above, Willis Towers Watson disclaim any and all liability which may arise.

6. We have not attempted to assess the suitability or quality of Athora Ireland's assets or Utmost Ireland's assets. We have also not investigated, or made allowance for, any claims against Athora Ireland or Utmost Ireland other than those made by policyholders under the normal terms of life insurance business. In particular, no account has been taken of liabilities in respect of leases and breaches of legislation, regulatory rules or guidance.
7. Assumptions are made about future experience, including economic and investment experience, tax, expenses, discontinuance rates, mortality, reinsurance and legislation. These assumptions have been set by Athora Ireland and Utmost Ireland. However, actual future experience is likely to differ from these assumptions, due to random fluctuations, changes in the operating environment and other factors. Such variations in experience could have a significant effect on the results and conclusions of this report. No warranty is given by Willis Towers Watson that the assumptions made in this report will be reflected in actual future experience.
8. Our review is based on the documentation provided by Athora Ireland and Utmost Ireland and is from the viewpoint of actuarial advisers. In particular we are not providing you with legal, audit, accountancy or tax advice, which are outside the normal scope of our services. Where, in the course of providing our services, we need to interpret a document, deed, accounts or relevant taxation provision in order to advise you, we do so with the reasonable skill and care to be expected of us in our professional capacity but you acknowledge that we are neither lawyers nor tax advisers nor accountants and accordingly should you want definitive advice for example, as to the proper interpretation of a document, deed, accounts or relevant taxation provision you should consult your lawyers, accountants or tax advisers for that advice.
9. The report does not consider possible financial implications arising from the introduction of new regulatory reporting requirements which may, for example, increase the level of capital support required to sustain the business or constrain the way in which the assets are invested.
10. This report was not specifically intended to, and may not therefore, address the particular needs, concerns or objectives of any individual policyholder.
11. This report was based on data available to Willis Towers Watson, or prior to, 12 July 2018, and takes no account of developments after that date. Willis Towers Watson is under no obligation to update or correct inaccuracies which may become apparent in the report.
12. This report is subject to the terms and limitations, including limitation of liability, set out in our Statement of Work document dated 22 March 2018. The total liability of Willis Towers Watson arising out of or in connection with the services provided in contract tort or otherwise (in each case including, but not limited to, negligence) shall be limited to a maximum of €2 million.

13. Willis Towers Watson shall not be liable in contract tort or otherwise for any loss of revenue, business, contracts, anticipated savings or profits or for any other indirect or consequential loss whatsoever.
14. Any limitation of liability shall be construed to the fullest extent permitted by law.

Legal jurisdiction

15. This Report will be governed by and construed in accordance with Irish law and the parties submit to the exclusive jurisdiction of the Irish courts in connection with all disputes and differences arising out of, under or in connection with this Report. If any part of a provision of this Report is held invalid, illegal or unenforceable then the remainder of such provision shall remain valid and enforceable to the fullest extent permitted by law.

Appendix B: Definitions

Best Estimate Liability (“BEL”): The BEL is the expected value of the present value of future cashflows of a contract including cashflows related to future premium flows, insurance benefit payouts and the expenses of administering the contracts. These cashflows are projected over the contract’s run-off period taking into account all up-to-date financial market and actuarial information.

Risk Margin (“RM”): The RM is the cost of providing an amount of capital equal to the Solvency Capital Requirement necessary to support the insurer’s policyholder obligations over the lifetime of the inforce contracts.

Technical Provisions (“TP”): TP are equal to the sum of the BEL and the RM.

Standard Formula approach to the calculation of the Solvency Capital Requirement (“SCR”): The Standard Formula Approach is a standardised calculation method which uses parameters prescribed by European insurance regulators, including the CBI. It is not tailored to the individual risk profile of a specific insurance company and aims to capture the material quantifiable risks that most companies are exposed to including but not limited to underwriting risk, market risk and counterparty default risk. Each company is required by its supervisory authority to perform an assessment of its risk profile in order to ascertain the extent to which its risk profile deviates from the assumptions underlying the Standard Formula Approach SCR calculation. If there is a significant deviation the insurance company is required to consider the possible consequences of such a deviation and how it intends to address these. Utmost Ireland has adopted a Standard Formula Approach and in its 2016 Own Risk and Solvency Assessment it concluded that the Standard Formula stresses were appropriate in generating an SCR consistent with the risk profile of the company.

Internal Model approach to the calculation of the Solvency Capital Requirement (“SCR”): An Internal Model Approach is a bespoke approach adopted by a company when the Standard Formula Approach is not deemed to adequately reflect the risk profile of the company. Companies who use an Internal Model Approach must apply for approval from their supervisor authority to do so.

Own Risk and Solvency Assessment (“ORSA”): As part of the Solvency II framework companies are required to conduct an ORSA to identify, assess, monitor, manage, and report the short and long term risks a firm faces or may face and to determine the own funds necessary to ensure the overall solvency needs are met at

all times. The ORSA is an integral part of the business strategy, taken into account in strategic decisions and is used to help identify and manage risk.