

Transfer of the Offshore Bond Portfolio business of Athora Ireland plc to Utmost Ireland dac.

Summary of the report of the Independent Actuary on the proposed Schemes of Transfer for inclusion in the policyholder circular

12 July 2018

Table of Contents

Section 1: Introduction

Section 2: Background to the Participant Companies

Section 3: Main Features of the Scheme

Section 4: Effects of the Scheme on Policyholders

Section 5: Summary and overall conclusions

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 whose 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. 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. 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”.

The role of the Independent Actuary

- 1.8 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.
- 1.9 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. This report is a summary report (“Summary Report”) of said report, “Report of the Independent Actuary” dated 12 July 2018 (“Independent Actuary Report”).

- 1.10 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.
- 1.11 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.
- 1.12 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. 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 Independent Actuary Report

- 1.13 The Independent Actuary 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.
- 1.14 The Independent Actuary 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, the Independent Actuary 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.

Information on which the Independent Actuary Report is based

- 1.15 In the course of preparing the Independent Actuary Report, I have been provided with a number of documents by Athora Ireland and Utmost Ireland to

assess the impact on both their policyholders of the proposed Schemes. Full details of the information provided to me are included in the Independent Actuary Report.

- 1.16 In addition, I have participated in a number of meetings involving the management and Heads of Actuarial Function of Athora Ireland and Utmost Ireland. I have also reviewed the reports on the Schemes prepared by the Heads of Actuarial Function of the participant companies.

Reliances and Limitations

- 1.17 This Summary Report is subject to the reliances and limitations set out in Appendix A of the Independent Actuary Report and, to the extent permitted by law, the use of Independent Actuary Report and this Summary Report is subject to the terms and conditions, including limitation of liability, set out in our Statement of Work document dated 22 March 2018.
- 1.18 The purpose of the Independent Actuary Report is to set out my assessment of the likely effects of the proposed Schemes on the policyholders of Athora Ireland and Utmost Ireland and it should not be used for any other purpose or in any other context. My report was not specifically intended to, and may not therefore, address the particular needs, concerns or objectives of any individual policyholder. This summary of the Independent Actuary Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. If reliance is placed contrary to the guidelines set out above, Willis Towers Watson disclaim any and all liability which may arise.
- 1.19 In carrying out my review, and producing the Independent Actuary Report and this Summary 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, both before and after the proposed transfer.
- 1.20 Neither the Independent Actuary Report, this Summary Report, nor any extract from either document, may be disclosed to, or relied on, by any third party without the prior written consent of Willis Towers Watson, and neither will Willis Towers Watson nor I accept any responsibility or liability in respect of such disclosure or reliance, with the exception of making the Independent Actuary Report (or this Summary Report) available for inspection by, or circulation to, Athora Ireland and Utmost Ireland policyholders as required by legislation or in order to meet any other specified legal requirements. In the event such consent is provided, the Independent Actuary's Report must be provided in its entirety.

Section 2: Background to Athora Ireland and Utmost Ireland

Athora Ireland history

- 2.1 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.
- 2.2 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.
- 2.3 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.
- 2.4 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.
- 2.5 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.
- 2.6 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 Munichener Ruckversicherungs-Gesellschaft in Munich. Athora Ireland has retained some of the risk related to guaranteed minimum withdrawal benefit ("GMWB"), primarily relating to the risk of paying income claims longer than expected (longevity risk).
- 2.7 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).

The business of Athora Ireland

- 2.8 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.
- 2.9 However, a substantial part of the VA related risks have been reinsured with effect from April 2018. The key VA related risk retained by Athora Ireland is the longevity risk associated with the GMWB. 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.
- 2.10 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.
- 2.11 Table 2.1 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). 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 2.1 – 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

2.12 Table 2.2 below shows a further breakdown of the Transferring Policies by product.

Table 2.2 – 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

- 2.13 All of the Transferring Policies are single premium policies. In addition, the Flexible Investment Portfolio permits regular premium payments.
- 2.14 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. The internal linked funds are managed internally by Athora Ireland.
- 2.15 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.

Utmost Ireland history

- 2.16 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.
- 2.17 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 PanEurope dac will become the immediate parent undertaking for Utmost Ireland dac during Q3 2018.
- 2.18 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.
- 2.19 Utmost Ireland includes the former AXA Life Europe business that was transferred to it on 30 June 2017, by way of another scheme (“AXA Scheme”).

The business of Utmost Ireland

- 2.20 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.
- 2.21 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

- 2.22 The unit linked business is where policyholders invest in unit linked funds and where the policyholders bear the investment risks. The benefits are linked either to the performance of unit linked funds or specific externally managed funds.

Unitised With-Profits Fund Linked Business

- 2.23 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 current reinsurance arrangement came into effect in 2009 when a reorganisation of ALAP's with-profits funds took place.
- 2.24 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.
- 2.25 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.
- 2.26 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.

- 2.27 At the end of December 2017, Utmost Ireland had the following mix of policies in-force:

: 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 3: Main features of the Schemes

- 3.1 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.
- 3.2 The principal features of the Schemes are set out in the following paragraphs.

Scope of transfer

- 3.3 Under the Schemes the life assurance business liabilities of the Transferring Policies will be transferred from Athora Ireland 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.
- 3.4 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.

Effective Time

- 3.5 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.
- 3.6 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

- 3.7 Following the transfer Utmost Ireland will assume all the obligations to the policyholders of the Transferring Policies. The rights of policyholders 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.
- 3.8 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.
- 3.9 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).

Splitting of certain unit linked funds

- 3.10 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 reassurance 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 reassurance 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

- 3.11 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.

- 3.12 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.
- 3.13 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.
- 3.14 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.
- 3.15 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.
- 3.16 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.
- 3.17 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

- 3.18 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

- 3.19 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

- 3.20 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.
- 3.21 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

- 3.22 All costs and expenses relating to the preparation of the Schemes and application for the sanctions of 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

- 3.23 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").
- 3.24 It is proposed by Athora Ireland and Utmost Ireland, subject to relevant court approvals, to transmit the Policyholder Circular, including this Summary Report prepared by me, 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.
- 3.25 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 4: Effects of the Schemes on policyholders

General considerations

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 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.

Security of transferring policyholders' benefits

i) Background

- 4.5 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).
- 4.6 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.
- 4.7 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 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 where the BEL is a negative figure this represent an asset for the company ;

2. The risk margin (as defined in Appendix B of the Independent Actuary Report).

- 4.8 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.
- 4.9 Under the Solvency II Regulations companies may use a Standard Formula Approach or an Internal Model Approach, 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.
- 4.10 In addition to the capital requirements described above, each company is required by the CBI to set out within its risk management framework what 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.
- 4.11 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 to the SCR. These ratios are also referred to as solvency coverage ratios.

- 4.12 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.
- 4.13 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

- 4.14 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.
- 4.15 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

- 4.16 As at 31 December 2017, Athora Ireland had funds under management of €4.9 Billion (£4.3Bn). However, as mentioned in paragraph 2.6 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).
- 4.17 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 4.16 above.

Table 4.1 – 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%

4.18 The following point should be noted in relation to Table 4.1:

- 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 4.1.

- 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 4.1 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. 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 4.09, 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).
- 4.19 For the purpose of my review I have focused on the post VA reinsurance solvency position of Athora Ireland.
- 4.20 Tables 4.2 and 4.3 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. The split of the SCR between VA and the Offshore Bond Business and the diversification

amount in the Table 4.2 has been estimated by Athora Ireland as it only reports an overall SCR.

Table 4.2 – 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%

4.21 The following points should be noted in relation to Table 4.2:

- 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.

4.22 Table 4.2 shows that had the transfer taken place as at 31 December 2017 the post transfer 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.

4.23 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

- 4.24 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 4.3 – 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

4.25 The following point should be noted in relation to Table 4.3:

- 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's 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 Own Risk and Solvency Assessment ("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 4.3 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.

- 4.26 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%.
- 4.27 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.
- 4.28 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 4.51 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

- 4.29 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.
- 4.30 As discussed in Section 2, 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.
- 4.31 As discussed in Section 2 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. 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.
- 4.32 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.
- 4.33 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.

- 4.34 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.
- 4.35 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.
- 4.36 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.
- 4.37 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.
- 4.38 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. 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.

- 4.39 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 Utmost Services Ireland Limited (“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.
- 4.40 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). 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 material adversely impacted despite this capital charge within the Utmost Ireland SCR relative to the position pre transfer.
- 4.41 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 2. As mentioned in Section 2, 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 material adversely impacted as a result of the proposed transfer.

- 4.42 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.
- 4.43 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.
- 4.44 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 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.
- 4.45 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.

- 4.46 Based on the comments in the paragraphs 4.29 to 4.45 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

- 4.47 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

- 4.48 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.
- 4.49 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.
- 4.50 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

- 4.51 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%.
- 4.52 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 4.4 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 4.25 are implemented for quarter three 2018 regulatory reporting.

Table 4.4 – 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%

- 4.53 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.
- 4.54 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 4.53 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.
- 4.55 The Utmost Ireland Head of Actuarial Function report states that in practice, it is expected that dividends will be paid at future dates so as to bring the solvency ratio down to 150%. 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.
- 4.56 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

4.57 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.

4.58 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

- 4.59 The Schemes do not affect the contractual obligations to the policyholders of either Athora Ireland or Utmost Ireland.
- 4.60 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

- 4.61 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.
- 4.62 As discussed in paragraph 3.10 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.
- 4.63 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.
- 4.64 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.

- 4.65 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.
- 4.66 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.
- 4.67 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 unit linked funds invest in, are not parties to the Schemes and consequently the investment criteria of externally managed funds are unaffected by the Schemes.
- 4.68 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*
- 4.69 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*
- 4.70 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

- 4.71 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.
- 4.72 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 described in the Independent Actuary Report).
- 4.73 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.
- 4.74 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.
- 4.75 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

- 4.76 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

- 4.77 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.

- 4.78 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. As part of the transition there will be dual processing for a period prior to full transition. In addition, as a backup a transitional services agreement will be put in place with Athora Ireland for policy administration should there be any slippage on the planned project timeline.
- 4.79 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 for the purposes of continuing the customer servicing functions in relation to the Transferring Business post the effective dates of the Schemes.
- 4.80 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.
- 4.81 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

- 4.82 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

- 4.83 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.

- 4.84 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.
- 4.85 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

- 4.86 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.
- 4.87 Table 4.1 above 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.
- 4.88 As discussed in paragraph 4.18, Athora Ireland expects to incur expenses over and above those allowed for within the BEL numbers in Table 4.1 and 4.2 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.
- 4.89 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

- 4.90 It is also necessary for me to consider the effect of the Schemes on the existing policyholders of Utmost Ireland.
- 4.91 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.
- 4.92 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.

- 4.93 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.
- 4.94 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.
- 4.95 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 (i.e. that excess capital over 150% of SCR would be paid as dividends or used to make further acquisitions).
- 4.96 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.

Conclusion

- 4.97 My conclusions in paragraph 4.98 and 4.100 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 4.62, 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 4.63 and 4.64, 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 Section 1.

Athora Ireland

- 4.98 Subject to 4.97, 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.
- 4.99 Furthermore, the Head of Actuarial Function of Athora Ireland has prepared a report in relation to this transfer which 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

- 4.100 Subject to 4.97, 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.
- 4.101 Furthermore, the Head of Actuarial Function of Utmost Ireland has prepared a report in relation to this transfer which 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 5: Summary and overall conclusions

- 5.1 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 points listed in paragraph 4.97 above:
- 5.2 Subject to 5.1, 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