



Athora Ireland plc

Report of the Head of Actuarial Function on the proposed portfolio transfer agreement and schemes to transfer the Offshore Bond business of Athora Ireland plc to Utmost Ireland dac

Prepared for:
Board of Directors of Athora Ireland plc

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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..
- 1.2 Subsequently, on 9 April 2018, Athora announced that it would sell Athora Ireland's Offshore Bond ("OSB") portfolio to Utmost Ireland dac ("Utmost Ireland"), a subsidiary of Life Company Consolidation Group ("LCCG").
- 1.3 The business in question comprises unit-linked policies concluded in the United Kingdom but with some policies held by persons resident in the Channel Islands (Jersey and Guernsey).
- 1.4 In order to complete this sale, a portfolio transfer is required. In Ireland, the process for such a transfer is governed by Section 13 of the Assurance Companies Act 1909; Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (SI 485/2015).
- 1.5 The terms covering the proposed transfer are set out in the "Business Sale Deed Relating to the Sale and Purchase of the Offshore Bond Business of Athora Ireland plc" and the scheme document setting out the terms of the transfer that will be presented to the Irish High Court ("the Court") for the transfer of the business ("the Scheme").
- 1.6 In addition, under the Insurance Business (Jersey) Law 1996, where business conducted in Jersey is proposed to be transferred a representation must be made to the Royal Court of Jersey. Likewise, under Insurance Business (Bailiwick of Guernsey) Law 2002, sanction of the Royal Court of Guernsey is required prior to the transfer of any long term insurance business issued to Guernsey residents. Separate schemes, which are expected to be substantially similar to the Irish Scheme but adjusted for the specifics of local legislation will be required for these territories.
- 1.7 In the remainder of this report, I refer to the schemes of Ireland, Jersey and Guernsey as the "Schemes of Transfer" or "the Schemes", and more generally to their terms as the "Transfer". Subject to court approvals, the proposed effective date of the Transfer is 31 December 2018 (the "Effective Date").

Purpose of report

- 1.8 The purpose of this report is to review the proposed Schemes of Transfer between Athora Ireland and Utmost Ireland. I have prepared this report in my capacity as Head of Actuarial Function of Athora Ireland.
- 1.9 In this report I have set out my assessment of the likely effects of the proposed transfer on the long-term policyholders of Athora Ireland (both those transferring to Utmost Ireland and those remaining with Athora Ireland). I have assessed whether the security and benefit expectations of Athora Ireland's policyholders would be materially adversely affected if the proposed transfer takes place.

Reliances & Limitations

- 1.10 In carrying out our work and producing this report, we relied on data and other information provided by Athora Ireland and Utmost Ireland. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.
- 1.11 We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.
- 1.12 In carrying out our work and producing this report, reliance has been placed upon, but not limited to, the following information:
 - Athora Ireland's pre and post transfer balance sheet and capital requirements: YE17 Vienna Solvency V3.0.xlsx
 - Summary information on the portfolio to be transferred: Aegon Ireland Offshore Bond Product Summary.docx

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- Business Sales Deed and Proposed Scheme of Transfer: 21517955_1(Vienna - BSD FINAL FORM FROM MATHESON received 2.22pm tuesday 03_04_2018 (R.E. DELETED)).pdf
 - Head of Actuarial Function report of Utmost Ireland DAC “Proposed transfer of international life assurance of [Aegon Ireland PLC] to Utmost Ireland dac from the Head of Actuarial Function”
 - Tax advice provided to Athora Ireland and Utmost Ireland on the impact of the Schemes on policyholders remaining with and transferring from Athora Ireland: Project Vienna Tax Memo 17-5-18.docx and KPMG Tax opinion Project Vienna 22.05.18.pdf
 - Product descriptions provided by Athora Ireland
 - Information pertaining to changes to Kames funds: Kames Fund Proposal – 29052018.pptx
 - Information pertaining to changes to linked funds: Sellers Contracts Proposal 7 June 2018 Updated v2.pptx
 - Athora Ireland Financial Projections: Adhoc ORSA v25.xlsx
 - Generali PanEurope Solvency and Financial Condition Report
- 1.13 This report was based on data available to us at, or prior to, 12 July 2018, and takes no account of developments after that date.
- 1.14 This report has been prepared for the Board of Directors of Athora Ireland but it may be distributed to various interested parties as follows:
- The Court having jurisdiction over the proposed transfer;
 - Policyholders of Athora Ireland;
 - The Central Bank of Ireland (“CBI”);
 - Head of Actuarial Function of Utmost Ireland dac
 - Professional advisors appointed by any of the above in connection with the proposed transfer, including the Independent Actuary.
- 1.15 No portion of this report may be provided to any other party without our prior written consent. In the event such consent is provided, the report must be provided in its entirety.
- 1.16 This report has been prepared by me as Head of Actuarial Function of Athora Ireland under the terms and conditions of the letter of engagement dated 18 October 2017, our Statement of Work dated 23 February 2018 and within the context of the assessment of the terms of the proposed Schemes.
- 1.17 This report has been prepared within the context of the assessment of the terms of the proposed Schemes of Transfer. No alternatives to these Schemes of Transfer were considered. No liability will be accepted by Milliman, or me, for any application of this report to a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of this report (or any summary thereof).
- 1.18 Judgments as to the conclusions contained in our report should be made only after studying the report in its entirety. Furthermore, conclusions reached by review of a section or sections on an isolated basis may be incorrect.
- 1.19 Any work that we carried out in the preparation of this report is deemed not to be, or to contribute to, reserved work in the United Kingdom (unless otherwise stated). For this purpose, reserved work is defined as work that is required to be carried out by an actuary with a prescribed qualification from a Professional Body on behalf of an entity by virtue of United Kingdom legislation, regulation or some other legal obligation.
- 1.20 The report is intended to be used by a person with a certain level of expertise in the areas addressed and for the stated purposes only. Any reader of this report must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should be advised by their own actuaries or other qualified professionals competent in the subject matter of this report, so as to properly interpret the material.

- 1.21 Differences between the projections in this report and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. The assumptions used have, in our view, been made on the basis of reasonable hypotheses. It is certain, however, that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Such variations in experience could have a significant effect on the results and conclusions of this report. No warranty is given that the assumptions made in this report will be reflected in actual future experience.
- 1.22 The consultants who worked on this assignment are life insurance actuaries. As such, they are familiar with statutory accounting and GAAP accounting, but are by no means experts in law, taxation, or accounting. Our advice is not, nor is it intended to be, a substitute for qualified legal, tax, or accounting advice.
- 1.23 The purpose of the report is to set out my assessment of the likely effects of the Schemes on the long-term policyholders of Athora Ireland and it should not be used for any other purpose or in any other context.

Professional Disclosures

- 1.24 I am a Fellow Member of the Society of Actuaries in Ireland since 2001.
- 1.25 I am a Principal with Milliman Limited, an independent actuarial & consulting firm. I have held the role of Head of Actuarial Function for Athora Ireland since November 2017.
- 1.26 Neither I nor any of my immediate family are policyholders of Athora Ireland or Utmost Ireland, and more generally I am aware of no conflict of interest that would interfere with the proper exercise of my professional judgement in reaching any of the conclusions detailed in this report.
- 1.27 This report has been prepared in accordance with Actuarial Standard of Practice - PA2 (version 1.0 effective 1 July 2017) issued by the Society of Actuaries in Ireland, which covers General Actuarial Practice.

Report Structure

- 1.28 The contents of this report are as follows:
- Section 1 introduces the transfer and outlines the purpose of the report.
 - Section 2 provides an Executive Summary.
 - Section 3 provides an overview of Athora Ireland
 - Section 4 provides an overview of Utmost Ireland
 - Section 5 summarises the main aspects of the proposed Schemes of Transfer
 - Section 6 summarises the financial impact of the transfer
 - Section 7 summarises my assessment of the transfer
 - Section 8 outlines my conclusions

2 EXECUTIVE SUMMARY

Overview

- 2.1 The main terms of the proposed transfer are as follows:
- Athora Ireland's OSB life assurance business (unit-linked liabilities and assets backing the unit-linked liabilities) will transfer to Utmost Ireland.
 - Athora Ireland's OSB policies will, once the proposals take effect, become policies of Utmost Ireland, meaning that any policyholders or claimants in respect of these policies will be policyholders or claimants respectively of Utmost Ireland following the transfer.
 - Athora Ireland's Variable Annuity ("VA") business, which offers investment guarantees on unit-linked business is not being transferred.
- 2.2 It is currently expected that the Schemes will be implemented on 31 December 2018 provided that all conditions have been satisfied.

Basis of Opinion

- 2.3 In forming my opinion on the transfer I have taken the following key features into account:

Policyholder Expectations

- 2.4 The Transfer does not affect the contractual terms and conditions of any Athora Ireland policyholders and is not expected to have any material impact upon policyholder expectations.

Security of Benefits

- 2.5 Athora Ireland currently has significant excess capital available. The Company plans to use this excess capital to fund the acquisition of new business (traditional life assurance business) in Europe. It is likely therefore, that the level of excess capital will be reduced over time as new business is acquired, such that the Company operates at a level that is closer to its target solvency coverage position¹ of 135%.
- 2.6 The companies operate similar capital management policies. Utmost Ireland aims to have solvency coverage of at least 133%² but it will not pay dividends if they reduce the level of solvency coverage below 150%. In other words, if Utmost Ireland's solvency coverage ratio falls to less than 133% and it doesn't foresee the position recovering in a short time frame then management will consider what actions need to be taken to restore the position. For Athora Ireland, the equivalent level would be 135%.
- 2.7 The OSB business is moving from Athora Ireland, whose risk profile reflects both guaranteed and non-guaranteed business to Utmost Ireland, whose risk profile only reflects non-guaranteed business.

Opinion

- 2.8 In my opinion:
- 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 Schemes of Transfer;

¹ All references to solvency coverage refer to the Solvency II position reported in regulatory returns.

² I understand that it is proposed to change this target to 135% (subject to Board approval), which would be in line with the Athora Ireland target.

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- The reasonable benefit expectations and contractual terms of the remaining and transferring policyholders of Athora Ireland will not be materially adversely affected by the Schemes of Transfer.

3 OVERVIEW OF ATHORA IRELAND PLC

Background

3.1 Athora Ireland is authorised by the CBI to undertake life assurance business in the following classes:

- Class I: life assurance and contracts to pay annuities on human life;
- Class III: contracts linked to investment funds;
- Class VI: capital redemption operations.

History and future development

- 3.2 Athora Ireland (or Scottish Equitable International as it was then known) was authorised as a life insurance undertaking in July 2002 to meet the needs of UK clients seeking to invest in unit-linked life insurance investment policies (OSB business).
- 3.3 In 2006, the Company was chosen as the Aegon Group hub for production of unit-linked life policies offering income and capital guarantees (VAs) to the European market.
- 3.4 Subsequently, in 2013, the Company established a life branch in Frankfurt, Germany under the Freedom of Establishment provisions of the EU directive and commenced the sale of VA products in the German market.
- 3.5 The Company closed to new business on non-platform VA products in late 2016 but remained open to German VA business and VA reinsurance. OSB sales were suspended in December 2017.
- 3.6 In August 2017, Aegon Group signed a Share Purchase Agreement ("SPA") with AGER Bermuda Holdings Ltd ("AGER"), a subsidiary of Athene Holdings Ltd. ("Athene"). AGER sought to acquire Athora Ireland from Aegon Holding in 2018, subject to approval from the CBI and the terms set out in the SPA. Subsequently in January 2018, AGER announced a deconsolidation from Athene, although Athene did retain a minor shareholding. Shortly afterwards, AGER changed its name to Athora Holding Ltd. ("Athora") The acquisition of Athora Ireland by Athora was completed on 3 April 2018. The Company also closed all remaining VA products to new business at this point in time.
- 3.7 In April 2018, shortly after the completion of the acquisition, Athora Ireland reinsured most of the risk related to its VA portfolio with a well-rated reinsurance company, New Reinsurance Company Ltd. ("New Re"), which is a subsidiary of Munich Re. However, Athora Ireland has retained some of the risk related to guaranteed minimum withdrawal benefit ("GMWB") claims from the time the underlying unit-linked fund has been extinguished – the reinsurer will pay Athora Ireland a lump sum (determined using an agreed mortality, lapse and interest rate basis) as a full settlement for GMWB claims that arise once the fund has been exhausted. Athora Ireland, will then incur the remaining longevity and market risks on these payments, seeking to invest the lump sum proceeds in assets that will minimise the level of market risk faced.
- 3.8 Subsequently, on 9 April 2018, Athora announced that it would sell Athora Ireland's OSB portfolio to Utmost Ireland. The business in question comprises unit-linked policies concluded in the United Kingdom but with some policies held by persons resident in the Channel Islands (Jersey and Guernsey).

Solvency position

- 3.9 As at 31 December 2017, Athora Ireland had funds under management of £4.3 billion (€4.9 billion). The following table shows a breakdown of technical provisions by product grouping and shows the figures after allowing for VA reinsurance discussed in paragraph 3.7 above. Whilst the VA reinsurance transaction had not been implemented at year-end, it has subsequently been implemented and therefore it gives a better indication of the Company's current technical provisions and solvency position and the impact of the transfer on this position.

Table 1: Technical provisions (by product group) as at 31 December 2017³

	Reported Position as at 31 December 2017 (£ millions)	December 2017 allowing for VA Reinsurance (£ millions)	Reported Position as at 31 December 2017 (€ millions)	Position at 31 December 2017 allowing for VA Reinsurance (€ millions)
VA Unit Liability	1,194.4	1,194.4	1,346.3	1,346.3
VA Best Estimate Liability	10.7	10.7	12.0	12.0
VA Risk Margin	42.7	37.7	48.1	42.5
VA Technical Provisions (Gross)	1,247.8	1,242.8	1,406.4	1,400.8
Reinsurance Liability	0.0	38.0	0.0	42.8
VA Technical Provisions (Net)	1,247.8	1,280.8	1,406.4	1,443.6
OSB Unit Liability	3,123.1	3,123.1	3,520.1	3,520.1
OSB Best Estimate Liability	(0.2)	(0.2)	(0.2)	(0.2)
OSB Risk Margin	16.0	13.2	18.0	14.9
OSB Technical Provisions	3,138.9	3,136.1	3,537.9	3,534.8
Total Technical Provisions (Net)	4,386.7	4,416.9	4,944.3	4,978.4

- 3.10 The positive Best Estimate Liability (“BEL”) for VA business reflects the facts that the present value of future guarantee claims, expenses and commissions exceeds the present value of future charges. Meanwhile, the BEL for OSB business is close to zero because the present value of future charges is roughly equal to the present value of future expenses and commissions.
- 3.11 The risk margin captures the cost of holding capital to cover the non hedgeable risks associated with this business. Market risks are assumed to be fully hedgeable and so they are excluded from the calculation of the risk margin. For VA business, the risk margin relates primarily to longevity risk, lapse risk and operational risk. For OSB business, lapse risk, expense risk and operational risk are the main components. These risks are discussed further in the risk profile sub-section below.
- 3.12 Allowing for VA reinsurance, a reinsurance liability is created on the Solvency II balance sheet, reflecting the fact that future reinsurance premiums are projected to exceed future reinsurance recoveries. In addition, the VA risk margin falls, reflecting the reduction in capital requirements arising from the benefit of reinsuring certain risks such as mortality and lapse risks.
- 3.13 The following table shows the Company’s solvency position as at 31 December 2017, adjusted for the VA reinsurance discussed above.

³ Figures are shown in both GBP (£) and EUR (€) because Athora Ireland’s reporting currency is GBP whilst Utmost Ireland’s is EUR. Showing Athora Ireland figures in EUR as well as GBP allows for an easier comparison of the financials for each company. The exchange rate used is £1 = €1.12711

Table 2: Solvency Position as at 31 December 2017

	Reported Position as at 31 December 2017 (£ millions)	December 2017 allowing for VA Reinsurance (£ millions)	Reported Position as at 31 December 2017 (€ millions)	Position at 31 December 2017 allowing for VA Reinsurance (€ millions)
Own Funds	214.7	137.7	242.0	155.2
SCR	143.8	67.3	162.0	75.8
Solvency Coverage Ratio	149%	205%	149%	205%

- 3.14 At 31 December 2017, Athora Ireland had a solvency coverage ratio of 149%. However, allowing for the reinsurance of the VA business, the solvency coverage ratio increased to 205%, with the reduction in capital requirements more than offsetting the fall in own funds arising from the payment of the initial reinsurance premium and the allowance for future reinsurance premiums.
- 3.15 I note that the Company's capital management policy has a target level of solvency coverage of 135% (or the level of coverage associated with an 'A' rating from AM Best and Fitch credit rating agencies, if greater). The current business plan envisages using the excess capital to fund the acquisition of new business. Therefore, a more representative level of solvency coverage for measuring the security of policyholders' benefits is 135%.
- 3.16 In fact, Athora Ireland's most recent ORSA envisaged the acceptance of two large inwards reinsurance treaties over 2018 and 2019 that would result in the Company requiring capital injections to maintain a solvency coverage ratio of 135%.
- 3.17 The following table shows the Company's projected solvency position from year-end 2018 to year-end 2022. It should be noted that significant capital injections are required, associated with the acquisition of the new treaties, to maintain this target solvency position.

Table 3: Projected Solvency Position

	Projected Position as at 31 December 2018 (£ millions)	Projected Position as at 31 December 2019 (£ millions)	Projected Position as at 31 December 2020 (£ millions)	Projected Position as at 31 December 2021 (£ millions)	Projected Position as at 31 December 2022 (£ millions)
Own Funds	180.1	256.6	650.7	765.0	872.5
SCR	80.5	190.0	481.9	475.9	469.7
Solvency Coverage Ratio	224%	135%	135%	161%	186%

Risk profile

- 3.18 The SCR for a particular risk gives a sense of the relative magnitude of that particular risk for the Company. As at 31 December 2017, Athora Ireland had an SCR of £143.8 million (€162.0 million). Allowing for the reinsurance of the VA business the SCR reduces to £67.3 million (€75.8 million). The following table shows a breakdown of the SCR by risk category.

Table 4: SCR as at 31 December 2017

	Reported Position as at 31 December 2017 (£ millions)	December 2017 allowing for VA Reinsurance (£ millions)	Reported Position as at 31 December 2017 (€ millions)	Position at 31 December 2017 allowing for VA Reinsurance (€ millions)
Market Risk SCR	76.3	18.2	86.0	20.6
Counterparty Default Risk SCR	9.5	3.6	10.7	4.1
Life Underwriting Risk SCR	66.2	53.6	74.6	60.4
Diversification	(24.1)	(13.5)	(27.1)	(15.2)
Basic SCR	127.9	62.0	144.2	69.9
Operational Risk SCR	15.8	5.3	17.8	5.9
LAC of Deferred Tax	0.0	0.0	0.0	0.0
Total SCR	143.8	67.3	162.0	75.8

- 3.19 The SCR for VA business prior to allowing for reinsurance is dominated by market risks, as changes in fund values (due to equity, credit spread, currency or interest rate movements) or changes in discount rates (due to interest rate movements) can lead to an increase in the cost of guarantee claims. Capital in respect of market risks falls substantially once the reinsurance treaty is brought into consideration as market risks are transferred to the reinsurer.
- 3.20 The OSB business is not very exposed to market risks. There are two reasons for this. Firstly, whilst some charges are levied as a percentage of funds (and so are exposed to falls in the markets), others are fixed amounts. Secondly, much of the outgo relating to OSB business is based on the level of funds under management and so it falls in line with fund based revenues.
- 3.21 Despite using Pounds Sterling as its reporting currency and most revenues being denominated in Pounds Sterling while expenses are denominated in Euro, the Company does not hold a significant amount of capital for Currency Risk. This is because it invests some of its assets in Euro denominated assets to offset any changes in the Sterling value of expenses arising from exchange rate movements. There is also some market risk that can be attributed to shareholder investments.
- 3.22 Underwriting risks such as longevity, lapse and expense risks are also quite significant. Longevity risk arises from the existence of GMWBs on VA business, meaning that if mortality rates fall, the Company could end up paying guarantee claims for a longer period. Part of the longevity risk, relating to claims being made after the fund has been exhausted, is not covered by the VA reinsurance agreement. The Longevity SCR actually increases after the VA reinsurance transaction as Athora Ireland retains some of the longevity risk but no longer benefits from the collection of fees for a longer period of time, which previously helped to reduce the exposure to longevity. However, it should be noted that this is based on a simplified calculation and that there is some prudence in this figure as it assumes that Athora Ireland retains all of the longevity risk, even though some of the longevity risk is passed to the reinsurer. Longevity risk is not a risk faced by OSB business due to the lack of guarantees. There is a small degree of mortality risk arising from the additional death benefit on OSB policies but this benefit is generally 1% or less of a policy's value so the required capital is immaterial.
- 3.23 Expense risk is significant for both VA and OSB business. As Athora Ireland continues to incur the expenses of administering the VA business, this risk is not reduced by VA reinsurance, but it is worth noting that the nature and scale of the expenses associated with the VA business will change following the reinsurance.
- 3.24 Lapse risk on VA business arises from a fall in lapse rates resulting in guarantee payments and expenses being paid over a longer period of time. As certain guarantee payments are now covered by the VA reinsurance agreement, the post reinsurance SCR is lower than the actual reported position at 31 December 2017. OSB business is also exposed to lapse risk, either via an increase in lapses on profitable products leading to a loss of future profits or a fall in lapse rates on loss-making contracts leading to losses being incurred over a longer period.

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- 3.25 Operational risk and counterparty default risks are also present. The Operational Risk SCR falls after allowing for the reinsurance of the VA business. The Counterparty Default Risk SCR also falls as derivative exposures that were previously used to hedge investment risks are unwound and replaced by reinsurance with a well-rated counterparty.

4 OVERVIEW OF UTMOST IRELAND

Background

- 4.1 Utmost Ireland is a subsidiary of LCCG. It is authorised by the CBI to undertake life assurance business in the following classes:
- Class III: life assurance contracts linked to investment funds;
 - Class VI: capital redemption operations.
- 4.2 Utmost Ireland predominantly writes unit-linked business without investment performance guarantees.

History and future development

- 4.3 LCCG is a Guernsey based financial services group that was founded in 2013 as a consolidator of both closed and open portfolios of insurance business in Europe. It operates under three distinct brands: Utmost Wealth Solutions, Harcourt Life and Reliance Life.
- 4.4 In turn, Utmost Wealth Solutions comprises Utmost Ireland and an Isle of Man entity: Utmost Limited.
- 4.5 In July 2016, one of LCCG's subsidiaries, Harcourt Life Assurance ("HLA"), purchased Aviva Life International, and renamed the company Harcourt Life International dac ("HLI").
- 4.6 Then in October 2016, it was announced that LCCG (through HLI) was to buy Axa Life Europe's ("ALE") Offshore Investment Bonds Business which was distributed and administrated by AXA Isle of Man on behalf of ALE. In addition to the Offshore Investment Bonds Business HLI also acquired part of ALE's Irish Business. The acquisition of this business was effected through transfer of the ALE policies into HLI by a Scheme under section 13 of the Assurance Companies Act 1909. This Scheme completed on 30 June 2017.
- 4.7 At the same time, LCCG restructured its operations with HLI being renamed as Utmost Ireland and ownership was transferred to Utmost Holdings Ireland Limited ("UHIL").
- 4.8 In December 2017, Utmost announced the acquisition of Generali PanEurope ("GPE"), pending regulatory approval. I understand that it is intended to implement a new organisational structure, once the acquisition of GPE has been completed. GPE will be rebranded as Utmost PanEurope, become a subsidiary of UHIL and become the parent of Utmost Ireland and its sister company Harcourt life Ireland DAC. The acquisition is expected to complete in June 2018 with a change in structure expected to take place in Q3 2018. Therefore, the new structure is expected to be in place as at the transfer date.

Solvency position

- 4.9 The following table shows the solvency position of Utmost Ireland as at 31 December 2017 before allowing for the transfer or any effects from the GPE acquisition.

Table 5: Solvency position of Utmost Ireland as at 31 December 2017

	Reported Position as at 31 December 2017 (€ millions)
Own Funds	47.6
SCR	27.9
Solvency Coverage Ratio	171%

- 4.10 At 31 December 2017, Utmost Ireland had a solvency coverage ratio of 171%. Utmost Ireland aims to have solvency coverage of at least 133% but it will not pay dividends if they reduce the level of solvency coverage below 150%. In other words, if Utmost Ireland's solvency coverage ratio falls to less than 133% and it doesn't foresee the position recovering in a short time frame then management will consider what actions need to be taken to restore the position.
- 4.11 Utmost Ireland's financial projections show the solvency coverage position of the company improving over time with new business contributing to an increase in own funds whilst the run off of older policies leads to a reduction in capital requirements. However, I note that it is likely that dividends would be paid and that the solvency coverage would likely end up closer to a level of 150%.

Risk profile

- 4.12 As at 31 December 2017, Utmost Ireland had an SCR of €27.9 million (ca. £24.8 million). The following table shows a breakdown of the SCR by risk.

Table 6: SCR as at 31 December 2017

	Reported Position as at 31 December 2017 (€ millions)
Market Risk SCR	14.9
Counterparty Default Risk SCR	7.3
Life Underwriting Risk SCR	14.7
Diversification	(10.3)
Basic SCR	26.6
Operational Risk SCR	1.3
LAC of Deferred Tax	0.0
Total SCR	27.9

- 4.13 The capital requirements suggest that Utmost Ireland's risk profile is similar to other unit-linked companies. Relative to Athora Ireland it has more exposure to Currency Risk as it does not invest in assets to help offset its exposure to foreign exchange rate movements. It is also relatively more exposed to other market risks, due to differences in the mix of fixed and variable elements of fees and commissions.
- 4.14 I note that there is a relatively large Counterparty Default Risk SCR. This relates to the fact that on some products - International With-Profits and Core Funds Bond - policyholders can access the with-profits funds of Aviva Life and Pensions ("ALAP") via a reinsurance arrangement. This arrangement passes the investment risk associated with the products to ALAP and so there is no Market Risk SCR in respect of the underlying benefits. However, there is a risk that ALAP is unable to meet the payments to Utmost Ireland. This is reflected in the Counterparty Default Risk SCR.

5 THE PROPOSED TRANSFER

Proposed Schemes

- 5.1 Athora Ireland's OSB business will be transferred to and vested in Utmost Ireland on the Effective Date, subject to Court approval in Ireland, Jersey and Guernsey. This means that:
- Athora Ireland's OSB policyholders will become policyholders of Utmost Ireland but will retain their existing rights and obligations.
 - Transferring assets will be transferred to and vested in Utmost Ireland.
 - On the effective date, Utmost Ireland will have unit-linked funds corresponding to those maintained by Athora Ireland, immediately prior to the transfer. There will be no change to the underlying assets, the investment strategy, the approach to unit pricing, policy charges or to the investment criteria as a result of the transfer. Policyholders will be allocated units of the same type and values as unit allocated to their policies prior to the transfer. Utmost Ireland will be allowed, from time to time, to make changes to the unit-linked funds to the extent that such changes are permitted by the policy conditions and not contrary to policyholders' reasonable expectations.
- 5.2 If the Jersey or Guernsey Scheme orders have not been obtained by the Effective date, Athora Ireland and Utmost Ireland have agreed to use all reasonable endeavours to transfer the policies or engage a member of the LCCG Group to enter into a services agreement with Athora Ireland to provide services in relation to the policies.
- 5.3 All policyholders of Athora Ireland will have the same rights and obligations in respect to Utmost Ireland as were available to them in respect of Athora Ireland.
- 5.4 The effective date of the Schemes is expected to be 31 December 2018.

Policies transferred & associated liabilities

- 5.5 This section provides information on Athora Ireland's OSB policies. The reserves and policies to be transferred to Utmost Ireland will be those OSB policies in-force at the Effective Date (which will comprise those policies from 31 December 2017 which are still in-force as at the Effective Date together with new business (relating to a small amount of pipeline business) written in the period between 31 December 2017 and the Effective Date).
- 5.6 Athora Ireland's OSB products are outlined below:

Table 7: Overview of OSB Portfolio

Product Name	Premium Frequency	Current Status
Money Market Portfolio	Single with additional investments allowed	Closed to new business and additional investments
Private Client Portfolio*	Single with additional investments allowed**	Closed to new business and additional investments
Investment Portfolio	Single with additional investments allowed	Closed to new business and additional investments
Estate Planning Portfolio	Single only	Closed to new business
Flexible Investment Plan	Regular with additional single premiums allowed	Closed to new business, regular premium increases and additional single premiums
Wealth Management Portfolio***	Single with additional investments allowed	Closed to new business and in the process of being closed to additional investments
Wealth Planning Account	Single with additional investments allowed	Closed to new business and additional investments

*This product is available as a life assurance or capital redemption version. All other products are available on a life assurance basis only.

**Additional investments are not allowed on the capital redemption version.

***This is the only product that was open to new business or additional investments at the introduction of the RDR at the end of 2012.

- 5.7 The following table shows the number of OSB policies as at 31 December 2017 and the OSB funds under management reported as at 31 December 2017.

Table 8: Number of OSB policies and OSB funds under management as at 31 December 2017

Overall Category	Policy Count	Unit Reserves (£ millions)	Unit Reserves (€ millions)
Money Market Portfolio	47	19	21
Private Client Portfolio	1,366	797	898
Investment Portfolio	566	71	80
Flexible Investment Portfolio	96	10	12
Wealth Management Portfolio	4,828	2,154	2,427
Wealth Planning Account	149	73	82
	7,052	3,123	3,520

Money Market Portfolio

- 5.8 This is a single premium unit-linked whole of life assurance plan. The product is denominated in GBP only. The minimum initial investment amount is £75,000 and the minimum additional investment amount is £5,000.
- 5.9 Benefits under the contract may be linked to a limited number of externally managed cash related investment funds. Benefits may also be linked to AI's Short Term Bond fund, but not to any of the other internal linked insured funds. A Cash Account is set up within the bond to facilitate the deduction of charges and withdrawals, the collection of income and the settlement of deals.
- 5.10 The policyholder may encash all or part of the contract at any time. The value of the portfolio will be paid on surrender, less any outstanding charges. Partial surrenders are subject to limits and restrictions on minimum amounts payable and remaining invested.
- 5.11 A death benefit is payable on the death of the last surviving life assured. This is 101% of surrender value at ages lower than 75 reducing to 100.1% for older ages.
- 5.12 The product has a single charging structure based on a renewal commission rate of 0.25% p.a. However, the product allocation factor can be reduced to accommodate initial commission and an ongoing product charge can be flexed to accommodate different levels of renewal commission.

Private Client Portfolio – Life Assurance Version

- 5.13 This is a single premium unit-linked whole of life assurance plan. The product may be denominated in GBP, USD or EUR. The minimum initial investment amount is £75,000 and the minimum additional investment amount is £5,000.
- 5.14 Benefits under the contract may be linked to a range of pooled investment or collective investment assets that are managed by a fund management company that is acceptable to AI. Benefits may also be linked to one or more of AI's internal linked

insured funds. A Cash Account is set up within the bond to facilitate the deduction of charges and withdrawals, the collection of income and the settlement of deals.

- 5.15 In order to facilitate the appointment of an investment adviser to manage the investments held in the plan on their behalf, the policyholder has the option to nominate a pre-approved third party as external custodian of the investments. In this case AI would delegate custodianship of the investments to the third party. Otherwise the structure of the delegated custodianship plan is identical to that of the standard version.
- 5.16 The policyholder may encash all or part of the contract at any time. The value of the portfolio less any surrender charge and outstanding charges will be paid on surrender. Partial surrenders are subject to limits and restrictions on minimum amounts payable and remaining invested. No surrender charge is deducted on partial surrender until the cumulative amount withdrawn exceeds 50% of the policy value.
- 5.17 A death benefit is payable on the death of the last surviving life assured. This is 101% of surrender value at ages lower than 75 reducing to 100.1% for older ages.
- 5.18 The product has four different charging options built around an initial commission rate of 5.75% and no trail commission. The purpose of the charging structures is effectively to provide options for covering the cost of the initial commission (via the initial, 5 year and ongoing cost options) and to provide an enhanced allocation option. If the amounts of initial and renewal commission payable differ from standard terms, then the charges under the contract will be altered on a broadly cost-neutral basis. Surrender charges apply on all charging options other than the initial cost option.

Private Client Portfolio – Capital Redemption Version

- 5.19 This is a single premium unit-linked capital redemption plan.
- 5.20 The features are identical to the life assurance version with the following exceptions:
 - The principal benefit is the return of the plan value, or the guaranteed maturity value if greater, after a term of 99 years. The guaranteed maturity value is equal to twice the original investment less withdrawals. The guaranteed maturity value is reduced by twice the amount of any withdrawals.
 - It is not possible to make additional investments into the plan.
 - There are no lives assured, only policyholders. Consequently, there is no death benefit payable.
 - There is no enhanced allocation charging option.

Investment Portfolio

- 5.21 This is a single premium unit-linked whole of life assurance plan. The product is denominated in GBP only. The minimum initial investment amount is £15,000 and the minimum additional investment amount is £2,500.
- 5.22 Benefits under the contract initially may be linked to one or more of AI's internal linked insured funds (the "Bond" phase). Once 3 months have elapsed from outset and provided that the bond value is at least £75,000, there is then an option to transfer the bond value to the "Portfolio" phase. Within the Portfolio phase, the same investment options and functionality apply as for the Private Client Portfolio, including the setting up of a Cash Account. A transfer charge applies on transferring to the Portfolio phase and the minimum additional investment during the Portfolio phase is £5,000.
- 5.23 The policyholder may encash all or part of the contract at any time. The value of the portfolio less any surrender charge and outstanding charges will be paid on surrender. Partial surrenders are subject to limits and restrictions on minimum amounts payable and remaining invested. No surrender charge is deducted on partial surrender during the Bond phase unless greater than 10% of premiums paid and during the Portfolio phase until the cumulative amount withdrawn exceeds 50% of the policy value.

- 5.24 A death benefit is payable on the death of the last surviving life assured. This is 101% of surrender value at ages lower than 75 reducing to 100.1% for older ages.
- 5.25 The product has three different charging options built around an initial commission rate of 5.25% and no trail commission. The purpose of the charging structures is effectively to provide options for covering the cost of the initial commission (via the initial, 5 year and ongoing cost options). If the amounts of initial and renewal commission payable differ from standard terms, then the charges under the contract will be altered on a broadly cost-neutral basis. Surrender charges apply on all charging options other than the initial cost option.

Estate Planning Portfolio⁴

- 5.26 The Estate Planning Portfolio consists of a single premium unit-linked whole of life assurance plan packaged with an inheritance tax ("IHT") efficient reversionary interest trust. The life assurance plan is a cut down version of the Investment Portfolio.
- 5.27 The purpose of the packaged product is to allow a UK domiciled individual to reduce a potential IHT liability by gifting capital into a trust whilst still retaining future access to the capital by way of scheduled future repayments from the trust.
- 5.28 The differences between the Investment Portfolio and the life assurance plan backing the Estate Planning Portfolio are as follows:
- The minimum investment amount is £50,000 and additional investments are not allowed.
 - There is no concept of the "Portfolio" phase. Investments are restricted to AI's internal linked insured funds only.
 - The only charging structure available is the 5 year cost option.
 - The policyholder(s) will always be the trustees of the reversionary interest trust and the settlor and their spouse cannot be lives assured (as this would adversely impact the tax efficiency of the plan).

Flexible Investment Plan

- 5.29 This is a unit-linked whole of life assurance plan which allows regular premiums (monthly or annual) and/or single premiums. The product is denominated in GBP only. The minimum regular premium is £500 per month or £5,000 per annum. If the policy commences with a single premium then the minimum amount is £15,000. Otherwise, the minimum single premium is £5,000.
- 5.30 Where regular premiums are payable, the policyholder may cease paying premiums on a permanent or temporary basis or may decrease the premium amount. However, policyholders cannot now increase the premium amount.
- 5.31 Benefits under the contract may only be linked to one or more of AI's internal linked insured funds.
- 5.32 The policyholder may encash all or part of the contract at any time. The value of the units will be paid on surrender. Partial surrenders are subject to limits and restrictions on minimum amounts payable and remaining invested. No surrender charges apply.
- 5.33 A death benefit is payable on the death of the last surviving life assured. This is 101% of surrender value at ages lower than 75 reducing to 100.1% for older ages.
- 5.34 The product has a single charging structure based on reduced allocation. The allocation factor is reduced to reflect initial commission payable on each regular or single premium. In addition, fund based commission can be selected at policy level and paid for by way of an explicit matching charge.

⁴ There were 50 such policies in force at end 2017 and the numbers are included under "Investment Portfolio" in Table 8.

Wealth Management Portfolio

- 5.35 This is a single premium unit-linked whole of life assurance plan. The product may be denominated in GBP, USD or EUR. The product allows access to two different investment options, namely investment layer 1 and investment layer 2. In investment layer 1, benefits under the contract may only be linked to one or more of AI's internal linked insured funds. Under investment layer 2, benefits under the contract may be linked to the funds available in investment layer 1 as well as a range of pooled investment or collective investment assets that are managed by a fund management company that is acceptable to AI. The minimum initial investment amounts are £15,000 for investment layer 1, £75,000 for investment layer 2 if the bond assets are not held on the Aegon Retirement Choices (ARC) platform and £25,000 for investment layer 2 if the bond assets are held on the ARC platform. The minimum additional investment amount is £5,000 for both layers.
- 5.36 Where investment layer 2 is selected, a cash Account is set up within the bond to facilitate the deduction of charges and withdrawals, the collection of income and the settlement of deals. It is not possible to switch from investment layer 2 to investment layer 1 but, if the policy value is at least £75,000, it is possible to switch from investment layer 1 to investment layer 2.
- 5.37 In order to facilitate the appointment of an investment adviser to manage the investments held in the plan on their behalf and/or to hold the investments on an investment platform, the policyholder has the option within investment layer 2 to nominate a pre-approved third party as external custodian of the investments. In this case AI would delegate custodianship of the investments to the third party. Otherwise the structure of the delegated custodianship plan is identical to that of the standard version, although there are some differences in the detailed product rules that are applied depending on whether or not the bond assets are held on the ARC platform.
- 5.38 The policyholder may encash all or part of the contract at any time. The value of the portfolio less the balance of any outstanding establishment charges and other charges will be paid on surrender. Partial surrenders are subject to limits and restrictions on minimum amounts payable and remaining invested. No surrender charge is deducted on partial surrender until the cumulative amount withdrawn exceeds 50% of the policy value.
- 5.39 A death benefit of 100.1% of surrender value is payable on the death of the last surviving life assured.
- 5.40 Menu-based pricing options are available on this product. The principal aspects of the menu consist of:
- A Portfolio Charge structure to cover some AI administration costs, where the Portfolio Charge is tiered or flat depending on who has custody of the bond investments;
 - An Initial Charge or Establishment Charge structure to cover the cost of initial commission and some AI administration costs (both of which were withdrawn and replaced by an Initial Charge option to cover AI administration costs only when commission was no longer allowed to be paid under the RDR).
 - An explicit ongoing charge to cover the cost of any trail commission (which was withdrawn when commission was no longer allowed to be paid under the RDR).
- 5.41 The Retail Distribution Review ("RDR") removed the ability to remunerate financial advisers by way of commission. Additional investments could still be accepted into pre-RDR bonds but only on a nil commission basis.
- 5.42 The RDR also introduced the concept of adviser charging, under which AI could facilitate payments to advisers on behalf of customers. The product was therefore updated at the time of the RDR to offer a range of adviser charging options, including:
- Initial adviser charges pre or post investment in the bond
 - Ongoing adviser charges as a % of bond value or a fixed amount, with a choice of payment frequencies
 - Ad-hoc advisers charges as a % of bond value or a fixed amount

- Ongoing investment adviser charges as a % of bond value, where the investment adviser is different to the financial adviser.

5.43 A key product feature and differentiator in the market is the European Portability Option (“EPO”). Under the EPO, customers could have their bonds constructed in such a way as to ensure continuation of tax deferral should they relocate from the UK to France, Italy or Spain. This option, which is provided free of charge, also allows customers to receive the information required by them to complete their tax returns in France, Italy or Spain.

Wealth Planning Account

- 5.44 This is a single premium unit-linked whole of life assurance plan. The product was designed so that, in accordance with the prevailing tax code, all the taxable gain on the bond could be deferred to the point of surrender of the final policy segment. Any segment surrenders prior to this did not result in a chargeable gain. However, the rules allowing this tax treatment were changed on 21st March 2012 as part of the UK Finance Act 2012, including for policies already sold and the original tax treatment available on the product therefore no longer applies.
- 5.45 The product may be denominated in GBP, USD or EUR. The minimum initial investment amount is £150,000 and the minimum additional investment amount is £5,000.
- 5.46 Benefits under the contract may be linked to a range of pooled investment or collective investment assets that are managed by a fund management company that is acceptable to AI. Benefits may also be linked to one or more of AI’s internal linked insured funds. A Cash Account is set up within the bond to facilitate the deduction of charges and withdrawals, the collection of income and the settlement of deals.
- 5.47 In order to facilitate the appointment of an investment adviser to manage the investments held in the plan on their behalf and/or to hold the investments on an investment platform, the policyholder has the option to nominate a pre-approved third party as external custodian of the investments. In this case AI would delegate custodianship of the investments to the third party. Otherwise the structure of the delegated custodianship plan is identical to that of the standard version.
- 5.48 The policyholder may encash all or part of the contract at any time. The value of the portfolio less the balance of any outstanding establishment charges and other charges will be paid on full surrender. Partial surrenders across segments are subject to limits and restrictions on minimum amounts payable and remaining invested. No surrender charge is deducted on partial surrender across segments until the cumulative amount withdrawn exceeds 50% of the policy value.
- 5.49 The key differentiator of this product was the treatment of segment surrenders compared to traditional bonds. With traditional bonds, for the purposes of the tax calculation on a segment surrender, the value of the entire bond is split equally between all the in-force segments. However, this product was structured so that, for a bond that was showing an overall chargeable gain, any segment except the final segment (segment no. 1) could be surrendered at the value of the premium applicable to that segment. Thus there was no chargeable gain on the surrender of any segment except segment no. 1.
- 5.50 In effect, the taxable value of each segment in excess of the premium was allocated to segment no. 1. When segment no. 1 was surrendered, the chargeable gain on this surrender was the full amount of the chargeable gain on the bond. This allowed the incurring of a chargeable gain on the bond to be deferred to the point of surrender of the final segment on the bond.
- 5.51 A death benefit of 100.1% of surrender value is payable on the death of the last surviving life assured.
- 5.52 Menu-based pricing options are available on this product. The principal aspects of the menu consist of:
- A Portfolio Charge structure to cover some AI administration costs, where the Portfolio Charge is tiered or flat depending on who has custody of the bond investments;
 - An Initial Charge or Establishment Charge structure to cover the cost of initial commission and some AI administration costs.

- 5.53 An explicit ongoing charge to cover the cost of any trail commission. The in-force OSB portfolio is primarily made up of a range of predominantly single premium unit-linked products without guarantees. These products offer a range of internal funds in which policyholders can invest.

Policyholder administration and governance

- 5.54 The business is currently administered in-house by Athora Ireland on its own in-house administration system.
- 5.55 Post transfer, there will be a change to the policy administration with Utmost Ireland planning to fully take over policy administration of the OSB business at the point of transfer. Athora Ireland staff involved with the administration of this business will also transfer to Utmost Ireland to ensure continuity of service. Utmost Ireland's plan is to administer the policies on the AIA system and to use Apache for the investment administration. The AIA system is not used by Athora Ireland and there will therefore be a requirement for a policy migration. However, the AIA system is currently used for a similar block of business that Utmost Ireland acquired previously.
- 5.56 It is proposed that Utmost Ireland's processes and systems will be ready to accept the business on the 31st December, i.e. migration of the business will be effective on the same date as the effective date of the Transfer. Should there be any delay in the migration process then a transitional services agreement will be required.
- 5.57 I understand that, as part of the migration of Athora Ireland policies to the Utmost Ireland administration system, Utmost Ireland intends to replicate functionality available to policyholders on the current Athora Ireland website.
- 5.58 Utmost Ireland will be allowed to exercise any discretion formerly available to Athora Ireland under the terms and conditions of any policy.
- 5.59 Similarly, Utmost Ireland will be allowed to modify the terms and conditions of any policy or investment fund to the same extent as Athora Ireland was formerly so allowed, provided its actions are not contrary to policyholders' reasonable expectations.

Taxation

- 5.60 The Schemes will not alter policies and does not result in the cancellation or the issue of new policies to policyholders. As such I understand that the Schemes give rise to no tax impact on policyholders. I have seen tax advice prepared for the companies involved in the Schemes which indicates that no tax issues should arise for policyholders as a result of the Schemes.

Legal

- 5.61 Legislation requires that policyholders are notified of the Schemes. I understand that the transferring policyholders of Athora Ireland will be notified of the Schemes by way of a direct mailing and advertising in national newspapers. I understand that the Company will seek a dispensation from the Court from contacting the VA policyholders that will remain with Athora Ireland.
- 5.62 Athora Ireland is currently authorised to write Class I, III and VI insurance business. Utmost Ireland is also authorised to write Class III and VI insurance business. Therefore, Utmost Ireland has the proper authorisations to write the classes of insurance business that are being transferred (classes III and VI).

Costs of Schemes

- 5.63 All costs of the Schemes have and will continue to be borne by Utmost Ireland and Athora Ireland. Costs of the transfer allocated to Athora Ireland will be borne by the shareholder and not the policyholders.

6 FINANCIAL IMPACT OF TRANSFER

Basis of preparation

- 6.1 The Athora Ireland and Utmost Ireland Solvency II figures below reflect the end-2017 position, with the Athora Ireland position adjusted for the subsequent reinsurance of the VA portfolio.

Athora Ireland financial position

- 6.2 The following table shows the adjusted (post VA reinsurance) solvency position of Athora Ireland at end 2017 pre-transfer and post-transfer.

Table 9: Solvency position of Athora Ireland at 31 December 2017 pre-transfer and post-transfer

	Position at 31 December 2017 allowing for VA Reinsurance (£ millions)	Position at 31 December 2017 (post OSB transfer) (£ millions)	Position at 31 December 2017 allowing for VA Reinsurance (€ millions)	Position at 31 December 2017 (post OSB transfer) (€ millions)
Own Funds	137.7	168.4	155.2	189.8
SCR	67.3	48.4	75.8	54.6
Solvency Coverage Ratio	205%	348%	205%	348%

- 6.3 The unit-linked liabilities and assets backing the unit-linked liabilities related to the OSB business will be transferred to Utmost Ireland.
- 6.4 The table shows that the solvency position of Athora Ireland after the transfer is significantly higher than its solvency cover before the transfer. This situation arises as Athora Ireland receives the proceeds of the sale and also benefits from a reduction in the risk margin and capital requirements. In particular, the capital requirements for expense and lapse risks that are related to the OSB business fall away.
- 6.5 Athora Ireland currently has significant excess capital available. The Company plans to use this excess capital to fund the acquisition of new business (traditional non-linked life assurance business) in Europe. It is likely therefore, that the level of excess capital will be reduced over time as new business is acquired, such that the Company operates at a level that is closer to its target solvency coverage position of 135%.

Utmost Ireland financial position

- 6.6 The following table shows solvency position of Utmost Ireland at end 2017 pre-transfer and post-transfer.

Table 10: Solvency position of Utmost Ireland at 31 December 2017 pre-transfer and post-transfer

	Position at 31 December 2017 (€ millions)	Position at 31 December 2017 (post OSB transfer) (€ millions)
Own Funds	47.6	104.3
SCR	27.9	72.6
Solvency Coverage Ratio	171%	144%

-
- 6.7 The table shows that the transfer of the OSB business into Utmost Ireland is expected to lead to a reduction in the solvency coverage ratio (from 171% to 144%). This remains above the minimum target level of 133% coverage.
 - 6.8 In addition, Utmost Ireland's capital policy allows it to pay dividends provided these do not bring the solvency coverage below a level of 150%. Dividends are not currently allowed for because Utmost Ireland anticipates the need for a capital injection to support the Schemes. It is possible that, if the transfer was not to take place, then some of the excess funds would be paid as dividends. Therefore, a more accurate comparison is to compare a post-dividend level of solvency coverage of 150% with the post-transfer level of solvency coverage of 144%.
 - 6.9 Whilst, Utmost Ireland does not anticipate the need for capital support (after the completion of the Schemes) I note that its anticipated parent company, GPE, as at 31 December 2017, had own funds of €282.7 million covering an SCR of €129.2 million, giving it a solvency coverage position of 219%.

7 EFFECT OF SCHEMES ON POLICYHOLDERS

- 7.1 In this section I set out my assessment of the impact of the proposed Schemes of Transfer on the policyholders of Athora Ireland. I have considered the impact from a number of perspectives.

Impact upon contractual terms and conditions of policies

- 7.2 The Schemes will have no impact upon the contractual terms and conditions of policies. There are also not expected to be any material changes to customer service.

Impact upon policyholders' reasonable expectations – remaining (VA) policyholders

- 7.3 As there will be no changes to the contractual terms or the exercise of discretionary powers for remaining policyholders, I believe that there is no impact on policyholders' reasonable expectations.

Impact upon policyholders' reasonable expectations – transferring (OSB) policyholders

- 7.4 The existing policyholders do not have any entitlement or reasonable expectation of participation in profits. When considered in conjunction with the fact that there will be no changes to contractual terms, I believe that there is no impact on policyholders' reasonable expectations.
- 7.5 Utmost Ireland has indicated that it intends to replicate website functionality currently available to Athora Ireland policies thereby maintaining policyholders' expectations as to how they can obtain information about their policies.
- 7.6 Utmost Ireland has indicated that it will continue to service policyholders who have selected the European Portability Option ("EPO") by offering tax information to these policyholders. More generally, Athora Ireland has provided details of any non-contractual processes and practices to Utmost Ireland. Utmost Ireland has undertaken to conform with these processes and practices.
- 7.7 Utmost Ireland has also indicated that it has reviewed Athora Ireland's Suspended Funds Policy and that it is in line with Utmost Ireland's own policy so there should be no changes in how policyholders that are invested in suspended funds are treated or in how the value of their investments is determined.
- 7.8 Utmost Ireland will be allowed to exercise any discretion formerly available to Athora Ireland under the terms and conditions of any policy.
- 7.9 Similarly, Utmost Ireland will be allowed to modify the terms and conditions of any policy or investment fund to the same extent as Athora Ireland was formerly so allowed, provided its actions are not contrary to policyholders' reasonable expectations.
- 7.10 Prior to the portfolio transfer taking place, Athora Ireland will split a number of funds that are currently available to both VA and OSB policyholders into separate VA and OSB funds. This is related to the fund reinsurance aspects of the VA reinsurance agreements that have recently been put in place, so as to ensure that this reinsurance does not have unintended consequences for OSB policyholders⁵. The OSB funds will subsequently transfer to Utmost Ireland (see

⁵ Within the fund reinsurance treaty, the reinsurer has the right to request the removal/replacement of a fund link (including a change in investment manager) due to a deviation in the investment strategy and/or envisaged asset mix of the underlying fund. This can only be requested if they can no longer (or can only partially) continue to accurately hedge their exposure to the fund. As a result, Athora Ireland is considering separating the VA and OSB interests in these three funds in order to avoid a reinsurer driven event impacting the OSB policyholders.

paragraphs 7.12 to 7.14 below) and there will be no impact on policyholder charges as a result of these changes. Athora Ireland will ensure that there will be no charge implications for any VA investments in funds that are shared with OSB policyholders.

- 7.11 As Athora Ireland is closed to new business, splitting, and ultimately transferring, funds should not affect fund flows in such a way as to lead to differences between the pricing bases for different variants of the same fund.
- 7.12 The contracts with fund managers (and any related fund rebate agreements) will transfer to Utmost Ireland as part of the Schemes, where this is possible.
- 7.13 One exception is for the Blackrock funds where Utmost Ireland will need to negotiate terms with Blackrock (as the existing agreement will not be subject to the scheme). It is my understanding that Utmost Ireland will not pass any less favourable terms than the existing Athora Ireland agreements on to the transferring OSB policyholders.
- 7.14 As agreement of terms (that do not adversely affect policyholders) from external funds managers is required, a contingency plan has been agreed. This contingency plan would ultimately involve fund reinsurance between Utmost Ireland and Athora Ireland, which would ensure that there is no adverse impact on policyholder charges.

Costs

- 7.15 All costs of the Schemes will be borne by either Athora Ireland or Utmost Ireland. Such costs will not adversely affect policyholder security.

Impact upon the security of the benefits for policyholders – remaining (VA) policyholders

- 7.16 Whilst Athora Ireland's solvency coverage ratio improves post-transfer, the Company plans to use this excess capital to fund the acquisition of new business (traditional non-linked life assurance business) in Europe. It is likely therefore, that the level of excess capital will be reduced over time as new business is acquired, such that the Company operates at a level that is closer to its target solvency coverage position of 135%. As this target is already in place and as the target level of capital is below the pre-transfer solvency coverage position, I do not view the transfer as having either a significant positive or negative effect on the security of the remaining policyholder's benefits.

Impact upon the security of the benefits for policyholders – transferring (OSB) policyholders

- 7.17 Post transfer, Athora Ireland will have a solvency coverage ratio of 348% and a target of 135%. The Company plans to use this excess capital to fund the acquisition of new business (traditional non-linked life assurance business) in Europe. It is likely therefore, that the level of excess capital will be reduced over time as new business is acquired, such that the Company operates at a level that is closer to its target solvency coverage position of 135%.
- 7.18 Post transfer, Utmost Ireland will have a solvency coverage ratio of 144% above the minimum acceptable level of 133%. Over time, the solvency coverage position is expected to improve but dividends are likely to reduce the coverage level to close to 150%.
- 7.19 The OSB business is moving from Athora Ireland, whose risk profile reflects both guaranteed and non-guaranteed business to Utmost Ireland, whose risk profile only reflects non-guaranteed business.
- 7.20 In conclusion, as the Athora Ireland solvency coverage position is likely to end up at a level close to 135% and the Utmost Ireland Solvency coverage level is likely to end up in the region of 133% to 150%, and bearing in mind the nature of the change to risk profile, I do not consider that the security of the transferring policyholders' benefits will be significantly affected by the transfer.

8 CONCLUSIONS

8.1 In conclusion, in my opinion:

- 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 Schemes 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 Schemes of Transfer.

Padraic O'Malley

Head of Actuarial Function

Fellow of the Society of Actuaries in Ireland

12 July 2018