Supplementary Report of the Independent Expert on the Proposed Scheme to Transfer Long-Term Insurance Business from Equitable Life Assurance Society (ELAS) to Utmost Life and Pensions Limited

Prepared by Richard Baddon FFA

8 November 2019

Contents

1 Introduction

Overview

1.1 When a scheme for the transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales (the "Court") for approval, it has to be accompanied by a report from an Independent Expert. This is a requirement of Section 109 of Part VII of the Financial Services and Markets Act 2000 ("FSMA") and the report must be made in a form approved by the Prudential Regulation Authority ("PRA") having consulted the Financial Conduct Authority ("FCA"), the UK regulators (together, the "Regulators").

1.2 I have been appointed as the Independent Expert to provide the required report on a proposed scheme for the transfer of the majority of business of Equitable Life Assurance Society ("ELAS") to Utmost Life and Pensions Limited ("Utmost Life and Pensions", or "Utmost L&P"). For this proposed scheme of transfer (the "Scheme"), I have been appointed jointly by ELAS and Utmost Life and Pensions (together, the "Companies"). My appointment has been approved by the PRA, in consultation with the FCA. For schemes of this type, the Independent Expert is required to prepare a scheme report in a form approved by the PRA having consulted the FCA and in accordance with relevant guidance, including that contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18").

1.3 This report (my "Supplementary Report") is supplementary to my report entitled 'Report of the Independent Expert on the Proposed Scheme to Transfer Long-Term Insurance Business from Equitable Life Assurance Society (ELAS) to Utmost Life and Pensions Limited' dated 16 July 2019.

1.4 My Supplementary Report should be read in conjunction with my Report (together "my Reports") and both should be considered in their entirety.

1.5 The Scheme will be presented to the Court for sanction under Section 111 of Part VII of the FSMA at a hearing which is expected to take place on 22 and 25 November 2019. If approved, it is expected that the Scheme will become operative and take effect on 1 January 2020 (the "Implementation Date"). My Reports will be presented to the Court at the hearing (the "Sanction Hearing"). It is likely that the Court will consider the contents of these Reports in deciding whether to sanction the Scheme.

1.6 All definitions and abbreviations used in my Report apply equally to my Supplementary Report, unless stated otherwise. Readers of my Supplementary Report may wish to refer to the Glossary in my Report. Included in Appendix 4 is an amended glossary which has been adapted from that provided in my Report, with only the terms applicable to this Supplementary Report.

Independence

1.7 Neither I nor my immediate family members hold any policies, investments, shareholdings or have any other financial interests in either of the Companies.

1.8 Partners and staff of Deloitte have advised the Companies on various assignments. However, Deloitte has not acted as external auditor or performed any regulatory roles. I have previously supported ELAS in performing due diligence on its disposal of the With-Profits Annuity and Immediate Annuity portfolios, but I have not taken part in any project involving ELAS in the past 10 years. I have not been involved in any engagements involving Utmost Life and Pensions.

1.9 I do not believe that any of these previous assignments compromise my independence, create a conflict of interest, or compromise my ability to report on the proposed Scheme. The assignments were disclosed to the PRA prior to its approval of me as the Independent Expert.

Regulatory and Professional Guidance

1.10 My Reports have been prepared in accordance with relevant guidance including, but not limited to:

- the PRA Statement of Policy on Part VII Transfers;
- the FCA's approach to the review of Part VII insurance business transfers (FG 18/4); and
- Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business.

1.11 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this Supplementary Report with the intention that it, and my actuarial work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 and TAS 200 (which cover, respectively, general principles for technical actuarial work and insurance specific principles). I believe that it does so in all material respects and I have had regard to this guidance while preparing my Supplementary Report. The Supplementary Report meets the requirements of the Actuarial Professional Standards ("APS") issued by the Institute and Faculty of Actuaries, specifically APS X1, and has been peer reviewed in accordance with APS X2. It also meets the requirements of APS X3, which sets out principles for actuaries to apply when instructed as an expert in relation to existing or contemplated legal proceedings.

The Purpose and Scope of my Supplementary Report

1.12 In my Report, I concluded that:

- for the reasons set out in paragraphs 2.36 to 2.52 of my Report, I was satisfied that the Scheme will not materially adversely affect the policyholders transferring to Utmost Life and Pensions on the Implementation Date (the "Transferring Policyholders" in ELAS);
- for the reasons set out in paragraphs 2.60 to 2.67 of my Report, I was satisfied that the Scheme will not materially adversely affect the policyholders that currently hold policies with Utmost Life and Pensions (the "Existing Utmost Life and Pensions Policyholders"); and
- for the reasons set out in paragraphs 2.53 to 2.59 of my Report, I did not believe the Scheme will have a material adverse effect on the policyholders remaining in ELAS after the Implementation Date (the "Non-Transferring Policyholders"), noting that I was unable to conclude on the aspects described in 1.13.

1.13 At the time of writing my Report, I was unable to conclude on the following aspects of the Scheme:

- The benefit security of Non-Transferring Policyholders: as described in 2.26 of my Report, whether the level of capital to remain in ELAS on the Implementation Date was sufficient such that the post-Scheme ELAS Capital Policy and, the regulatory minimum capital requirements applicable to ELAS, would continue to be met with sufficient certainty on an ongoing basis going forward.

- The benefit expectations of Non-Transferring Policyholders with UK-style German With-Profits Policies; specifically, and as described in paragraphs 2.83 and 2.103 of my Report, the proposed investment strategy and the impact of the change in investment strategy on this group of policyholders.

1.14 I provided an update on my conclusions in respect of these areas in a letter to the Directors of ELAS and Utmost Life and Pensions, dated 18 October 2019, which was available to the policyholders of ELAS on the ELAS website in advance of the EGM and Scheme Meeting, held on 1 November 2019.

1.15 The purpose of my Supplementary Report is to consider any developments since the issue of my Report that might materially affect policyholders of the Companies. This includes consideration of updated financial information, any concerns expressed by policyholders as a result of the Companies' communications with them regarding the Scheme, and other matters as discussed later in this Supplementary Report. I explain whether these developments have affected the conclusions that I set out in my Report. In doing so, I consider the impact of the Scheme on the policyholders of ELAS that are transferring as a result of the Scheme, those that will remain in ELAS after the Scheme and the existing policyholders of Utmost Life and Pensions separately. In addition, I provide my conclusions in respect of the aspects of the Scheme described in 1.13 as outstanding at the time of writing my Report.

1.16 I am required to comment on the proposed Scheme only. My Report and my Supplementary Report are not concerned with possible alternatives to the Scheme.

1.17 To the best of my knowledge, I have taken account of all relevant information available at the date of this Supplementary Report in assessing the impact of the Scheme and in preparing my Report.

Reliances and sources of information

1.18 In performing my review and preparing this Supplementary Report, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by the Companies. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life insurance industry but have not otherwise verified it. A draft of this Supplementary Report was submitted to both Companies and their respective legal advisors for a factual accuracy review, and this Supplementary Report reflects the feedback from this process.

1.19 In this Supplementary Report, my analysis of the solvency and capital positions of each company and its respective funds is based on the estimated pre- and post-Scheme financial positions of the Companies. The Companies' results included in my Supplementary Report are based on the EU regulatory requirements for measuring solvency, the Solvency II ("SII") regime, which I refer to as the "Solvency II basis". The results stated in this Supplementary Report have been through a formal review process within each company. I have taken comfort from this process and in conjunction with the reasonableness-checking mentioned above, I am satisfied that it is reasonable to rely on the accuracy of these figures.

1.20 The pre- and post-Scheme solvency positions shown in this Supplementary Report are as at 30 June 2019 for the Companies. Although the impact of the Scheme of Arrangement is outside the scope of my Reports (as per paragraph 1.13 of my Report), I note that it has the effect of allocating all distributable assets of ELAS to the with-profits policyholders of ELAS immediately before the Scheme. As a result, immediately after implementation of the Scheme of Arrangement, and immediately before the Scheme, ELAS will have insufficient surplus assets over Technical Provisions to cover its Solvency Capital Requirement ("SCR"), the level of capital it is expected to hold under Solvency II. This situation arises due to the need to provide those policyholders in scope of the Scheme of Arrangement with a fair uplift to their policy value. The uplift is calculated on a basis agreed between ELAS and Utmost

Life and Pensions and which differs from ELAS' Solvency II basis (for example, due to differences in the assumed level of costs to administer the business in ELAS pre- and post-Scheme). If both the Scheme of Arrangement and Scheme are approved, the Scheme will take effect one minute after the Scheme of Arrangement does on the Implementation Date. However, this period is entirely notional and does not affect the overall transaction, given that the Scheme of Arrangement and the Scheme are dependent on each other. This construct arises out of the necessity to have separate legal arrangements to re-structure the ELAS business and to transfer the business to Utmost Life and Pensions. These arrangements need to take place consecutively rather than in parallel. This notional capital position, where ELAS does not have sufficient assets to cover its SCR, is one aspect of the Scheme of Arrangement that has necessitated the interdependency of the Scheme and Scheme of Arrangement.

1.21 For this reason, and the fact that the Scheme and Scheme of Arrangement are inter-dependent, with either both implemented or neither implemented, I have shown the ELAS position before the Scheme of Arrangement takes effect (i.e. the current position) when comparing pre- and post-Scheme solvency positions of the Companies. This is consistent with the approach I adopted to the presentation and analysis of the financial results in my Report, as described in paragraph 1.24 of my Report.

1.22 The analysis in this Supplementary Report is based on assumptions and economic conditions as at 30 June 2019. I note that the economic position at the Implementation Date cannot be predicted with certainty. The balance sheet position at the Implementation Date will therefore differ from that shown in the Reports, but I would not expect the impact of the Scheme to vary significantly from the estimates shown and it is this impact which is my primary consideration (alongside the Companies continuing to satisfy regulatory solvency requirements, as is currently the case). I note that the Part VII Court Order requires Utmost Life and Pensions to have a Capital Coverage Ratio of the higher of its minimum regulatory requirement and 150% estimated SCR coverage regardless of the pre-Scheme SCR coverage position of either company. After the Scheme is complete and the post-Scheme balance sheet has been finalised then, if required, a further capital injection would be made to ensure 150% SCR coverage. As a result, the post-Scheme balance sheet positions are not expected to change materially; rather it is the size of the capital injection which will be affected.

1.23 As per paragraph 1.20, I have not considered the impact of the Scheme of Arrangement in my Reports. A Policyholder Independent Expert has been assigned to opine on the fairness of that scheme to policyholders in ELAS. The reports produced by the Policyholder Independent Expert will be presented to and considered by the Courts prior to the Scheme of Arrangement being sanctioned and implemented. Where I have relied on conclusions made by the Policyholder Independent Expert, I have stated this and have not otherwise sought to verify the conclusions drawn within his report(s).

1.24 All significant financial information, data and written information which I have relied on is listed in Appendix 1: Data and Reliances

Limitations

1.25 My Supplementary Report is issued subject to the same limitations as my Report (as set out in paragraphs 1.28 to 1.33 of my Report) and may be provided to the same parties as my Report.

1.26 As was the case in my Report, I have also considered the effect of the Channel Island Schemes on policyholders. My Supplementary Report and conclusions apply equally to policies transferring pursuant to the Channel Island Schemes, and this Supplementary Report may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the local scheme in each of Jersey and Guernsey. I will, as necessary, provide additional reports or commentary in respect of Jersey and Guernsey to assist the Channel Islands Courts. At the time of writing this Supplementary Report, no such additional reports have been requested or provided, and it is believed that no further report will be required.

Form of my Supplementary Report

1.27 Section 2 describes changes to the Scheme since my Report, the most recently available financial analyses of the expected impact of the Scheme and any other changes that I am aware of that have been relevant in establishing my conclusions.

1.28 Section 3 provides my commentary on the impact of the Scheme for Transferring Policyholders, with consideration given to the security of policyholder benefits and benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements.

1.29 Section 4 provides my commentary on the impact of the Scheme for Non-Transferring Policyholders, with consideration given to the security of policyholder benefits and benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements. This includes my conclusions in respect of the aspects of the Scheme that remained outstanding at the time of issuing my Report as described in 1.13.

1.30 Section 5 provides my commentary on the impact of the Scheme for the Existing Policyholders of Utmost Life and Pensions, with consideration given to the security of policyholder benefits and benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements.

1.31 Section 6 describes the process I have followed in considering the detail of the objections and queries raised by policyholders and referred to me by the Companies, as well as the responses provided by the Companies.

1.32 Section 7 summarises my overall conclusions, highlighting any areas where my opinion has changed since issuance of my Report.

1.33 Further background information, including details of data and reliances and summary financial information, is given in the appendices.

2 Scheme Update, Financial Analysis and Additional Considerations

Introduction

2.1 In this Section, I comment on any changes to the Scheme since my Report, the most recent available financial analyses of the expected impact of the Scheme and any other changes that I am aware of that have been relevant in establishing my conclusions pertaining to the Scheme. My consideration of the financial analyses includes an updated assessment, based on the most recent available financial information, of whether the Companies are expected to meet the various regulatory capital requirements and internal capital policies to which they are subject, both before and after the implementation of the Scheme.

2.2 As set out in paragraph 4.3 of my Report, I am concerned as Independent Expert with the issue of whether the Scheme could have a material adverse effect on any policyholders of the Companies. In particular, this assessment includes consideration of the expected impact of the Scheme on the benefit security and benefit expectations of policyholders. I have also considered whether the Scheme is likely to lead to a material reduction in the service standards for the policyholders affected. I comment on these issues in Sections 3 to 5.

2.3 As described in Section 11 of my Report, information relating to the Scheme has been sent to relevant policyholders, providing them with the opportunity to comment, ask questions and object about any element of the Scheme or its potential impact. In Section 6, I comment on the views that have been expressed by policyholders, specifically any objections raised by policyholders, and how I have considered these in reaching my conclusions.

Scheme Updates

2.4 There have been no material changes to the Scheme since the Directions Hearing.

2.5 The Part VII Court Order has been drafted to include a requirement for an agreement between the Companies pertaining to the capitalisation of Utmost Life and Pensions. This requires that, prior to the Implementation Date, Utmost Life and Pensions must have a Capital Coverage Ratio of the higher of the minimum regulatory capital requirement and 150% of the estimated SCR on the Implementation Date. In practice, this will be achieved through an injection of capital from Utmost Life and Pensions Holdings Limited to Utmost Life and Pensions. Meeting this requirement is evidenced by the issuance of the Capitalisation Requirement Certificate described in the Scheme of Arrangement, confirming that, based on its analysis of evidence provided by Utmost Life and Pensions, ELAS' Board is satisfied that the capitalisation requirement is expected to be met, to be published on the ELAS website on 23 December 2019. Given that the Scheme and Scheme of Arrangement are dependent on one another, and that this dependency is specified in the Scheme of Arrangement, I do not consider this a material change which has an impact on the Scheme or my considerations.

I note that the commercial agreement between the Companies requires that a "top up" capital injection is made if, subsequently, the original injection is insufficient to meet the 150% SCR coverage required at the Implementation Date. I consider this an important additional safeguard for policyholders.

Scheme Dependencies

2.6 As described in paragraphs 1.13 to 1.14 of my Report, the Scheme and the Scheme of Arrangement are interdependent, and either both or neither will be implemented. The Scheme of Arrangement, and therefore the Scheme, is dependent on the following:

- A positive vote at the Extraordinary General Meeting ("EGM") amending the Articles of Association of ELAS to appoint Utmost Life and Pensions as the sole member of ELAS;
- A positive vote at the Scheme Meeting i.e. a majority of those voting vote in favour of the Scheme of Arrangement, representing at least 75% of the value of the voting policies, in line with the requirements of the Scheme of Arrangement;
- All tax clearances having been received or waived by the Companies;
- The Capitalisation Requirement Certificate being made available on ELAS' website in advance of the Implementation Date; and
- A Change in Control application (changing the management and "control" of ELAS to Utmost Life and Pensions) being made to, and approved by, the PRA.

I have provided an update on each of these below:

EGM

2.7 The ELAS EGM was held on 1 November 2019. At this meeting, (and in advance of the meeting, either by postal or online vote) Members were given the opportunity to vote on whether to accept or reject the proposed resolution to amend the Articles of Association to appoint Utmost Life and Pensions as the sole member of ELAS.

2.8 Approval to change the Articles was required by 75% or more of the votes cast at the EGM. 25% of Members cast their votes. The result of the EGM Vote was that 94% of the votes were made in favour of the proposal.

Scheme Meeting

2.9 The Scheme Meeting of the Scheme of Arrangement policyholders of ELAS was held on 1 November 2019. At this meeting, (and in advance of the meeting, either by postal or online vote) these policyholders were given the opportunity to vote on whether to accept or reject the changes to their policies set out in the Scheme of Arrangement. In order for the vote to be passed, a majority (i.e. more than 50%) of those voting had to vote in favour, and those that voted in favour had to hold 75% or more of the total Voting Value of everyone who voted.

2.10 The requirements for the vote at the Scheme Meeting were passed, with 94% of those in number voting in favour of the Scheme of Arrangement (this equated to 96% based on the value of votes). Since this meets one of the conditions for the Scheme of Arrangement to be implemented, ELAS will seek the High Court's approval to proceed with the Scheme of Arrangement and the Scheme.

2.11 Looking in more detail at the results of the vote provides the following statistics:

- 26% of policyholders in scope of the Scheme of Arrangement cast their vote on the Scheme of Arrangement.
- Votes for the Scheme of Arrangement were cast in respect of 50% of the value of the policies in scope of the Scheme of Arrangement.

- The higher turnout for the vote by value is indicative of higher turnout from policyholders with larger policies and group pension scheme policyholders.

Tax clearances

2.12 The Companies have informed me that the tax clearances (as defined in the Scheme, and which are conditions to the Scheme) have been waived, therefore this condition no longer applies.

Capitalisation Requirement Certificate

2.13 The Capitalisation Requirement Certificate will be made available on ELAS' website in advance of the Implementation Date, and the Scheme will not be implemented without the Capitalisation Requirement Certificate. This requires ELAS to confirm that, based on its analysis of evidence provided by Utmost Life and Pensions, it is satisfied that the funds in Utmost Life and Pensions are expected to be sufficient to meet the Capitalisation Requirement on the Implementation Date. The Certificate is expected to be published on the ELAS website on 23 December 2019, and will therefore not be available in advance of the Sanction Hearing.

Change in Control application

2.14 The Change in Control application was submitted by Utmost Life and Pensions to the PRA on 12 August 2019 and was deemed to be complete on 4 September 2019. This has not yet been approved at the time of writing my Supplementary Report, but I understand from the Companies that this is expected to be approved in advance of 17 December 2019.

Update on Transferring Policies

2.15 Table 2.1 sets out the policies transferring under the Scheme.

Table 2.1: Transferring business of ELAS as at 30 June 2019 assuming the Scheme of Arrangement has been effected

Product Type	Number of Policies[1]
Unit-linked	*156,576*
Other Non-profit	*20,919*
Group Schemes[2]	*141,535*
Total	*319,030*

Source: ELAS

2.16 Of the 319,030 policies transferring under the Scheme, 1,382 relate to policies in scope of the Channel Island Schemes. In addition to the Transferring Policies, there are 3,351 Non-Transferring Policies (policies written under German or Irish law) which will be excluded from the Scheme and remain in ELAS, and are therefore not included in Table 2.1.

[1] The policy counts as at 30 June 2019 are the totals extracted by ELAS on 23 June 2019, the closest available extract for the 30 June 2019 valuation.

[2] For group schemes, the policy count represents the number of members, rather than the number of group scheme policies. Group schemes consist of both unit-linked and non-profit schemes.

Updated Financial Analysis

2.17 The financial analysis in my Report is based on company solvency as reported to the PRA on a Solvency II basis, which is the primary measure used to monitor the financial position of insurance companies in the UK. The Solvency II framework was described in detail in Section 5 of my Report. My Reports focus on Pillar 1 of Solvency II, which is published and is the primary basis of prudential regulation. Additionally, it is the metric that the Companies use to manage their respective businesses on a day to day basis, and the metric on which the internal capital policies are based.

2.18 The financial information quoted in my Supplementary Report relates to the position of the Companies as at 30 June 2019. Due to the timing of the Sanction Hearing a full refresh of the financial information included in my Report is not available. However, I do not believe that updated financial information would change my analysis or conclusions. As we have seen by the movement in financial results between 31 December 2018 and 30 June 2019 the ELAS and Utmost Life and Pensions balance sheets and in particular their Capital Coverage Ratios, would be expected to move in a similar way in response to market movements.

As part of the normal course of business, the Capital Coverage Ratio for the Companies was calculated at 30 September 2019. As described in my Report, the application of management actions in ELAS has been designed to allow the maintenance of a particular Capital Coverage Ratio. Management actions were taken into account at 30 June 2019 to allow the Society to maintain a Capital Coverage Ratio of 120%, based on its Solvency II reported position, and ELAS management confirmed that this approach was applied again at 30 September 2019.

I have also discussed the Utmost Life and Pensions Capital Coverage Ratio with their Chief Actuary. He confirmed that their Capital Coverage Ratio was 151% at 30 September 2019, which is within Capital Policy. This represents a fall in solvency coverage over the quarter that was largely attributable to a reduction in risk free interest rates between June and September 2019.

Chart 1 below which shows that risk free interest rates used to value the business have fallen each quarter in 2019. Although information in this form is only published quarterly by EIOPA, companies often use the yield on 10 year gilts as a proxy for risk-free interest rates in the day to day management of their business, as this data is readily available and can be tracked.

At 30 June 2019, the yield on a 10 year UK Gilt was 91bps. There was significant short-term volatility over the period to 30 September 2019, with the yield falling to 47bps at this date. Yields on 10 year UK Gilts continued to fall in early October 2019, but have since recovered and as at close of play on 5 November 2019 were 78bps, which would imply that all things being equal that the Utmost Life and Pensions Capital Coverage Ratio would have increased.

Regardless of the current solvency levels of the companies the post-Scheme Capital Coverage Ratio of Utmost Life and Pensions at the Implementation Date is a requirement of the Scheme, and the ELAS Capital Policy, therefore the post-Scheme solvency position will remain unchanged.

2.19 The pre-Scheme ELAS reported solvency position at 30 June 2019 is consistent with the results reported to the PRA as part of the quarterly Solvency II reporting requirements. These results have then been through governance within ELAS before being provided to me for inclusion in my Supplementary Report. Given the formal nature of the external reporting process, I have taken comfort from the internal review and governance processes. Further, I have had in-depth discussions relating to these results with management and challenged movements in the results that were either material or out of line with my expectations. An example of this is the movement in the pre-Scheme ELAS balance sheet due to the changing economic conditions described in 2.25 and 2.26. The post-Scheme ELAS position has gone through a similar governance process, but results have not been reported externally, as they were created for the purposes of Scheme projections, rather than regulatory oversight.

2.20 The pre-Scheme results as at 30 June 2019 for Utmost Life and Pensions are the same as those included in the quarterly regulatory submissions. I have been advised that Utmost Life and Pensions has a waiver in place that gives it an exemption from producing a full quarterly valuation. In line with the waivers, a pragmatic and proportionate approach is adopted, whereby the value of assets and Best Estimate Liabilities are calculated in full, however, the Solvency Capital Requirement and the Risk Margin are estimated based on sensitivities. Although the figures at half-year are not externally audited, they have gone through the standard quarterly governance process for Utmost Life and Pensions, including review and sign-off by the Chief Actuary. As with the ELAS results, the post-Scheme Utmost Life and Pensions Balance Sheet has not been produced for external regulatory review, but has been subject to a similar level of governance as the pre-Scheme position. I note that some estimations exist within the post-Scheme balance sheet, such as expected lapses and amount of the capital injection required, but I do not believe these would give rise to a material change to any aspects of the presented post-Scheme Balance Sheet. In particular, as described earlier the capital injection will be calculated to ensure that the Capital Coverage Ratio immediately after the Implementation Date is at the target level of 150% regardless of difference between the estimated amount and the actual results.

2.21 The pre-Scheme calculations were produced by the Companies and are used by them as an input to decision making processes. I believe it is reasonable to rely on their accuracy given the governance processes within ELAS and Utmost Life and Pensions, described in 2.19 and 2.20, above, and subject to the reasonableness checking as stated above, and in 1.18.

2.22 Utmost Life and Pensions performed the post-Scheme calculations, with information on the post-Scheme ELAS business provided by ELAS. Both Utmost Life and Pensions and ELAS have reviewed and challenged these results.

Update on Brexit and other regulatory and market updates

Brexit

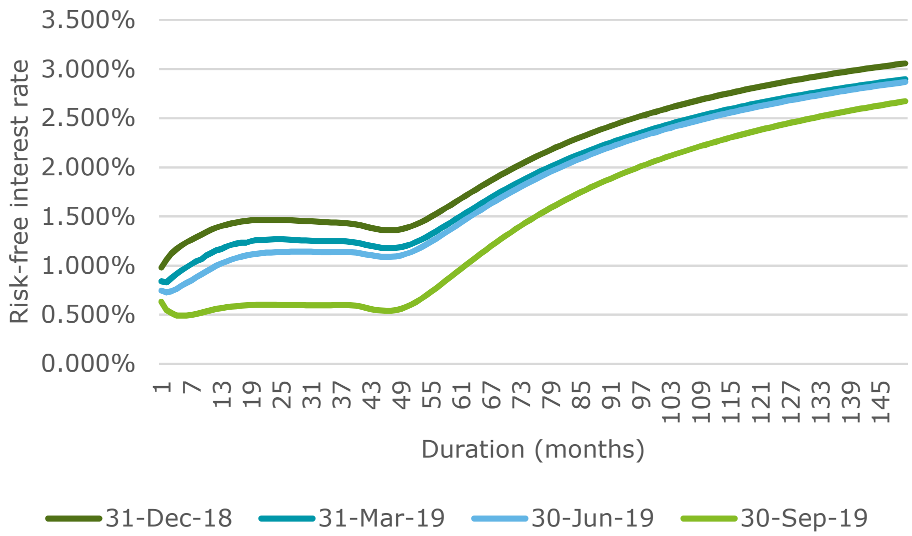
2.23 The key principles of Solvency II are well-defined and understood across the EU. Post-Brexit I expect Solvency II to continue in its essential features in both the UK and the remaining European Union countries. It is possible that the UK will make some adjustments and refinements to the framework, which whilst important, are unlikely to negatively affect the solvency of UK insurers significantly. However, there are plausible scenarios in which much more profound changes could take place, in particular should there be a broader shift in UK policy in relation to financial services regulation. For the purposes of my Supplementary Report, I consider that the current Solvency II metrics are suitable for use in concluding on the proposed Scheme, given that any changes to legislation would not be effected immediately after Brexit and that any changes would likely have a similar impact on the pre- and post-Scheme positions of both Companies.

2.24 In my Report, I provided details of the expected post-Brexit policy administration "grandfathering" arrangements in place with the Irish and German regulators, the CBI and BaFin. These arrangements will allow ELAS to continue to administer the Non-Transferring Policies after Brexit. Since the time of writing my Report, there has been a further delay to the Brexit date (now expected to be 31 January 2020). In addition, ELAS and Utmost Life and Pensions have initiated the Part VII transfer process of the Non-Transferring Policies to an Irish based subsidiary of Utmost Life and Pensions which is being set up. This transfer would help facilitate the continued servicing of the Non-Transferring Policies following Brexit, and, if enacted, would be expected to conclude within 2 years of the initiation of the process. This Part VII transfer is outside of the scope of my considerations, and there will be an Independent Expert appointed who is independent of the Companies to conclude on the fairness of that Part VII transfer to the Non-Transferring Policyholders.

Economic environment

2.25 Solvency II Technical Provisions are sensitive to changes in the risk-free interest rate, with a reduction in the risk-free rate expected to increase Solvency II Technical Provisions, all else being equal. Since year-end 2018, the UK has seen a decline in the risk-free interest rate which underpins Solvency II calculations. Chart 1 shows the movement in risk-free interest rate term structures from 31 December 2018 to 30 September 2019.

Chart 1: EIOPA Risk-free Interest Rate Term Structures for UK Business



Source: https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii-technical-information/risk-free-interest-rate-term-structures

2.26 As is shown in Chart 1, the risk-free interest rate has fallen each quarter over 2019. The reduction in interest rates over this period has, for the majority of UK insurers, increased the Solvency II Technical Provisions and therefore the Solvency Capital Requirement, and as a result reduced the Capital Coverage Ratio. There is uncertainty over the interest rate movements in the remaining months of 2019 and beyond. I have discussed this in the context of the 30 June 2019 financial positions of the Companies in Sections 3 and 4 of this Supplementary Report and presented sensitivities to further changes in interest rates to projected solvency in paragraphs 2.55 to 2.67.

Implications of Ruling on Prudential Assurance Company transfer to Rothesay Life

2.27 It was announced on 16 August 2019, that the proposed transfer of a £12 billion annuity book from Prudential Assurance Company ("PAC") to Rothesay Life ("Rothesay") was not sanctioned by the High Court. This is the first Part VII transfer application in the UK not to be sanctioned, and I have considered the implications for the ELAS to Utmost Life and Pensions Scheme. I also note that an appeal has been lodged jointly by PAC and Rothesay which is expected to be heard by the Courts in Spring 2020. I am not a lawyer, so I have only considered the key points made by Justice Snowden that are relevant to my area of actuarial expertise. The Companies have received advice from their legal advisors in respect of the legal aspects of the read-across to the PAC to Rothesay scheme to this particular Scheme. I have not relied on this advice, and I have independently considered the impact of this decision on the Scheme.

2.28 Although there are parallels that could be drawn between the PAC to Rothesay scheme and this Scheme, I believe there are four key differences:

Strategic objectives of the Scheme: The rationale behind the PAC to Rothesay scheme was very different to that for the ELAS to Utmost Life and Pensions transfer. PAC was a subsidiary of Prudential plc and along with a number of other UK businesses (the "UK Business") has been the subject of corporate restructuring plans. This took the form of a process where the UK Business was "demerged" from Prudential plc and became a stand-alone business on its own right listed on the London Stock Exchange as M&G plc.

In the case of the PAC to Rothesay transfer, the rationale was to de-risk PAC and release capital from the business to help facilitate the demerger of the UK Business from Prudential plc. Justice Snowden considered that this objective was substantially achieved through a financial arrangement or reinsurance that was put in place as part of the transaction.

As I describe in Section 3 of my Report, the Scheme of Arrangement is intended to allow ELAS to distribute its available capital fairly to with-profits policyholders, and the subsequent Scheme to Utmost Life and Pensions will avoid diseconomies of scale and mitigate the operational and expense risks associated with ELAS remaining in long-term run-off. This does not require, or include, a reinsurance arrangement and the Scheme is required to complete the transaction. Unlike in PAC's case there is no "corporate" benefit distinct from the benefits to policyholders and in fact the Scheme of Arrangement and the subsequent Scheme are considered by ELAS management to be in the best interests of policyholders.

Nature of business: Whilst the Scheme and the PAC to Rothesay scheme both relate to long-term business, there are significant differences in the scope of the transfers. The PAC to Rothesay transfer consisted entirely of annuity business, which does not have the option for the policyholder to surrender and/or transfer to another provider. In the case of the ELAS business after the Scheme of Arrangement, most of the business proposed to transfer to Utmost Life and Pensions does not have this restriction. As a result, after the Scheme of Arrangement most of these policyholders can choose to change provider without incurring a loss of benefits or an exit charge. Indeed, following the Scheme of Arrangement many policyholders will have greater flexibility with their policies and fewer barriers to transfer, as they will no longer be obliged to forego any investment guarantees or future distributions of capital if they transfer their product to another provider.

Opportunity for the Policyholders to Vote on the Scheme of Arrangement: In the case of the PAC to Rothesay scheme, in common with all Part VII transfers, there was no opportunity for the in scope policyholders to vote on the transfer and their only course of action was to object to the Court. In the case of the Scheme, the policyholders who held with-profits policies in advance of the Scheme of Arrangement had an opportunity to vote on the Scheme of Arrangement and, as I have discussed in my Report, there is an interdependence between the Scheme and the Scheme of Arrangement. These policyholders account for c.75% of the total number of Transferring Policies. ELAS with-profits policyholders had two opportunities to make their views known; at the Scheme Meeting and, for those that are members of ELAS, at the EGM. Although these meetings were only open to the members of ELAS, rather than all policyholders of ELAS, all policyholders retained their opportunity to object the Scheme.

Capital support: Justice Snowden considered access to capital support in the event of an extreme event as part of the proposed PAC to Rothesay transfer. At the time of the hearing the transferring business was part of PAC, a subsidiary of the FTSE 100 listed company Prudential Plc which is a diverse life insurance and investment management group with subsidiaries in a number of geographies whereas Rothesay is a mono-line insurer owned by private institutional investors. Justice Snowden viewed the transfer of business from PAC to Rothesay as being a weakening of the capital support arrangements available as he considered there to be less certainty of parental support being available, in the unlikely event that this is required, to protect the security of the benefits of the transferring policyholders in the medium to long term. It should be noted that as at 21 October 2019 the ownership of PAC changed as Prudential Plc completed its demerger of its UK businesses and PAC is now a subsidiary of M&G Plc, which is a FTSE 100 company.

In contrast, ELAS, as a mutual insurance company, has no parent to provide capital support if this was required and very limited scope to raise capital directly in the capital markets. In extreme events the solvency position of ELAS could only be protected by exercising management actions. Whilst these management actions are typically intended to maintain solvency by de-risking the business, the consequence is that they may have a negative impact on policyholder benefits.

Utmost Life and Pensions, on the other hand, is part of the Utmost Group of Companies which is a group of insurance businesses operating across Ireland, the Channel Islands and the UK along with a number of international branches. Utmost Life and Pensions has the ability to borrow money from its parent company on a contingent basis, which is only repayable in line with the maintenance of Utmost Life and Pensions Capital Policy. Although the availability of support is not guaranteed, this option, combined with Utmost Life and Pensions ability to raise capital / equity and debt from external investors, provides significant additional flexibility if capital is required in the future relative to the current position for ELAS.

With regard to those policyholders remaining in ELAS, the reduction in retained capital and smaller-scale nature of the business could arguably lead to those policyholders being exposed to increased levels of risk. However, I believe that the measure proposed to manage the most significant risk, specifically the expense agreement with Utmost Life and Pensions, serves the purpose of minimising the risk exposure and so offers a level of protection to these policyholders.

I considered the availability of capital support and the differences in the structure of ELAS and Utmost Life and Pensions in detail in Section 5 of my Report. I have included additional balance sheet projections and sensitivities in paragraphs 2.46 to 2.67. These projections and sensitivities show that both ELAS and Utmost Life and Pensions are expected to continue to hold sufficient capital to meet their regulatory capital requirements (the Minimum Capital Requirement, “MCR”, for ELAS and SCR for Utmost Life and Pensions) over the next five years. I consider five years to be a sufficient projection term since any longer may introduce increasing uncertainties and limit confidence in the reliability of the projection.

I have considered the above and have added additional commentary and considerations to my analysis in this Supplementary Report where I believe this enhances and supports my conclusions. I do not consider that the initial outcome of the PAC to Rothesay transfer should have an impact on my approach to concluding on the Scheme, or indeed change my conclusions relating to the Scheme.

Capital Policies of the Companies

2.29 In paragraphs 5.22 to 5.35 of my Report, I discussed the capital policies currently used by the Companies to define the level of capital targeted in excess of the level required by the regulations. I considered the impact on the benefit security of the Transferring Policyholders of the differences in the Companies’ capital policies in paragraphs 6.14 to 6.20 of my Report, concluding that the differences did not lead to a materially adverse impact on the benefit security of these policyholders. In addition, I considered the continued appropriateness of the Utmost Life and Pensions Capital Policy after the Scheme for the Existing Utmost Life and Pensions Policyholders in paragraphs 8.9 to 8.10 of my Report. There have been no changes to the Utmost Life and Pensions Capital Policy applying to both sets of policies after the Implementation Date. Nothing has come to my attention since my Report to suggest that my conclusions in respect of the benefit security of these policyholders should change.

2.30 As noted in 1.13, at the time of writing my Report, I was unable to conclude on the proposed post-Scheme ELAS Capital Policy, and the benefit security it offered to policyholders after the implementation of the Scheme due to supporting details being outstanding. Since then, the Companies have provided me with additional information to support the requirements of the ELAS Capital Policy, and allowed me to reach a conclusion on this matter.

2.31 Following implementation of the Scheme, the Non-Transferring Policies will be subject to the post-Scheme ELAS Capital Policy. This sets out the following minimum conditions in respect of capital to be held in ELAS:

- a minimum Capital Coverage Ratio of the higher of 125% of MCR and 135% of SCR, at which management actions may be taken to recover the level of the solvency; and
- a target Capital Coverage Ratio of the higher of 125% of MCR and 150% of SCR immediately after a member payment or extraction of capital.

Given the absolute size of the ELAS business post-Scheme, the SCR will have reduced to a level that is below the minimum level of capital required, the MCR. The MCR is a fixed amount denominated in Euros, and as such, the capital policy (and Capital Coverage Ratio) has been calibrated to allow for this.

2.32 The additional information provided by the Companies includes sensitivity testing, which demonstrates that, under the proposed post-Scheme ELAS Capital Policy, ELAS will continue to hold sufficient capital to meet its MCR under a number of different stress events, which I consider to be of low likelihood of occurrence. I am therefore satisfied that the proposed level of capital to be retained in ELAS at the Implementation Date is expected to provide a suitable buffer over the MCR such that it is not expected to be breached over the next five years. Further details on the sensitivity testing relating to ELAS is included in paragraphs 2.62 to 2.66.

2.33 The Utmost Life and Pensions Board approved the proposed ELAS Capital Policy, applicable from the Implementation Date, on 26 September 2019.

2.34 Other than as outlined above, there have been no changes to the capital policies since the time of my Report, including in relation to the governance arrangements around future changes to these policies.

Estimated Solvency II Position at 30 June 2019

2.35 Using information provided to me by the Companies, I have reviewed the solvency position of both Companies as at 30 June 2019.

2.36 The Solvency II Pillar 1 Capital Coverage Ratios of the Companies before and after the implementation of the Scheme (had it been implemented on 30 June 2019) are set out in Table 2.2. These results are comparable with the equivalent information from my Report (as at 31 December 2018). The figures show the level of coverage of the Pillar 1 regulatory requirement.

Table 2.2 Expected Solvency II solvency position pre- and post-Scheme

£m	As at 30 June 2019			
	Pre-Scheme		Post-Scheme	
	Pre-SoA[3] ELAS	Utmost Life and Pensions	ELAS	Utmost Life and Pensions
Assets	6,169	1,676	72.7	7,881
Reinsurance	378	(19)	8.9	351
Total Assets	**6,547**	**1,658**	**81.7**	**8,232**
Total Liabilities	**5,994**	**1,527**	**77.6**	**7,936**
Own Funds[4]	**553**	**131**	**4.1**	**296**
Eligible Own Funds	**553**	**111**	**4.1**	**278**
Solvency Capital Requirement[5]	460	66	2.0	185
Minimum Capital Requirement	129	22	3.3	64
Capital Coverage Ratio[6]	**120%**	**168%**	**125%**	**150%**

Source: Financial analysis provided by the Companies

2.37 In my analysis, I focus on comparing the pre-Scheme (pre-Scheme of Arrangement) financial position with the post-Scheme position, since both the Scheme and the Scheme of Arrangement are inter-conditional and dependent on one another. As previously covered in my Report, the Capital Policy for ELAS post-Scheme is driven by the MCR, rather than the SCR, which is the biting constraint for all other results presented in the table above. This is a result of the reduction in absolute size of ELAS and that the structure of the MCR is that there is a fixed minimum monetary amount required at all times.

2.38 Comparing Table 2.1 of my Report with Table 2.2, it can be seen that the Capital Coverage Ratio for ELAS pre-Scheme based on its Solvency II reported position has fallen from 159% without management action at year-end 2018 to 120% as at 30 June 2019. In order to achieve this level of coverage at 30 June 2019, some management actions were required to be taken into account.

2.39 For reporting purposes, ELAS determines the solvency position of the business in the absence of management actions and then determines to what extent management actions are required in stressed conditions to maintain an appropriate level of solvency. To the extent management actions are required under stress, they are included in calculating the Capital Coverage Ratio reported. Management actions, whilst typically increasing or maintaining the solvency position, may have a cost to the policyholders and as a result companies will be reluctant to use them unless required to prevent a breach in solvency requirements. Following this approach gives management the ability to both maintain policyholder security without negatively affecting future outcomes.

[3] Scheme of Arrangement abbreviation

[4] Own Funds is the excess of assets over liabilities measured on a Solvency II basis. Note that Utmost Life and Pensions Technical Provisions include restrictions on the Own Funds of WPSFs so that their surplus does not count towards the overall solvency of Utmost Life and Pensions.

[5] The Solvency Capital Requirement for both ELAS and Utmost Life and Pensions is calculated on a Standard Formula basis, based on the formula set out in the Solvency II Delegated Acts.

[6] This is the ratio of Eligible Own Funds to the higher of the Solvency Capital Requirement and the Minimum Capital Requirement.

2.40 ELAS management has confirmed that if full allowance had been made for management actions (the most beneficial in improving the capital position of ELAS being the potential to reduce the discretionary part of benefits paid to with-profits policyholders), the Capital Coverage Ratio would have been c.175% at 30 June 2019. Given the context of the wider process of the Scheme of Arrangement and the Scheme, taking full allowance for these actions at present was not considered necessary. The comparable position at 31 December 2018 would have been a Capital Coverage Ratio in excess of 200% if full allowance had been made for management actions.

2.41 The significant fall in interest rates in the first 6 months of 2019 has been a significant factor in the fall in Capital Coverage Ratio from 159% to 120%. Interest rates have continued to fall since this point. Whilst 30 September 2019 results are not yet available, my understanding is that management will have followed the same approach of allowing for management actions to maintain a Capital Coverage Ratio of 120% for reporting purposes.

2.42 There has also been a reduction in the Capital Coverage Ratio for Utmost Life and Pensions, from 178% at 31 December 2018 to 168% at 30 June 2019, which is still comfortably in excess of the minimum required under the Utmost Life and Pensions Capital Policy. Although subject to the same economic conditions as ELAS, the effect on solvency is dampened for Utmost Life and Pensions due to an offsetting impact that interest rate movements have on the Tier 2 Capital restrictions. Under Solvency II there are restrictions which limit the extent to which some capital resources can be used to cover solvency requirements and as a result of the interest rate movements there is the ability to recognise more of these resources.

2.43 In line with the post-Scheme ELAS Capital Policy and Utmost Life and Pensions Capital Policy, the post-Scheme Capital Coverage Ratios are 125% of MCR and 150% of SCR, for ELAS and Utmost Life and Pensions, respectively at the point of transfer. The post-Scheme positions of ELAS and Utmost Life and Pensions will be unchanged by movements in the pre-Scheme positions of either ELAS or Utmost Life and Pensions, as these positions are requirements of the respective post-Scheme capital policies. Only the capital injection, described below, will change.

2.44 A condition of the Scheme of Arrangement and the Part VII Court Order is that, immediately prior to the Scheme, a capital injection will be made by Utmost Life and Pensions Holdings Limited into Utmost Life and Pensions in order to have a Capital Coverage Ratio of at least 150% of the estimated SCR in Utmost Life and Pensions on the Implementation Date. Based on the 31 December 2018 capital position, the injection was estimated to be in the region of £100m; however, the changing market conditions have resulted in this estimate increasing to c.£150m.

2.45 The capital injection must be in the form of assets of a sufficient quality to meet Solvency II standards for assets required to cover the Solvency Capital Requirement. I also noted that the level of Tier 1 capital injected would be determined to ensure that the ratio of Tier 1 and Tier 2 would be likely to continue to meet Solvency II requirements over the next five years allowing for potential adverse lapse scenarios. I have seen the analysis performed to support the split of Tier 1 and Tier 2 capital had the Scheme been implemented at 30 June 2019, and am satisfied that the proposed split meets the Solvency II requirements.

Post-Scheme Balance Sheet Projections

2.46 In addition to considering the solvency position immediately following implementation of the Scheme, I have also considered the longer term expected balance sheet position for both ELAS and Utmost Life and Pensions. The post-Scheme positions of Utmost Life and Pensions and ELAS are set out in Tables 2.3 and 2.4, respectively. The Capital Coverage Ratio of Utmost Life and Pensions has been calculated with reference to the SCR, and the ELAS equivalent with reference to the MCR.

2.47 As with all financial projections, there are a number of underlying assumptions with additional complexity arising from Scheme-specific issues, such as future expenses and the rate at which policyholders are expected to lapse or claim their policy. The analysis reflects the profile of only the existing business as the Companies are both closed to new business.

2.48 The projections assume that no capital is removed through the payment of dividends (or in the case of ELAS, member payments), but the projections demonstrate that these could be made in line with the respective Utmost Life and Pensions and ELAS Capital Policies. My conclusions do not rely on the availability of capital over the respective capital policies given that this could be removed from the business.

2.49 For the reasons set out in 2.47 and 2.48, and particularly given the firm's business plan and capital management policy, the projected solvency coverages set out in Table 2.3 and 2.4 are not expected to be reached in practice. In particular, if dividends are taken in line with the capital policy the Capital Coverage Ratio will not fall to below 150% at the point in time when the dividend is paid.

Table 2.3 Post-Scheme Solvency II Balance Sheet projections for Utmost Life and Pensions

£m	01/01/2020	Year-End				
		2020	2021	2022	2023	2024
Assets	7,748	6,312	5,879	5,469	5,086	4,702
Reinsurance	351	345	338	331	324	316
Total Assets	**8,246**	**6,657**	**6,217**	**5,800**	**5,410**	**5,018**
Total Liabilities	**7,927**	**6,336**	**5,883**	**5,452**	**5,051**	**4,652**
Own Funds	319	321	334	348	359	365
Eligible Own Funds	**301**	**303**	**317**	**330**	**342**	**349**
Solvency Capital Requirement	201	166	155	143	132	120
Capital Coverage Ratio [7]	**150%**	**182%**	**204%**	**230%**	**259%**	**290%**

Source: Financial analysis provided by Utmost Life and Pensions

Table 2.4 Post-Scheme Solvency II Balance Sheet projections for ELAS

£m	01/01/2020	Year-End				
		2020	2021	2022	2023	2024
Assets	65.0	60.5	57.3	54.4	52.8	51.9
Reinsurance	8.1	7.9	7.6	7.3	7.0	6.8
Total Assets	**73.1**	**68.4**	**64.9**	**61.7**	**59.9**	**58.7**
Total Liabilities	**69.0**	**64.1**	**60.5**	**57.2**	**55.2**	**53.9**
Own Funds	4.1	4.3	4.4	4.5	4.6	4.7
Eligible Own Funds	**4.1**	**4.3**	**4.4**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio [6]	**125%**	**130%**	**134%**	**137%**	**141%**	**144%**

Source: Financial analysis provided by Utmost Life and Pensions

2.50 The profile of lapses assumed in the base case projection has been determined to reflect the likely increase in lapses ("Pent-up Lapses") in the period immediately after the Implementation Date. The Scheme of Arrangement process has led to an observed reduction in the lapse experience of ELAS policyholders in the run up to the Implementation Date, as with-profits policyholders appear to have postponed making a claim on their policy until they

[7] This is the ratio of Eligible Own Funds to the higher of the Solvency Capital Requirement and the Minimum Capital Requirement.

receive the uplift to their policy values applied following the Scheme of Arrangement. Given this, there is an expectation that these policyholders will then mature or transfer their policy shortly after the Implementation Date. The impact of a further increase in the rate of policyholder lapses in the year following the Implementation Date has also been assessed as part of the sensitivities, described in 2.55 to 2.66, below. Further descriptions of the sensitivities and scenarios performed are included in Appendix 3, alongside the detailed results of this testing.

2.51 The per-policy expense levels in Utmost Life and Pensions Limited have been determined to reflect the expected scale of the business post-Scheme. This reflects the "Pent-up Lapses" described above to ensure that the expense base is sufficiently robust and flexible to respond to the potential future changes in the scale of the business over the first year following the Implementation Date and beyond. This is an important assumption for all policyholders. The cap in the fees chargeable against their policies protects their direct financial interests but overall financial security will depend on the robustness of the Utmost Life and Pensions balance sheet to expenses.

2.52 Post-Scheme, an Expense Agreement between ELAS and Utmost Life and Pensions governs the level of expenses allocated to ELAS. The design of the agreement protects ELAS against the risk that costs increase following a greater than expected number of policyholders lapsing, due to having to spread fixed costs over a smaller number of policies, and does this by specifying costs on an agreed per-policy basis and therefore transferring the expense risk to Utmost Life and Pensions. The Cost Sharing Agreement is being set up as an agreed form document between ELAS and Utmost Life and Pensions after the Scheme has been implemented, to be effective from the Implementation Date. The principles of this have been agreed, and this agreement is expected to be approved by the Utmost Life and Pensions Board in December 2019.

2.53 As indicated above, the projected balance sheets show an improvement in the Capital Coverage Ratios for both Utmost Life and Pensions and ELAS in the five years post-Scheme, demonstrating that in a best-estimate scenario, both Utmost Life and Pensions and ELAS will continue to meet their respective Capital Policies post-Scheme. In particular, the post-Scheme Utmost Life and Pensions Capital Coverage Ratio increases significantly over the first year, from 150% to 182%. This is primarily due to the assumed lapse rate (the Pent-up Lapses, described in 2.50), and the capital that is expected to be released in respect of these policies over the first year. For Utmost Life and Pensions, the calculation of Eligible Own Funds allows for the Tier 2 restriction.

2.54 Paragraphs 2.55 to 2.66 below consider the sensitivity of these projected balance sheets to both economic and policyholder behaviours.

Sensitivity Testing and Scenario Testing

2.55 As set out in paragraph 5.57 of my Report, sensitivity and scenario testing to help demonstrate the ongoing financial strength of the Utmost Life and Pensions and ELAS Solvency II Balance Sheets was not available at the time of writing my Report. Subsequently I have been provided with this information and consider this below.

2.56 A number of adverse sensitivities and scenarios have been performed by the Companies on the post-Scheme ELAS and Utmost Life and Pensions balance sheets. I have had input into the process of selecting these sensitivities and scenarios and determining the size of the stresses considered. These reflect the risks that I consider Utmost Life and Pensions and ELAS exposed to, and events which could occur within the projection period or beyond. I have discussed other risks and sensitivities with the Companies, but do not consider these risks, or combinations of these risks, to be material to the post-Scheme balance sheets given the nature of the business. Further details on these sensitivities and scenarios considered have been included in Appendix 3 to this Supplementary Report.

2.57 The results of these sensitivities are summarised for each company in Tables 2.5 and 2.6, below, with focus on the Capital Coverage Ratio ("CCR") at each point over the next five years. As described previously, for Utmost Life and Pensions the Capital Coverage Ratio is based on the Solvency Capital Requirement and for ELAS this is based on the Minimum Capital Requirement.

Utmost Life and Pensions

Table 2.5 - Impact of sensitivities on Solvency II Capital Coverage Ratio for Utmost Life and Pensions

	Scenario		01/01/2020	Year-end 2020	2021	2022	2023	2024
	Base Position	CCR	150%	182%	204%	230%	259%	290%
Stresses	Equities 40%	CCR	150%	155%	176%	196%	222%	251%
Stresses	Equities 40%	Change	-	28%	28%	35%	37%	39%
Stresses	200% Lapse and Surrender Rates	CCR	150%	159%	177%	199%	224%	250%
Stresses	200% Lapse and Surrender Rates	Change	-	24%	27%	31%	35%	40%
Stresses	Expenses + 10%	CCR	150%	162%	183%	209%	237%	268%
Stresses	Expenses + 10%	Change	-	21%	21%	21%	22%	22%
Stresses	Mass Lapse 40%	CCR	150%	173%	198%	228%	260%	296%
Stresses	Mass Lapse 40%	Change	-	10%	6%	3%	(1)%	(5)%
Stresses	25bps fall in interest rates	CCR	150%	175%	196%	221%	244%	277%
Stresses	25bps fall in interest rates	Change	-	7%	8%	9%	15%	13%
Scenarios	Mass lapse and increased expense (20%) stresses	CCR	150%	123%	147%	175%	206%	239%
Scenarios	Mass lapse and increased expense (20%) stresses	Change	-	59%	57%	55%	53%	51%
Scenarios	200% Lapse/Surrender rate and equity fall stresses	CCR	150%	127%	145%	160%	182%	206%
Scenarios	200% Lapse/Surrender rate and equity fall stresses	Change	-	55%	60%	70%	77%	85%
Scenarios	Mass Lapse and equity fall stresses	CCR	150%	144%	167%	191%	220%	253%
Scenarios	Mass Lapse and equity fall stresses	Change	-	38%	37%	39%	39%	38%

Source: Projections from Utmost Life and Pensions

2.58 The results of the sensitivity testing for Utmost Life and Pensions have been presented in Table 2.5, split between stresses, which represent an individual sensitivity, and scenarios which represent the effect of combined stress events. These have been presented in order of magnitude, with colour coding used to highlight impacts that would breach target capital coverage.

2.59 The results of the sensitivities show that, even under the most onerous individual stress, Utmost Life and Pensions would continue to be able to meet its pre-dividend target Capital Coverage Ratio of 150% of SCR. However, there are three combined scenarios in which this is not the case:

- The most onerous of the combined scenarios is the mass lapse and increased expenses event. This impact reflects a 40% increase in lapses on unit-linked products at the same time as a 20% increase in expenses. This has the combined impact of an increase in expenses but significantly less policies over which to spread these increased costs. I consider this to be an extreme but possible event, given the uncertainty relating to policyholder behaviour after the Implementation Date, which, coupled with an unexpected increase in the per policy expenses, is the scenario which, if it occurred, would have the most significant impact on the Utmost Life and Pensions balance sheet.

In this scenario, the Utmost Life and Pensions Solvency Coverage Ratio falls to 123% in the first year, signifying a need for management actions, such as requesting a loan from its parent company or raising external debt, to improve the immediate position in line with the Utmost Life and Pensions Capital Policy. If the increase in expenses were considered permanent, Utmost Life and Pensions management would likely take actions to reduce per policy costs. Even without management actions, Utmost Life and Pensions can continue to cover its SCR, and would recover from this scenario organically over time, bringing it back in line with its Capital Policy (135% of SCR) within a year of this event, and back to dividend paying capacity (150% of SCR) within two years.

Although I view this as an extreme scenario, especially given that the Utmost Life and Pensions expense assumptions used in the base projection already make some allowance for higher than expected first year policyholder withdrawals, this analysis gives me comfort that Utmost Life and Pensions would be able to withstand such an extreme event.

- For the combined increased lapse and equity fall event, the Capital Coverage Ratio does not fall as significantly dropping to 127%. In this case, similar management actions to those described above could be taken to improve the solvency position. It is worth noting that even in the absence of any such actions, the solvency ratio returns above the target level within a year period, and back to dividend paying capacity within two years.

- In the combined mass lapse and equity fall event, the Capital Coverage Ratio for Utmost Life and Pensions falls to 144%, which is above the point at which Utmost Life and Pensions would take management actions (135% of SCR). As can be seen, this Capital Coverage Ratio recovers the following year to more than 150% of SCR, bringing it above the level at which dividends could be paid.

2.60 In the above scenarios, there is no point at which Utmost Life and Pensions has insufficient assets to cover its Solvency Capital Requirement and is able to meet its policyholder liabilities and its regulatory requirements at all times.

2.61 Given the above, I am satisfied that Utmost Life and Pensions is unlikely to be in a position where it is unable to meet its SCR or policyholder liabilities in the period to end 2024.

ELAS

Table 2.6 - Impact of sensitivities on Solvency II Capital Coverage Ratio for ELAS

	Scenario		01/01/2020	Year-end 2020	2021	2022	2023	2024
	Base Position	CCR	125%	130%	134%	137%	141%	144%
Stresses	Equities 40%	CCR	125%	122%	127%	131%	135%	139%
		Change in ratio	-	8%	7%	6%	5%	5%
	Mass Lapse 40%	CCR	125%	127%	131%	136%	139%	143%
		Change in ratio	-	3%	2%	2%	1%	1%
	25bps fall in interest rates	CCR	125%	127%	132%	136%	140%	143%
		Change in ratio	-	2%	2%	1%	1%	0%
	200% Lapse and Surrender Rates	CCR	125%	128%	132%	136%	140%	143%
		Change in ratio	-	1%	1%	1%	1%	1%
	Expenses + 10%	CCR	125%	130%	134%	137%	141%	144%
		Change in ratio	-	0%	0%	0%	0%	0%
Scenarios	200% Lapse/Surrender rate and equity fall stresses	CCR	125%	121%	126%	131%	135%	139%
		Change in ratio	-	9%	8%	7%	6%	5%
	Mass Lapse and equity fall stresses	CCR	125%	121%	127%	131%	136%	140%
		Change in ratio	-	8%	7%	6%	5%	4%
	Mass lapse and increased expense (20%) stresses	CCR	125%	127%	131%	136%	139%	143%
		Change in ratio	-	3%	2%	2%	1%	1%

Source: Projections from Utmost Life and Pensions

2.62 The results of the sensitivities for ELAS show that, even under the most onerous sensitivities and scenarios considered, ELAS would continue to have sufficient assets to meet its MCR.

2.63 In the 200% lapses and equity fall scenario and the mass lapse and equity fall scenario, the Capital Coverage Ratio falls to 121% which is below the minimum target level. In these cases, management actions could be taken to improve the solvency and it is worth noting that even in the absence of any such actions, the ratio returns above the target level in the following year. A similar recovery is expected in the 40% equity fall scenario, where the Capital Coverage Ratio drops to 122%.

2.64 Given the size of ELAS post-Scheme, a risk I have a particular interest in is an increase in the per-policy expenses for policyholders, which is an issue faced by many smaller funds or companies. For ELAS post-Scheme, the expense stress has limited impact on the ELAS balance sheet. This is due to the expense agreement proposed to be put in place between ELAS and Utmost Life and Pensions post-Scheme, whereby the per-policy costs charged to ELAS are fixed and do not depend on the number of policies in ELAS at any given time. This means that under a standalone expense stress, there is no impact on the ELAS balance sheet, as observed in Table 2.6.

2.65 I have also considered Guaranteed Annuity Rate ("GAR") take-up risk, which is the risk that more policyholders take up an option to convert their policy to an annuity on guaranteed terms. This is a risk that the remaining ELAS fund would be exposed to but one which I do not consider necessary to include in the stresses above. The impact of this risk will be on the ELAS main fund rather than the individual With-Profits funds and the policies in those funds. This risk only applies in respect of policies with GARs post-Scheme, which is a small number of the UK-style German With-Profits Policies. The current GAR take-up rate assumption used by ELAS, and proposed for use in the post-Scheme basis, is 20%. This is significantly higher than experience over the past 3 years (less than 10%), therefore there is an element of prudence in the GAR reserve currently held in respect of these policies. In addition, I see no reason why policyholder behaviour will change to such an extent that this assumption is no longer appropriate. Indeed, following the uplift applied to the policy values for the UK-style German Policyholders, these policyholders may be more likely to lapse their policy and give up their GAR which is captured in the lapse stress.

2.66 Overall, the ELAS post-Scheme balance sheet is insensitive to both economic and demographic changes due to the nature of the liabilities in the fund and the expense agreement proposed to be put in place between ELAS and Utmost Life and Pensions. For this reason, I am satisfied that, post-Scheme, ELAS is expected to continue to meet its Capital Policy and therefore the regulatory minimum solvency requirements in the period to end 2024.

Conclusions

2.67 Based on the sensitivities presented above, I am satisfied that both ELAS and Utmost Life and Pensions are expected to continue to hold sufficient capital in more extreme economic and policyholder behaviour scenarios. This supports my conclusions in respect of policyholder benefit security described in Sections 3, 4 and 5 of my Supplementary Report.

Investment Management

2.68 At the time of writing my Report, Utmost Life and Pensions had no plans to make changes to its investment management processes. Since then, they have entered in to an agreement with JP Morgan Asset Management, the same manager that will be used for the Scheme of Arrangement policies, to provide investment management services for some of the assets underlying the Existing Utmost Life and Pensions Unit-Linked Policies. This change is expected to take effect in November 2019.

2.69 A change in investment manager does not change the protections offered by the Financial Services Compensation Scheme ("FSCS"). Therefore, the coverage provided by the FSCS does not change due to the change in investment manager for the Existing Utmost Life and Pensions Policies, or for the Transferring and Non-Transferring Policies, described in Sections 6 and 7 of my Report.

Tax Considerations

2.70 As noted in my Report, I am not an expert in tax, and have therefore relied on input from tax accounting colleagues with experience in Part VII transfers in Deloitte in forming my view as to the tax implications of the Scheme.

2.71 In Section 10 of my Report I discussed the tax considerations arising from the Scheme, and noted that the Companies were in the process of obtaining clearance from HMRC in respect of Section 132 of the Finance Act 2012 and anti-avoidance provisions. This clearance has been granted for both ELAS and Utmost Life and Pensions. In addition, the Utmost Life and Pensions clearance in respect of Stamp Duty was outstanding at the time of drafting my Report. This has now been received.

2.72 For the reasons stated in my Report I remain of the opinion that there are not any tax considerations arising from the Scheme that will affect any group of policyholders.

3 Expected Impact of the Scheme on Transferring Policyholders

Overview

3.1 As Independent Expert I have particular concern for the impact of the Scheme on the security of policyholder benefits and on policyholders' benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements. In this section I set out my considerations on changes in these areas for Transferring Policyholders.

3.2 In my report, I concluded that I was satisfied that Transferring Policyholders would not be materially adversely affected by the Scheme. I provide updated analysis and further commentary on changes made since the date on which my Report was issued below.

Benefit Security for Transferring Policyholders

3.3 In Section 6 of my Report, I considered the impact of the Scheme on the benefit security for the Transferring Policyholders. First, I compared the pre- and post-Scheme solvency positions of the Companies applicable to Transferring Policyholders. Within my consideration of the post-Scheme position, I assessed the solvency position of the fund under the scenarios where the Scheme is approved or not approved. It was also necessary to consider ongoing benefit security, in particular whether the Scheme has a material impact on the capital available to support the Transferring Policies and any "contagion" risk introduced from exposure to the existing business held within Utmost Life and Pensions. I concluded that I was satisfied that there was no materially adverse impact on policyholder benefit security for the Transferring Policyholders.

3.4 I set out a summary of updated financial positions and the impact of any updates received since my Report was finalised below:

Table 3.1 – Estimated Impact of the Scheme on Solvency II reported capital position of Transferring Policies as at 30 June 2019

£m	Pre-Scheme	Post-Scheme		
	Pre-SoA ELAS	Utmost Life and Pensions		
		NPF	WPSFs	Total
Assets	6,169	7,616	265	7,881
Reinsurance	378	357	(6)	351
Total Assets	**6,547**	**7,973**	**259**	**8,232**
Total Liabilities	**5,994**	**7,695**	**241**	**7,936**
Own Funds	553	278	18	296
Eligible Own Funds[8]	**553**	**278**	**0**	**278**
Solvency Capital Requirement	460	185	0	185
Capital Coverage Ratio	**120%**	-	-	**150%**

Source: Financial information provided by the Companies

- Note that the 120% capital coverage ratio shown for ELAS in the above table includes allowance only for those management actions that would be required to report the capital coverage ratio at 120% in submissions to the PRA. Had full allowance been made for all available management actions, as used for internal capital coverage ratios, the figure would have been 175%.

- The analysis shows that, had the Scheme taken effect on 30 June 2019, immediately following the implementation of the Scheme of Arrangement (and making allowance for the Capital Injection described in 2.44) the Transferring Policies would benefit from a Solvency II Capital Coverage Ratio that is in line with the capital targets under the Utmost Life and Pensions Capital Policy.

- As at 30 June 2019, in comparison to the reported position as at 31 December 2018, it is no longer the case that the Capital Coverage Ratio for Utmost Life and Pensions post-Scheme is lower than that for ELAS pre-Scheme and pre-Scheme of Arrangement. Had the Scheme taken effect at 30 June 2019, Transferring Policyholders would have moved to a company that has a higher Capital Coverage Ratio than pre-Scheme. This change in position is primarily due to the impact of falling interest rates on the capital positions of both Companies. This change in position further supports my conclusion that the benefit security of Transferring Policyholders is not materially adversely affected by the Scheme.

3.5 The analysis in 6.21 of my Report led me to conclude that I did not believe that Transferring Policyholders would be materially adversely affected by contagion risk following the Implementation Date. As indicated in 2.55 to 2.66, I have subsequently received sensitivity testing results which show that under the scenarios set out in Appendix 3, the funds in Utmost Life and Pensions continue to meet the Utmost Life and Pensions Capital Policy over the next five years. The funds continue to meet their respective regulatory capital requirements, indicating that inter-fund capital support would not be required under these scenarios. This analysis provides support to my initial conclusion that I do not believe that contagion risk would materially adversely affect the Transferring (or the Non-Transferring) Policyholders in Utmost Life and Pensions after the Scheme Implementation Date.

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[8] Eligible Own Funds are the amount of Own Funds after the ring-fencing restriction of the With-Profits Sub-funds and the restriction of Tier 2 capital available to cover the Solvency Capital Requirement.

3.6 I concluded in paragraph 6.24 of my Report that I was satisfied that the Scheme will not have a material adverse effect on the benefit security of the Transferring Policyholders. For the reasons set out above, my conclusion still stands.

Benefit Expectations for Transferring Policyholders

3.7 In Section 6 of my Report, I also considered the impact of the Scheme on the benefit expectations for the Transferring Policyholders. I considered separately the holders of unit-linked policies, holders of non-profit policies, and holders of group scheme policies, and I do so again below for ease of reference.

Unit-linked Policyholders

3.8 I noted in paragraphs 6.27 to 6.31 of my Report that the Scheme will not have a material effect on the benefit expectations of the Transferring Policyholders that hold unit-linked policies. The reasons underlying this conclusion continue to hold.

Other non-profit policyholders

3.9 I noted in paragraphs 6.32 to 6.34 of my Report that the Scheme will not have a material effect on the benefit expectations of the Transferring Policyholders that hold other non-profit policies. The rationale provided in my Report continues to hold, and so my conclusion still stands.

Group Scheme Policyholders

3.10 I noted in paragraphs 6.35 to 6.36 of my Report that the group schemes are unit-linked savings vehicles for group occupational pension schemes. The policyholders of these schemes are the Trustees and the schemes operate in a similar manner to unit-linked business. As there will also be no change to the terms and conditions of these schemes, I concluded that I was satisfied that the Scheme will not have any material effect on the benefit expectations of the Transferring Policyholders who are members of group scheme policies.

This rationale continues to hold.

Conclusion

3.11 Given the above, I am satisfied that the benefit expectations of the Transferring Policyholders will not be materially adversely affected by the Scheme.

Governance and Administration

3.12 As set out in paragraph 9.5 of my Report, I reviewed the version of the Policy for Non-Profit Discretion that was current at that time. This policy provides details of the areas where discretion can be applied to non-profit and unit-linked policies, for example, increases in charges, where these are permitted by policy terms and conditions, or changes to unit pricing. I have since considered the subsequent amendments to this policy to extend it to cover the Transferring and Non-Transferring Policyholders of ELAS, as well as the Existing Utmost Life and Pensions Policyholders. These changes mean that this policy now applies in full (where relevant) to the Transferring and Non-Transferring Policies of ELAS, therefore my conclusions in respect of this policy in my Report still stand. I note that this amended policy has now been approved by the Utmost Life and Pensions Board.

3.13 In addition to the above, at the time of writing my Report, Utmost Life and Pensions management was in the process of producing a capacity plan to provide comfort that sufficient resource would be available within Utmost Life and Pensions customer services teams to respond to the expected increased level of policyholder engagement immediately following the Implementation Date. I have now received a copy of this capacity plan, produced by the incoming Customer Services Director, which indicates that additional resource will be available over this period. Although not an expert in the resourcing of administration services, I have gained comfort over this plan since it has gone through an internal review and challenge process within Utmost Life and Pensions, and has taken in to consideration the increase in policyholder contact observed following the policyholder communications mailings.

Conclusion

3.14 Given my conclusions set out in Section 9 of my Report, and the above noted updates, I do not believe that the Transferring Policyholders will be materially adversely affected by the governance and administration services and standards following transfer to Utmost Life and Pensions.

Conclusions

3.15 For the reasons set out above, I am satisfied that the Scheme will not materially adversely affect the Transferring Policyholders.

4 Expected Impact of the Scheme on Non-Transferring Policyholders

Overview

4.1 As Independent Expert, I have particular concern for the impact of the Scheme on the security of policyholder benefits and on policyholders' benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements. In this section I set out my considerations on changes in these areas for Non-Transferring Policyholders.

4.2 Although I was satisfied that Non-Transferring Policyholders of ELAS would not be materially adversely affected by the Scheme, I was unable to conclude on the following two aspects of the Scheme for this group since they had not been finalised by the Companies at the time of writing my Report:

- Benefit security of Non-Transferring Policyholders: in particular, whether the level of capital to remain in ELAS on the Implementation Date was sufficient such that the post-Scheme ELAS Capital Policy and, more importantly, the regulatory minimum capital requirements applicable to ELAS, would continue to be met with sufficient certainty on an ongoing basis going forward.

- Benefit expectations of Non-Transferring Policyholders with UK-style German With-Profits Policies; specifically, the proposed investment strategy and the impact of the change in investment strategy on this group of policyholders.

I provide analysis and commentary on these areas below.

Benefit Security for Non-Transferring Policyholders

4.3 In Section 7 of my Report, I considered the impact of the Scheme on benefit security for the Non-Transferring Policyholders. As noted, the policyholders with policies issued under Irish or German law currently in ELAS will be excluded from the transfer to Utmost Life and Pensions at the Scheme Implementation Date, instead remaining in ELAS after this date until the proposed Part VII, referred to in 2.24, has been completed. First, I compared the pre- and post-Scheme solvency positions of the Companies applicable to Non-Transferring Policyholders. It was also necessary to consider ongoing benefit security, in particular whether the Scheme has a material impact on the capital available to support the Non-Transferring Policies in the future. I concluded that I was satisfied that there was no materially adverse impact on policyholder benefit security for the Non-Transferring Policyholders, with the exception of the level of capital in ELAS on and after the Implementation Date, which I comment on below. I set out a summary of updated financial positions for ELAS pre and post-Scheme in Table 4.1, below, and the impact of any updates received since my Report was finalised:

Table 4.1 – Estimated Impact of the Scheme on the reported Solvency II capital position of Non-Transferring Policies as at 30 June 2019

£m	Pre-Scheme	Post-Scheme		
	Pre-SoA ELAS	ELAS		
		Main Fund	German WPF	Total
Assets	6,169	55.2	17.5	72.7
Reinsurance	378	8.9	0.0	8.9
Total Assets	**6,547**	**64.1**	**17.5**	**81.7**
Total Liabilities	**5,994**	**60.1**	**17.5**	**77.6**
Own Funds	553	4.1	0.0	4.1
Eligible Own Funds	**553**	**4.1**	**0.0**	**4.1**
Solvency Capital Requirement	460	2.0	0.0	2.0
Minimum Capital Requirement	129	-	-	3.3
Capital Coverage Ratio	**120%**	**207%**	**-**	**125%**

Source: Financial information provided by the Companies

- The estimated impact of the Scheme on the solvency position for the Non-Transferring Policyholders has been determined with reference to conditions at 30 June 2019, as shown in Table 4.1 above. I have no reason to believe the impact of the Scheme would be materially different at the planned Implementation Date (being 1 January 2020). To the extent that there is a further fall in interest rates this could impact the pre-Scheme position of ELAS but it is likely that management would manage solvency by allowing for management actions to maintain solvency. In any event, the solvency position on the Implementation Date is a minimum requirement of the Scheme and the ELAS Capital Policy.

- For the Non-Transferring Policies, the Scheme requires a minimum of the higher of 125% of the MCR and 150% of the SCR to be retained in ELAS at the Implementation Date, in line with the proposed ELAS Capital Policy. Had the Scheme been implemented on 30 June 2019, the 125% of the ELAS MCR (a fixed amount of €3.7m, equivalent to c£3.3m, converted at the EIOPA specified exchange rate at 31 December 2018[9], which is greater than 150% of the SCR, £3.0m) would have been the biting scenario.

- As ELAS holds only the highest quality of capital ("Tier 1" capital) prior to the Scheme, all capital held in ELAS after the Implementation Date will be of the same quality and all of these assets can be considered to be available to meet the regulatory solvency requirements, if required.

- The analysis indicates that, had the Scheme been effected on 30 June 2019, the Non-Transferring Policies would have continued to be held in a company with capital that meets the Solvency II regulatory capital requirements and in line with the capital targets under the proposed post-Scheme ELAS Capital Policy immediately following the implementation of the Scheme.

- On an ongoing basis, ELAS will be managed in line with the revised ELAS Capital Policy, details of which are included above and in my Report, paragraphs 7.13 to 7.19. I note that the capital requirement for the German With-Profits Fund is held in the ELAS Main Fund, therefore no Capital Coverage Ratio is presented for this fund in Table 4.1.

4.4 As indicated in 2.64, expense risk could be a material risk to the post-Scheme ELAS fund given its size. Since the writing of my Report, and in order to manage this risk, Utmost Life and Pensions has agreed to enter in to an expense agreement with the post-Scheme ELAS entity to charge only a fixed per-policy cost, which will mitigate the fund's exposure to rising

[9] The EIOPA currency exchange rate is published once a year, therefore this is the most recent available rate.

expenses. I consider this a positive action and a safeguard to the Non-Transferring Policyholders, both in terms of offering protection to the ongoing benefit security of ELAS and their individual benefit expectations.

4.5 I concluded in paragraph 7.21 of my Report that I was satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Non-Transferring Policyholders, except that I could not conclude on the level of capital in ELAS on and after the Implementation Date, which I had yet to provide my conclusions on. For the reasons set out above in 4.3 and 4.4, as well as my considerations of the post-Scheme ELAS Capital Policy in 2.31 to 2.34, and noting that the rationale set out in my Report still holds, I can now conclude that I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Non-Transferring Policyholders.

Benefit Expectations for Non-Transferring Policyholders

4.6 In Section 7 of my Report, I also considered the impact of the Scheme on the benefit expectations for the Non-Transferring Policyholders. I considered separately the holders of unit-linked policies, holders of non-profit policies, and holders of with-profits policies, and I do so again below for ease of reference.

Unit-linked Policyholders

4.7 I noted in paragraphs 7.24 to 7.28 of my Report that the Scheme would not have a material effect on the benefit expectations of the Non-Transferring Unit-Linked Policyholders.

The rationale set out in my Report continues to hold and so my conclusion still stands.

Other non-profit policyholders

4.8 I noted in paragraphs 7.29 to 7.31 of my Report that the Scheme did not have any effect on the benefit expectations of the Non-Transferring Policyholders with non-profit policies

This rationale set out in my Report continues to hold and so my conclusion still stands.

With-Profits Policyholders

4.9 As noted in my Report, there are a small number of German With-Profits Policies not transferring under the Scheme, as ELAS's legal advice indicated that the conversion to unit-linked policies under the Scheme of Arrangement may not be recognised by the German courts. These German With-Profits Policies are split into two distinct groups:

- UK-style German With-Profits Policies – which have benefits and features similar in nature to a UK issued with-profits policy; and
- German-style German With-Profits Policies - which are similar to non-profit policies, but whose benefits are linked to the performance of a specific pool of assets, subject to a minimum of 3.5% p.a.

As stated in paragraph 7.34 of my Report, there will be no changes to the terms and conditions of the German-style German With-Profits Policies as a result of the Scheme.

4.10 As noted in paragraph 7.45 of my Report, with the exception of the point described in 4.11, below, I was satisfied that the Scheme did not have any materially adverse effect on the benefit expectations of the Non-Transferring Policyholders who hold with-profits policies for the reasons set out in paragraphs 7.32 to 7.44 of my Report.

This rationale, and my conclusion, continues to hold.

4.11 I noted in my Report that I would include my conclusions in respect of the impact of the proposed change in investment strategy for the UK-style German With-Profits Policyholders in my Supplementary Report. The post-Scheme investment strategy for the UK-style German With-Profits Policies is to invest in the Multi-Asset Moderate Fund provided by JP Morgan Asset Management, with a currency hedge in place to cover exposure in respect of Sterling denominated Government and Corporate Bonds which are initially expected to be c17.5% of the fund. The fund was chosen as it is the same fund that will be utilised by the Irish Managed Fund for Irish with-profits policyholders following conversion to unit-linked as part of the Scheme of Arrangement, and the investment management charges are at level which is capped by the Scheme. The hedging strategy was developed with the aim of reducing the currency risk exposure for the UK-style German With-Profits Policyholders who have Euro denominated liabilities. This currency risk exposure existed pre-Scheme but these policyholders were not directly exposed to it due to the relative size and scale of the wider ELAS business over which this risk was spread.

4.12 I have discussed two aspects of the investment strategy with the ELAS With-Profits Actuary and management, namely:

- *The choice of using a Sterling-denominated Fund*. Whilst investment in a Euro-denominated fund would negate the need for a currency hedge I am satisfied that the reasons for making this choice were valid and that there is no detrimental effect for the UK-style German With-Profits Policyholders. The decision was based on the practicalities of sourcing a fund with the appropriate risk profile at an acceptable cost and the desire to avoid a bespoke solution that could have incurred significant additional complexity. ELAS will meet the initial costs of implementing the hedge, with ongoing maintenance costs reflected in the value of the UK-style German With-Profits asset shares; therefore there is no direct cost or charge for this hedge to the UK-style German With-Profits Policyholders.

- *The rationale for a higher proportion of equities or equity backing ratio.* As I describe in paragraph 7.36 of my Report, although the UK-style German With-Profits Policies are not subject to the Scheme of Arrangement, their policy value will increase to a level that is likely to be significantly higher than their current guaranteed level.

  In determining the investment strategy the risk profile of the post-Scheme ELAS business was considered. A number of alternative approaches were analysed, such as investing only in fixed interest assets. Whilst appealing from a certainty perspective, there is a potential cost to the policyholder associated with the lower level of expected returns. Whilst equity returns are more volatile, they have the potential to yield a greater return on average than other less risky asset classes. The proposed strategy has a higher level of equity exposure than currently being experienced by these policies but still has a significant level of fixed interest exposure.

  To test the appropriateness of the investment strategy ELAS has performed analysis on the business as at 31 December 2018 using a best estimate of the asset returns both pre- and post-Scheme. This shows that for all but two of the 337 UK-style German With-Profits Policies in-force at that date the proposed post-Scheme investment strategy results in policyholder benefits being greater than they would have been based on the current lower equity backing ratio. I have considered the small (c.1%) reduction in expected benefits of the two outliers, which mature c.30 years in the future. Given the uncertainties inherent in such long projections, I am satisfied that this analysis demonstrates that the proposed investment strategy is not expected to materially adversely affect the UK-style German With-Profits Policyholders.

4.13 The Asset Share Pool (the assets backing the assets shares of the UK-style German With-Profits Policies) will be a subset of the assets in the German With-Profits Fund. The total value of the Asset Share Pool will be equal to the value of the Multi-Asset Moderate Fund holding, plus the value of the hedge, the value of any working cash balance less the 0.75%

per annum Annual Management Charge (which will be accrued daily until deducted on a monthly basis).

Conclusion

4.14 Given the above, I am satisfied that the benefit expectations of the Non-Transferring Policyholders will not be materially adversely affected by the Scheme. In particular, I am satisfied that the proposed investment strategy for the UK-style German With-Profits Policies is not expected to materially adversely affect the benefit expectations of this group of policyholders.

Governance and Administration

4.15 As set out in Section 9 of my Report, the governance arrangements relating to the Non-Transferring Policies were under discussion at the time of writing my Report. As expected, it has been confirmed that the Utmost Life and Pensions With-Profits Committee will replace the ELAS Board in carrying out the duties of the With-Profits Committee, in respect of the German With-Profits Fund and will consider the interests of such policyholders.

4.16 I have received a copy of the proposed PPFM which covers the discretionary features of the UK Style With-Profits Policies within the German With-Profits Fund. There are no changes to the principles described in the PPFM from the drafting of my Report. This was approved by the Utmost Life and Pensions Board on 26 September 2019.

4.17 As stated in paragraph 9.19 of my Report, the Scheme will not change the administration arrangements for the Non-Transferring Policyholders.

Conclusion

4.18 Given the above, and the conclusions set out in Section 9 of my Report, I am satisfied that the post-Scheme governance and administration processes will not have a materially adverse effect on the Non-Transferring Policyholders.

Conclusions

4.19 For the reasons set out in my Report, and the updates provided above, I am satisfied that the Scheme will not materially adversely affect the Non-Transferring Policyholders.

5 Expected Impact of the Scheme on Existing Utmost Life and Pensions Policyholders

Overview

5.1 As Independent Expert I have particular concern for the impact of the Scheme on the security of policyholder benefits and on policyholders' benefit expectations, as well as the impact of the Scheme on the ongoing governance, administration and investment management arrangements. In this section I set out my considerations on changes in these areas for Existing Utmost Life and Pensions Policyholders.

5.2 In my Report, I concluded that I was satisfied that Existing Utmost Life and Pensions Policyholders would not be materially adversely affected by the Scheme. I provide updated analysis and further commentary on changes made since the date on which my Report was issued below.

Benefit Security for Existing Utmost Life and Pensions Policyholders

5.3 In Section 8 of my Report, I considered the likely effect of the Scheme on Existing Utmost Life and Pensions policyholders, with particular reference to any changes in their benefit expectations and benefit security. As in my Report, I have considered separately the likely effect of the Scheme on the following different groups of policyholders:

- the Existing Utmost Life and Pensions With-Profits Policyholders, whose policies are held in the Utmost Life and Pensions with-profits sub-funds ("WPSF") 1, 2, 4 and 6; and
- the Existing Utmost Life and Pensions Policyholders Non-Profit and Unit-Linked policyholders, whose policies are held within the Utmost Life and Pensions WPSF 1, 2, 4 and 6 or the ULP NPF. Most of the technical provisions are attributable to non-profit annuities in payment and unit-linked policies. However, I previously noted that there is also a large number of very small "Industrial Branch" policies within this fund. Altogether, such policies make up <1% of the ULP NPF's technical provisions.

5.4 The estimated impact of the Scheme on the solvency position for the Existing Utmost Life and Pensions Policyholders has been determined with reference to conditions as at 30 June 2019, as shown in table 5.1 below. I do not expect the impact of the Scheme to be materially different at the planned Implementation Date (being 1 January 2020) given the minimum level of capital coverage required on the Implementation Date by the Scheme.

Table 5.1 – Estimated Impact of the Scheme on the Utmost Life and Pensions Solvency II capital position as at 30 June 2019

£m	Pre-Scheme			Post-Scheme		
	NPF	**WPFs**	**Total**	**NPF**	**WPFs**	**Total**
Assets	1,399	259	1,676	7,973	259	8,232
Technical Provisions	1,286	241	1,527	7,695	241	7,936
Own Funds	113	18	131	278	18	296
Eligible Own Funds[10]	111	0	**111**	278	0	**278**
Solvency Capital Requirement	65	1	66	185	0	185
Capital Coverage Ratio[11]	171%	100%[12]	**168%**	150%	100%	**150%**

Source: Financial information provided by Utmost Life and Pensions

5.5 Table 5.1 shows that had the Scheme taken effect on 30 June 2019, Utmost Life and Pensions post-Scheme would have had a lower Capital Coverage Ratio than pre-Scheme, with coverage falling from 168% to 150% of SCR. The post-Scheme Capital Coverage Ratio is achieved after allowing for a capital injection from Utmost Life and Pensions Holdings Limited, the parent company to Utmost Life and Pensions, as described in 2.44.

5.6 On this date, Utmost Life and Pensions would have continued to hold capital that represents a significant excess over the Solvency II regulatory capital requirements and would have been able to meet its capital targets under the Utmost Life and Pensions Capital Policy immediately following implementation of the Scheme.

5.7 As noted in paragraph 8.14 of my Report, I was satisfied that the Scheme did not have any materially adverse effect on the benefit security of the Existing Utmost Life and Pensions Policyholders for the reasons described in paragraphs 8.4 to 8.13 of my Report.

This rationale continues to hold and my conclusion still stands.

Benefit Expectations for Existing Utmost Life and Pensions Policyholders

Unit-Linked Policyholders

5.8 In paragraph 8.17 of my Report, I set out the rationale for my conclusion in respect of the benefit expectations of the Existing Utmost Life and Pensions Unit-Linked Policyholders. This rationale continues to hold and my conclusion is unchanged.

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[10] Eligible Own Funds are the amount of Own Funds after the ring-fencing restriction of the With-Profits Sub-funds and the restriction of Tier 2 capital available to cover the Solvency Capital Requirement.

[11] This is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

[12] The Capital Coverage Ratio for the WPSFs both before and after implementation of the Scheme is 100%, in line with the requirements of Solvency II for closed with-profits funds. The overall Capital Coverage Ratio for the four WPSFs is c.251% when ignoring this ring-fencing restriction and calculating the Capital Coverage Ratio for each WPSF on a standalone basis.

With-Profits Policyholders

5.9 In paragraphs 8.18 and 8.19 of my Report, I set out the rationale for my conclusion in respect of the benefit expectations of the Existing Utmost Life and Pensions With-Profits Policyholders. This rationale continues to hold and my conclusion still stands.

Other Non-Profit Policyholders

5.10 In paragraph 8.20 of my Report, I set out the rationale for my conclusion in respect of the benefit expectations of the Existing Utmost Life and Pensions Non-Profit Policyholders. This rationale continues to hold and my conclusion remains unchanged.

Conclusion

5.11 Given the above, I am satisfied that the benefit expectations of the Existing Utmost Life and Pensions Policyholders will not be materially adversely affected by the Scheme.

Governance, Administration and Investment Management

5.12 As set out in Section 9 of my Report, the governance arrangements relating to the Existing Utmost Life and Pensions Policies will not change as a result of the Scheme.

5.13 I also noted in my Report that the Scheme will not change the responsibility of Utmost Life and Pensions for the administrative services of the Existing Utmost Life and Pensions Policies. This is unchanged and so I am satisfied that the Scheme will not have any effect on the quality of service standards or administration experienced by policyholders.

5.14 In addition to the above, at the time of writing my Report, Utmost Life and Pensions management was in the process of producing a capacity plan to provide comfort that sufficient resource would be available within Utmost Life and Pensions customer services teams to respond to the expected increased level of policyholder engagement immediately following the Implementation Date. I have now received a copy of this capacity plan, produced by the incoming Customer Services Director, which indicates that additional resource will be available over this period. Although not an expert in the resourcing of administration services, I have gained comfort over this plan since it has gone through an internal review and challenge process within Utmost Life and Pensions, and has taken in to consideration the increase in policyholder contact observed following the policyholder communications mailings.

5.15 As noted in 2.68 and 2.69, Utmost Life and Pensions intends to change its investment manager for a subset of its unit-linked assets in November 2019; however, this is unrelated to the Scheme and is an action taken as part of "business as usual" activities. I have therefore not considered the fairness of this change, and have included here for completeness only.

Conclusion

5.16 Given my conclusions set out in Section 9 of my Report, and the above noted updates, I do not believe that the Existing Utmost Life and Pensions Policyholders will be materially adversely affected by any changes to governance and administration services after the Implementation Date.

Conclusions

5.17 For the reasons set out in my Report, and the updates provided above, I am satisfied that the Scheme will not materially adversely affect the Existing Utmost Life and Pensions Policyholders.

6 Policyholder Communications, Objections and Scheme-Related Queries

Overview

6.1 As set out in Section 11 of my Report, the Companies have undertaken an exercise to communicate with policyholders in accordance with the proposals put to the Court at the Directions Hearing.

6.2 The Companies have provided me with regular updates of the communications received from policyholders in relation to the Scheme. This has included a breakdown of the types of communications received, details of any objections and queries received and copies of the responses sent to objecting policyholders. I have relied upon the Companies' categorisation of the communication and the accuracy of the information provided to me.

6.3 ELAS sent their Decision Packs to policyholders from late July to early September 2019. Policyholders in scope of the Scheme of Arrangement were later sent an Investment Choices Pack, providing them with details of funds that they could invest in following the Scheme of Arrangement. In addition, ELAS issued two reminders to members and Scheme of Arrangement policyholders to encourage them to cast their vote in the EGM or Scheme Meeting. Utmost Life and Pensions began sending communication packs to their policyholders in the week commencing 5 August 2019, completing this process in late August 2019.

6.4 As at 4 November 2019, ELAS had received a total of 244 objections, raised by 142 policyholders. No objections had been received by Utmost Life and Pensions in respect of Existing Utmost Life and Pensions Policyholders.

6.5 I have reviewed the detail of each of the objections and summaries of the referred queries, as well as the responses provided by the Companies. I set out below how I have considered these in reaching my conclusions on the Scheme.

Summary of ELAS policyholder communications

6.6 As described in Section 11 of my Report, policyholders of ELAS have received a number of communications relating to the Scheme, Scheme of Arrangement and the EGM Vote.

6.7 Due to logistical challenges, the timing of printing the Decision Pack materials meant that my Summary Report was still in "draft" form and was included on that basis. Post printing of the pack, a number of late changes to the Scheme arose. As a result, the final version of my Summary Report differed from my "draft" Summary Report included in the Decision Pack. The most significant changes to my Summary Report were the updated conclusions in respect of the items outlined in paragraph 1.13 of this Supplementary Report. The optimal solution to address this would have been to re-print the Decision Pack materials; however, given the time and cost of this exercise, time that would have reduced policyholders' decision making time and a cost that would have been borne by the estate of ELAS, a decision was taken to produce a leaflet to accompany the Decision Pack. I contributed to drafting the leaflet that was inserted immediately after the policyholder letter. The leaflet contained a summary of the key changes to my Summary Report. It directed policyholders to the final version of my Summary Report, which was published on the ELAS website, alongside my Report. The leaflet also highlighted another 2 points of clarification relating to other items within the Decision Pack, but these did not relate to my Summary Report.

6.8 Fortunately, the group of policyholders to which my change in conclusions was most relevant, the UK-style German With-Profits Policyholders, received a German translated version of the mailing, which was printed after the main Decision Pack and therefore included a translated version of my final Summary Report.

6.9 Whilst not ideal I believe that this was the most effective solution to highlighting these changes to my Summary Report to the different groups of policyholders within these constraints.

6.10 I have been advised that Decision Packs were sent out to 150,881 ELAS policyholders from late July to early September 2019. 1,585 of these have been returned and of these 696 have been reissued. In addition, 1,259 policyholders who were classed as Gone-Aways have subsequently been traced and Decision Packs issued.

6.11 ELAS sent out its 'Investment Choice Packs' correspondence to all 113,680 Scheme Policyholders during August 2019 and early September 2019. 575 of these have been returned, of which 231 were reissued. There have also been 271 packs sent to Gone-Aways that have subsequently been traced and issued.

6.12 On 16 September 2019, ELAS sent a postcard reminder to vote and ways in which to obtain advice to all those policyholders eligible to vote, with another similar reminder on 9 October 2019. This second reminder contained further information on Utmost Life and Pensions in a letter from Stephen Shone, the Chief Executive Officer of Utmost Life and Pensions. A third reminder was sent from 5 November 2019, with the mailing due to be completed by the end of the week, reminding policyholders to submit their investment choices.

ELAS Policyholder queries and objections

6.13 ELAS set up a process for dealing with objections that was intended to work alongside the existing BAU complaints process. All potential objections to the Scheme of Arrangement or the Scheme were provided to ELAS's legal advisor, Freshfields Bruckhaus Deringer ("Freshfields"), in part to ensure that all objections were identified and included in the documentation to be provided to, and required by, the Court. Initially, Freshfields made a 'triage decision' categorising correspondence into one of the following:

A. an objection to the Scheme of Arrangement;

B. an objection to the Scheme;

C. an objection relating to both the Scheme of Arrangement and the Scheme;

D. queries, or complaints relating to matters other than the Scheme of Arrangement or Scheme (by definition, Category Ds are not considered to be objections);

E. any German and Irish issues (which will overlap with the categories listed above).

Responses to Category B were drafted by ELAS, reviewed by ELAS's in house legal team ("ELAS Legal") and forwarded to Freshfields to check, finalise and issue.

Responses to Category D, queries or complaints, were treated as BAU and handled by ELAS in the normal way.

For Categories A, C and E, ELAS provided Freshfields with additional information in order to ensure the responses were suitably tailored to the policyholder and their policy. Freshfields then drafted a response within 4 working days of receipt of the additional information, based on the following:

(i) the class analysis paper;

(ii) the Q&A section of the Explanatory Booklet;

(iii) suitable material otherwise within the Explanatory Booklets or other material sent out in communications with policyholders;

(iv) the current Q&As drafted for the Customer Contact Centre; and

(v) discussions with relevant areas, e.g. Actuarial/Utmost Life and Pensions.

Once a draft had been prepared, Freshfields sent the response letter to ELAS Legal for feedback and sign-off, and, where relevant, I was consulted where the response relates to an element of my Report or conclusions. Similarly, I understand that the Policyholder Independent Expert has also contributed to responses relating to the Scheme of Arrangement, where relevant and requested. Appropriate sign-off was then obtained from the CEO, ELAS Legal and/or Risk (as relevant) and any other business areas that Legal deemed needed to be involved. Policyholders received a response to their objection within 5 working days of receipt by Freshfields, whether this was a full response or an acknowledgement if further time was required to finalise the full response.

Regular review meetings between ELAS and Freshfields have taken place, during which there was a review of the categorisation of communications, agreement of approach taken to responses and a review of progress against timescales.

6.14 I note that in 4 instances, which occurred at a very early stage in the objection response process, I identified minor inaccuracies in the responses provided by ELAS to policyholders. This primarily related to inaccurate references to my Report (or Summary Report) or to my conclusions. Whilst the letters were technically inaccurate, the overall message conveyed was not, as in 3 out of the 4 cases, these responses related to objections from Transferring Policyholders, to which the inaccurate statements did not apply. In the remaining 1 case, ELAS wrote a letter to the policyholder to apologise and clarify the position. Following this intervention, which was very early in the policyholder objection process, action was taken to prevent further similar issues and no such follow up issues were identified in relation to references to my conclusions. I have noted this for completeness only, as I am satisfied that these issues would not have resulted in any of the 4 policyholders changing their response (or vote, if eligible to vote in respect of the Scheme of Arrangement or EGM) as a result of receiving a more accurate response to their objection and/or complaint.

6.15 There were 244 objections raised by ELAS policyholders regarding both the Scheme and Scheme of Arrangement, 138 of which relate solely to the Scheme. These have been categorised by ELAS as shown in Table 6.1.

Table 6.1: Summary of objections raised by ELAS policyholders

Category	Summary	Number	Category
Early concerns	Concerns raised based on incomplete information prior to the PSL being issued	15	15
Voting	Use of a single voting class	11	14
	Allocation of votes to Scheme of Arrangement Policyholders with multiple policies	3	
Not eligible for uplift	No uplifts for past policyholders	15	20
	Not possible to reinstate With-Profits investments or make additional, qualifying investments	3	
	No vote for Unit-Linked or non-profit policies	2	
Change in nature of Scheme (of Arrangement) Policy	The High Court should not be able to change contract terms or that there is no opt out	8	57
	Removal of Investment Guarantees / conversion to unit-linked basis	40	
	Calculation of the uplift, including interaction between elements of the uplifts and Investment Guarantees or Insurance Event Benefits	9	
Transfer to Utmost Life	Utmost Life structure and history	21	72
	Selection of Utmost Life as partner	7	
	No choice of policy provider	25	
	Fund choices, performance and charges with Utmost Life	17	
	Management of changes to be implemented shortly after the Implementation Date	2	
Communication	Communication materials or approach	24	24
Other	The cost of the process	6	42
	Treatment of "dormant assets"	1	
	Brexit Implications	10	
	Policyholder representation	5	
	Compensation for loss of membership	3	
	Advice and guidance	3	
	Tax	1	
	Status of Society post Transfer	3	
	Other, including no detail of objection provided and misunderstandings	10	
Total as at 4 Nov 2019		**244**	**244**

Note that where a single policyholder has raised more than one objection, each objection is counted separately for the purposes of the table above. The number of policyholders raising objections was 142 as at 4 November 2019, 30 of which logged their objections prior to receipt of the first policyholder communication regarding the process.

6.16 As the Independent Expert, I am concerned with the Part VII transfer of the business of ELAS to Utmost Life and Pensions. As noted in my Report, and again in 1.23, I am not required to opine on the appropriateness or fairness of the Scheme of Arrangement, instead this is the remit of the Policyholder Independent Expert. For this reason, I have not commented here on the objections raised in relation to early concerns, voting rights, uplift eligibility or changes in nature of Scheme of Arrangement policies. However, I have read all of the objections and responses in order to validate that all objections I consider to be related to the Scheme have been appropriately categorised as such.

6.17 Of the 244 objections raised, 138 fell in to categories, B, C and E as defined in 6.13. I have therefore considered the responses to each of these objections, which I have considered by theme below. The remaining 106 fall in to category A, and have been considered by the Policyholder Independent Expert. Note that there are no complaints and objections included in Table 6.1 which belong in Category D since these communications represented queries only in relation to the Scheme and/or Scheme of Arrangement, and did not indicate an objection.

6.18 72 of the 138 Scheme related objections raised by policyholders were related to the ***Transfer to Utmost Life and Pensions***. These were further split across general objections to Utmost Life and Pensions, questions around how Utmost Life and Pensions was selected, issues with a 'forced transfer', questions around fund choices, performance and charges under Utmost Life and Pensions and concerns about demand on services immediately following the transfer.

- 21 of these objections raised issues with the structure of Utmost Life and Pensions and its history. Although policyholders may be less familiar with Utmost Life and Pensions as a brand compared to ELAS, I do not consider this, in itself, to be a reason for the Scheme not to proceed. As explained in responses that were sent to objectors, the Board of ELAS believes that the agreement with Utmost Life and Pensions will provide a financially stable home for these policies, with benefits coming from Utmost Life and Pensions' strong capital position and efficient operational management.

- There were other objections raised such as a lack of gender diversity within the Utmost Life and Pensions Board and questions around the history of Utmost Life and Pensions and its regulatory status. Utmost Life and Pensions is regulated by the PRA and FCA, and details of their regulated status can be found on the FCA's Register. While I am not an expert in matters regarding gender diversity, greater diversity could be achieved on the Utmost Life and Pensions Board. I do not, however, consider diversity of the Board to be a reason for the Scheme to not proceed.

- There were 7 objections raised regarding the selection process followed to identify the most suitable partner for the Scheme and Scheme of Arrangement, and requesting further information about the selection of Utmost Life and Pensions. As explained in my Report, considering alternatives to the Scheme is not within the scope of my work, but I am satisfied that ELAS has responded adequately to these objections, and concerns about the selection processes do not alter my conclusions in respect of the Scheme. The proposed Scheme of Arrangement and Scheme will, together, help achieve ELAS's strategic objectives, and, as set out in the Decision Pack, the Board has considered Utmost Life and Pensions to be the most suitable party to help them achieve this outcome.

- 25 policyholders raised objections about the "forced" nature of the transfer to Utmost Life and Pensions. They were advised that the Scheme would not change their rights with regard to switching providers, and that if this was an option allowed under their policy then they had the right to do so at any point, with no exit fees being incurred. ELAS provided warnings/reminders to policyholders about the fact that if they transferred their policies to another provider before the Implementation Date they would miss out on the Uplift under the Scheme of Arrangement which, although a matter for the Policyholder Independent Expert, I consider to have been appropriate. In fact, the Scheme of Arrangement, which will be implemented immediately prior to the Scheme, and on which the Scheme is dependent, makes it easier for a policyholder who held a with-profits policy immediately prior to the Scheme of Arrangement to transfer his or her newly converted unit-linked policy to another provider without penalty.

- With regard to the 17 objections raised relating to fund choices, performance and charges with Utmost Life and Pensions, I note that the unit-linked policies transferring from ELAS to Utmost Life and Pensions will not be invested in the same funds as the

Existing Utmost Life and Pensions Policyholders, nor will they be subject to the same charges. The majority of these objections were raised prior to the issuing of the Investment Choice Pack, in which further details were provided to Scheme of Arrangement policyholders on the options available to them to invest in after the Implementation Date. For Transferring Policyholders with unit-linked policies prior to the Scheme of Arrangement, their investments will remain largely unchanged. The Scheme provides protections over the level of charges to be applied to Transferring Policies after the Implementation Date, therefore the level and types of charges will be restricted. Further detail on this was included in Section 6 (paragraphs 6.27 to 6.31) of my Report. For this reason, I am satisfied that this is not a reason for the Scheme not to proceed.

- 2 policyholders were concerned that there may be issues related to the increased demand on services following implementation of the Scheme, particularly in relation to policyholders wishing to switch their policies to another provider. As noted in my Report, this was an area that I wished to consider further in order to satisfy myself that adequate planning for such a scenario had been undertaken. As set out in 5.14, I have now received a copy of the administration services capacity plan, which indicates that additional resource will be available over this period to meet the expected increase in demand on the Utmost Life and Pensions customer services team in the 12 months following the Implementation Date. This plan has gone through an internal review and challenge process within Utmost Life and Pensions, and has taken into consideration the increase in policyholder contact observed following the policyholder communications mailings. I have gained further comfort from the fact that the Utmost Life and Pensions customer services team after the Implementation Date will include the existing ELAS customer services team, therefore knowledge and understanding of the Transferring (and Non-Transferring) Policies will remain within the business and resources are expected to be available to help support this increased policyholder demand.

6.19 There were 24 objections received, out of the 138 Scheme objections, which related to the ***Communications*** issued relating to the proposed changes. Most of these objectors were of the opinion that there was too much information provided in the pack and that it was difficult to understand. However, there were also objectors who felt that the communication pack was lacking in information.

- While I empathise with these policyholders and recognise that there was a significant volume of information in the pack, communication with affected policyholders is a requirement of a Scheme of this nature. This specific process is unusually complex, given the Scheme of Arrangement and changes to the Articles of Association (and related EGM vote) running concurrently to the Scheme. With a need to provide sufficient information to policyholders on each of these processes, the volume of information is naturally significant and this is unavoidable. I do appreciate that the volume of information may have been daunting, but the approach taken to notify policyholders of the Scheme of Arrangement, EGM and investment choices for those policies affected by the Scheme of Arrangement, and for the Scheme, and for those not in-scope of the Scheme of Arrangement, was, in my opinion, appropriate.

- Furthermore, ELAS highlighted key points and actions for each policyholder in a tailored covering letter, signposting them to the relevant sections of the pack. This helped to breakdown the information provided, and provided a guide as to which sections were more relevant for individual circumstances.

- Policyholders who had remaining enquiries were encouraged to request further information or clarification either by post, email or by calling a helpline number. The responses to policyholders included details of next steps that they could take in the event that they required additional information or further clarification. I am satisfied that this provided an opportunity for policyholders to obtain the required level of understanding to reach an informed view of the impact of the Scheme.

6.20 The 42 objections categorised as '***Other***' cover a range of topics, from the cost of the process to Brexit implications and policyholder representation.

- There were 10 objections raised where no details of the reason for their objection were provided. In these cases, ELAS responded with further details on the Scheme, and signposted where additional information relevant to the policyholder's policy type could be found. I consider this to be an appropriate course of action for such objections given no specific issues could be addressed.

- With regard to the 10 objections raised around the timing of the Scheme and Brexit, I note that this is an area of concern given the ongoing uncertainty. In responses, ELAS explained that delaying the Scheme due to Brexit would lead to the risk of introducing a range of other risks and challenges. ELAS has subsequently added details to its website, as part of its "Q&A", published on 7 October 2019, which provides further information to policyholders on why ELAS does not consider it necessary to delay the Scheme Implementation Date due to Brexit. Further, as the EU has signed off on an extension to the Brexit date to 31 January 2020 (with scope to leave earlier if a deal is ratified), there is some margin between the potential date of Brexit and the implementation of the Scheme of Arrangement and the Scheme. I agree that Brexit is a significant source of uncertainty, in terms of both the impact on markets and the wider impact on the UK economy and society. An example of uncertainty from an economic markets perspective is the fall in interest rates over 2019 that was, in part, influenced by the uncertainty over Brexit. However, this is one of many uncertainties in the UK and global economy. As ELAS has indicated, waiting until there is more certainty in the UK economy could be many months or indeed years, in the future. At that time, the Scheme and Scheme of Arrangement may not be viable for other reasons, or may no longer meet the strategic objective. Given this I am satisfied that my conclusions regarding the fairness of the Scheme are not changed as a result of these objections.

- There were 6 objections relating to the costs of the process (both in respect of the Scheme and the Scheme of Arrangement). These ranged from questions over the costs of legal fees, the costs associated with the printing of the Explanatory Booklet and other communications, and the costs of providing the subsidised advice and guidance for policyholders in scope of the Scheme of Arrangement and members able to vote at the EGM. There are inevitably costs associated with such a complex process, and the costs would have been considered by ELAS prior to initiating the process. Given that the majority of the costs associated with the process are met by ELAS, and that these costs could have an impact on the uplift to policies made as part of the Scheme of Arrangement, the costs of the process have been considered by the Policyholder Independent Expert in section 4.2 of his supplementary report. The majority of the costs relating to the process have already been incurred, therefore, at this stage, I do not consider the costs of the process to be a reason for the Scheme not to proceed.

- There were 5 objections raised which have been classified as relating to policyholder representation. These cover questions such as why the Policyholder Independent Expert was not chosen by the policyholders, why policyholders were expected to vote on the Scheme, why I had not reached conclusions on all areas and a request for policyholders to be represented by a suitably experienced QC.

    - I do not consider the first of these matters, the appointment process for the Policyholder Independent Expert, to be within my remit.

    - In terms of the second point, as noted in my Report, and in paragraph 1.13, at the time of writing my Report I was unable to conclude on two key areas relating to the Non-Transferring Policyholders. On 18 October 2019 I wrote to the Boards of Directors of ELAS and Utmost Life and Pensions, providing an update on these conclusions, confirming that I am now satisfied that I have received sufficient information to close off these outstanding areas of concern. This letter was published on the ELAS website on 18 October 2019, 2 weeks prior to the Scheme Meeting and the EGM. I believe that this 2 week period has given policyholders adequate time to consider their vote in light of my revised conclusions.

- On the third point, the Part VII transfer process requires only that an Independent Expert is appointed to opine on the fairness of that particular scheme to the different groups of policyholders. This is a well-established process. There is no requirement for policyholders to be represented by a legal professional at the Sanction Hearing, therefore I do not consider the lack of such legal representation to be a reason for the Scheme not to proceed.

- An objection was raised concerning the use of a Matching Adjustment ("MA") in the calculation of Solvency II liabilities in Utmost Life and Pensions and suggesting that I should re-visit my analysis excluding Matching Adjustment.

  - As described in paragraph 5.12 of my Report, the MA allows insurers to make an allowance in the calculation of MA compliant liabilities for part of the return on MA compliant assets matching these liabilities in excess of risk free rates, which has the result of reducing reserves required.

  - As I stated in paragraph 1.22 of my Report my opinion is based on the relative solvency and capital positions of the companies based on Solvency II, which is the solvency framework applicable in the UK. The use of Solvency II as a financial strength metric for insurers is in-line with the approach required by UK and European regulators and has been used by Independent Experts in previous schemes.

  - The objection presents a number of theoretical objections to the general principle of companies being permitted to use a MA when calculating their reported solvency position. In arriving at my conclusions my approach has been in relation to the relative solvency of the companies in the context of Solvency II. As such, I am not going to consider theoretical concerns around the Solvency II framework unless there appears to be high risk that these concerns will lead to a change in the framework.

  - I am aware that Solvency II, as with any regulatory framework, should undergo challenge and review to ensure that it is fit for purpose. I am aware that EIOPA, the European supervisory authority responsible for macro-prudential oversight at the European Union level, have undertaken a number of formal reviews of Solvency II and have not raised concerns in relation to the ongoing use of Matching Adjustment. In 2017 a Treasury Committee undertook a thorough review of Solvency II which resulted in responses from the PRA and industry. The Treasury Committee review did not challenge the concept or application of the regulation in relation to matching adjustment. Further, there is no suggestion that the benefit attributed to matching adjustment is likely to reduce in the near future and as a result, I am satisfied that allowing for matching adjustment in my analysis is appropriate.

  - I am concerned with compliance with the regulations and I have confirmed with Utmost Life and Pensions that the basis on which it is applying matching adjustment is fully compliant with Solvency II regulation.

  - The existing ELAS business prior to the Scheme of Arrangement does not apply matching adjustment in calculating liabilities. Whilst there are some policies that could benefit from matching adjustment they either make up a very small percentage of the liabilities (<<0.1% of liabilities) or are reinsured to third parties and as such are excluded. Neither the Scheme of Arrangement nor the

Scheme will change their matching adjustment status and, there are no plans by Utmost Life and Pensions to apply for MA on the transferring ELAS business.

- o Because of the points discussed above, I do not consider that this objection represents a reason for the scheme not to proceed.

- o In relation to the suggestion that I should re-visit my analysis on a basis that excludes matching adjustment I have considered the following points:

  - As discussed above, my opinion is based on the current regulatory environment, which allows for the application of MA.

  - I have confirmed that Utmost Life and Pensions has the necessary approvals for its MA portfolios and are applying MA appropriately.

  - There are no indications that there is likely to be a change in Solvency II regulation that limits the ability of firms to apply MA.

- o As a result, I believe it would be unhelpful and misleading to present analysis based on excluding matching adjustment.

- An objection was received in relation to my independence that relates to the approach taken to the payment of my fee. The companies have agreed to pay equal shares of my fee, which I believe is fair and is intended to avoid the risk of bias. This approach has been taken in previous schemes and following best practice the details of this arrangement was fully disclosed in my Report.

- The remaining 10 "other" objections related to a number of other matters, none of which relate to new points I have not already considered, or that I consider to be reasons for the Scheme not to proceed.

- None of these objections have altered my conclusions on the Scheme.

6.21 I have reviewed the specific queries where the Companies provided a further written response and I am satisfied that the responses provided were appropriate to the query raised.

Summary of Utmost Life and Pensions Policyholder Communications

6.22 All Existing Utmost Life and Pensions Policyholders for whom a valid address was held (75,837 in total) were contacted over a three week period in from 8 to 29 August 2019 to notify them of the proposed Scheme.

6.23 Following receipt of the communication sent to the Existing Utmost Life and Pensions policyholders, and as at 25 October 2019, a number of 'business as usual' enquiries and complaints were received, but no objections were raised in relation to the Scheme.

6.24 For completeness, I note that Utmost Life and Pensions has received a number of communications and queries from policyholders of ELAS, and to which its management has either responded directly or redirected to ELAS for response through the ELAS complaints and objections process. I have not been made aware of any issues raised through these communications which are not already covered by the objections described in 6.15 to 6.20.

Conclusions

6.25 In summary, I have not identified any objections that have an impact on my conclusions regarding the Scheme.

7 Overall Conclusions

Scheme Updates

7.1 There have been no material changes to the Scheme since the Directions Hearing.

7.2 The Part VII Court Order has been drafted to include a requirement for an agreement between the Companies pertaining to the capitalisation of Utmost Life and Pensions. This requires that, prior to the Implementation Date, Utmost Life and Pensions must have a Capital Coverage Ratio of the higher of the minimum regulatory capital requirements and 150% of the estimated SCR on the Implementation Date. In practice, this will be achieved through an injection of capital from Utmost Life and Pensions Holdings Limited to Utmost Life and Pensions.

Meeting this requirement is evidenced by the issuance of the Capitalisation Requirement Certificate described in the Scheme of Arrangement, confirming that, based on its analysis of evidence provided by Utmost Life and Pensions, ELAS's Board is satisfied that the capitalisation requirement is expected to be met, to be to be published on the ELAS website on 23 December 2019. Given that the Scheme and Scheme of Arrangement are dependent on one another, and that this dependency is specified in the Scheme of Arrangement, I do not consider this a material change which has an impact on the Scheme or my considerations.

Scheme Dependencies

7.3 As described in paragraphs 1.13 to 1.14 of my Report, the Scheme and the Scheme of Arrangement are interdependent, with either both or neither being implemented. The Scheme of Arrangement, and therefore the Scheme, is dependent on the following:

- A positive vote at the Extraordinary General Meeting ("EGM") amending the articles of association to appoint Utmost Life and Pensions as the sole member of ELAS;
- A positive vote at the Scheme Meeting (i.e. a majority in number of those voting vote in favour of the Scheme of Arrangement, representing at least 75% of the value of the voting policies);
- All tax clearances having been received or waived, as appropriate;
- The Capitalisation Requirement Certificate being made available on ELAS's website in advance of the Implementation Date; and
- The Change in Control application (from ELAS to Utmost Life and Pensions) being made to, and approved by, the PRA.

I have provided an update on each of these below:

EGM

7.4 A vote at the ELAS EGM was held on 1 November 2019. 25% of Members cast their votes. The result of the EGM Vote was that 94% of the votes were made in favour of the proposal.

Scheme Meeting

7.5 A vote at the Scheme Meeting of the Scheme of Arrangement policyholders of ELAS was held on 1 November 2019. The vote on the Scheme of Arrangement passed, with 94% of those in number voting in favour of the Scheme of Arrangement (this equates to 96% based on the value of votes). Since this meets the conditions for the Scheme of Arrangement to be implemented, ELAS will be seeking the High Court's approval to proceed with the Scheme of Arrangement and the Scheme.

Tax Clearances

7.6 At the time of writing my Report, the majority of tax clearances in respect of the Scheme had been received and, since that point, the outstanding tax clearances, as defined by the Scheme and which are a condition of the Scheme, have been waived.

Capitalisation Requirement Certificate

7.7 The Capitalisation Requirement Certificate will be made available on ELAS's website in advance of the Implementation Date, and the Scheme will not be implemented without the Capitalisation Requirement Certificate being produced. The Certificate is expected to be published on the ELAS website on 23 December 2019, and will therefore not be available in advance of the Sanction Hearing.

Change in Control application

7.8 The Change in Control application was submitted by Utmost Life and Pensions to the PRA on 12 August 2019 and was deemed to be complete on 4 September 2019. This has not yet been approved at the time of writing my Supplementary Report, but I understand from the Companies that this is expected to be approved in advance of 17 December 2019.

Additional Considerations

7.9 The financial information that I have quoted in this Supplementary Report relates to the financial position of the Companies as at 30 June 2019.

7.10 The key principles of Solvency II are well-defined and understood across the EU. Post-Brexit I expect Solvency II to continue in its essential features in both the UK and the remaining European Union countries. It is possible that the UK will make some adjustments and refinements to the framework, which whilst important are unlikely to negatively affect the solvency of UK insurers significantly. However, there are plausible scenarios in which much more profound changes could take place, in particular should there be a broader shift in UK policy in relation to financial services regulation. For the purposes of my Supplementary Report, I consider that the current Solvency II metrics are suitable for use in concluding on the proposed Scheme, given that any changes to legislation would not be effected immediately after Brexit and that any changes would likely have a similar impact on the pre- and post-Scheme positions of both Companies.

7.11 On 16 August 2019, it was announced that the proposed transfer of a £12 billion annuity book from Prudential Assurance Company ("PAC") to Rothesay Life ("Rothesay") was not sanctioned by the High Court. This is the first Part VII transfer application in the UK not to be sanctioned, and I have considered the implications for the ELAS to Utmost Life and Pensions Scheme. I also note that an appeal has been lodged jointly by PAC and Rothesay which is expected to be heard by the Courts in Spring 2020. I have considered the parallels and differences between the PAC to Rothesay scheme and this Scheme, and have added additional commentary and considerations to my analysis in this Supplementary Report where I believe this to enhance and support my conclusions. I do not consider that the initial outcome of the PAC to Rothesay transfer should have an impact on my approach to concluding on the Scheme, or indeed change my conclusions relating to the Scheme.

Capital Policies of the Companies

7.12 There have been no changes to the Utmost Life and Pensions Capital Policy since my Report. This policy will apply to both the Transferring Policies and Existing Utmost Life and Pensions Policies after the Implementation Date, and nothing has come to my attention since my Report to suggest that my conclusions in respect of the benefit security of these policyholders should change.

7.13 As noted in 1.13, at the time of writing my Report, I was unable to conclude on the proposed post-Scheme ELAS Capital Policy, and the benefit security it offered to policyholders after the implementation of the Scheme due to supporting details being outstanding. Since then, the Companies have provided me with additional information to support the requirements of the ELAS Capital Policy, and allow me to reach a conclusion on this matter.

7.14 The additional information provided by the Companies includes sensitivity testing, which demonstrates that, under the proposed post-Scheme ELAS Capital Policy, and allowing for the protections provided by the expenses agreement between ELAS and Utmost Life and Pensions, ELAS will continue to hold sufficient capital to meet its MCR under a number of different stress events, which I consider to be of low likelihood of occurrence. I am therefore satisfied that the proposed level of capital to be retained in ELAS at the Implementation Date is expected to provide a suitable buffer over the MCR such that it is not expected to be breached over the next five years. Further details on the sensitivity testing is included in paragraphs 2.55 to 2.66.

7.15 The Utmost Life and Pensions Board approved the proposed ELAS Capital Policy, applicable from the Implementation Date on 26 September 2019.

Security of Policyholder Benefits

7.16 I concluded in paragraph 6.24 of my Report that I was satisfied that the Scheme will not have a material adverse effect on the benefit security of the Transferring Policyholders. For the reasons set out in 3.3 to 3.6, my conclusion still stands.

7.17 I concluded in paragraph 7.21 of my Report that I was satisfied that the Scheme will not have a material adverse effect on the benefit security of the Non-Transferring Policyholders, with the exception of the level of capital in ELAS on and after the Implementation Date, which I had yet to provide my conclusions on. For the reasons set out in 4.3 to 4.4, as well as my considerations of the post-Scheme ELAS Capital Policy in 2.30 to 2.34, and noting that the rationale set out in my Report still holds, I can now conclude that I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Non-Transferring Policyholders.

7.18 As noted in paragraph 8.14 of my Report, I was satisfied that the Scheme did not have any materially adverse effect on the benefit security of the Existing Utmost Life and Pensions Policyholders for the reasons described in 8.4 to 8.13 of my Report. This rationale continues to hold and my conclusion still stands.

Policyholder Benefit Expectations

7.19 In Section 6 of my Report, I considered the impact of the Scheme on the benefit expectations for the Transferring Policyholders. I considered separately the holders of unit-linked policies, holders of non-profit policies, and holders of group scheme policies, and having done so again in 3.8 to 3.10, I am satisfied that the benefit expectations of the Transferring Policyholders will not be materially adversely affected by the Scheme.

7.20 In Section 7 of my Report, I considered the impact of the Scheme on the benefit expectations for the Non-Transferring Policyholders. I considered separately the holders of unit-linked policies, holders of non-profit policies, and holders of with-profits policies, and I have done so again. Given my considerations in 4.7 to 4.13, I am satisfied that the benefit expectations of the Non-Transferring Policyholders will not be materially adversely affected by the Scheme. In particular, I am satisfied that the proposed investment strategy for the UK-style German With-Profits Policies is not expected to materially adversely affect the benefit expectations of this group of policyholders.

7.21 In paragraphs 8.15 to 8.20 of my Report, I set out the rationale for my conclusion in respect of the benefit expectations of the Existing Utmost Life and Pensions Policyholders. This rationale continues to hold and my conclusion is unchanged.

Governance and Administration

7.22 As set out in paragraph 9.5 of my Report, I reviewed the version of the Policy for Non-Profit Discretion, which was current at that time. I have since considered the subsequent amendments to this policy to extend it to cover the Transferring and Non-Transferring Policyholders of ELAS, as well as the Existing Utmost Life and Pensions Policyholders. These changes mean that this policy now applies in full (where relevant) to the Transferring and Non-Transferring Policies of ELAS, therefore my conclusions in respect of this policy in my Report still stand. I note that this amended policy has now been approved by the Utmost Life and Pensions Board.

7.23 In addition to the above, at the time of writing my Report, Utmost Life and Pensions management was in the process of producing a capacity plan to provide comfort that sufficient resource would be available within Utmost Life and Pensions customer services teams to respond to the expected increased level of policyholder engagement immediately following the Implementation Date. I have now received a copy of this capacity plan, which indicates that additional resource will be available over this period. Although not an expert in the resourcing of administration services, I have gained comfort over this plan since it has gone through an internal review and challenge process within Utmost Life and Pensions, and has taken in to consideration the increase in policyholder contact observed following the policyholder communications mailings.

7.24 As set out in Section 9 of my Report, the governance arrangements relating to the Non-Transferring Policies were under discussion at the time of writing my Report. As expected, it has been confirmed that the Utmost Life and Pensions With-Profits Committee will replace the ELAS Board in carrying out the duties of the With-Profits Committee, in respect of the German With-Profits Fund and will consider the interests of such policyholders.

7.25 I have received a copy of the proposed PPFM which covers the discretionary features of the UK Style With-Profits Policies within the German With-Profits Fund. There are no changes to the principles described in the PPFM from the drafting of my Report. This was approved by the Utmost Life and Pensions Board on 26 September 2019.

7.26 As set out in Section 9 of my Report, the governance arrangements relating to the Existing Utmost Life and Pensions Policies will not change as a result of the Scheme. I also noted in my Report that the Scheme will not change Utmost Life and Pensions responsibility for the administrative services of the Existing Utmost Life and Pensions Policies. This is unchanged and so I am satisfied that the Scheme will not have any effect on the quality of service standards or administration experienced by policyholders.

Policyholder Communications, Objections and Scheme-Related Queries

7.27 I have been advised that Decision Packs were sent out to 150,881 ELAS policyholders between late July and early September 2019. 1,585 of these have been returned and of these 696 have been reissued. In addition, 1,259 policyholders who were classed as Gone-Aways have subsequently been traced and Decision Packs issued.

ELAS sent out its 'Investment Choice Packs' correspondence to all 113,680 Scheme Policyholders during August and early September 2019. 575 of these have been returned, of which 231 were reissued. There have also been 271 packs sent for Gone-Aways that have subsequently been traced and issued.

On 16 September 2019, ELAS sent a reminder to vote and ways in which to obtain advice to all those policyholders eligible to vote, with a further reminder being sent on 9 October 2019.

7.28 As at 4 November 2019, there were 244 objections raised by ELAS policyholders regarding both the Scheme and Scheme of Arrangement, 138 of which relate solely to the Scheme. I have reviewed the specific queries on the Scheme where the Companies provided a further written response and I am satisfied that the responses provided were appropriate to the query raised. I have not identified any objections that have an impact on my conclusions regarding the Scheme.

Appendix 1: Data and Reliances

This section lists the items of information that I have received, reviewed and relied upon in relation to the preparation of this Supplementary Report. This includes various emails and documents received from management of the Companies, regulatory correspondence and publically available information.

Document description	Date of document	Company relating to
Scheme documents		
Part VII Scheme Document (presented to High Court in July)	27/09/2019	Both
Draft Part VII Sanction Order	27/09/2019	Both
Witness statement of Simon Hearn (Electoral Reform Services)	27/09/2019	Both
Witness statement of Lee Tyrrell (DG3)	27/09/2019	Both
Witness statement of JLT Representative	27/09/2019	Both
Witness Statement of Simon Small	01/11/2019	Both
Scheme of Arrangement		
Draft Scheme of Arrangement Sanction Order	27/09/2019	Both
Modified Scheme of Arrangement	11/10/2019	Both
Scheme Related Financials		
Financial results as at 30 June 2019	16/08/2019	ELAS
Paper on SII Methodology and Assumptions as at 30 June 2019	01/07/2019	ELAS
Financial results at 30 June 2019 and balance sheet projections	11/09/2019	Utmost Life and Pensions
Summary of balance sheet projections and sensitivities	11/10/2019	Utmost Life and Pensions
Capital policies and capital support mechanisms		
Post-Scheme ELAS PPFM	23/08/2019	ELAS
Chief Actuary and With-Profit Actuary supplementary reports on the Scheme		
With-Profits Actuary Supplementary Reports	04/10/2019	Both
Chief Actuary Supplementary Report	04/10/2019	Both
Tax		
Section 133 Finance Act 2012 Clearance letter to HMRC	29/07/2019	ELAS
Section 132 Finance Act 2012 Clearance letter	29/08/2019	ELAS
HMRC response re Stamp Duty	04/11/2019	Utmost Life and Pensions
Section 132 Finance Act 2012 Clearance letter	04/11/2019	Utmost Life and Pensions
Communications issued to ELAS Policyholders		
Correspondence to German Policyholders	29/08/2019	ELAS
Nudge Postcard	03/09/2019	ELAS
Second Nudge	27/09/2019	ELAS

Document description	Date of document	Company relating to
Third Nudge	11/10/2019	ELAS
Communications issued to Utmost Life and Pensions Policyholders		
Letter to policyholders	02/08/2019	Utmost Life and Pensions
Objections		
Objections by theme, and individual cases	Weekly from 04/09/19 to 04/11/19	ELAS
MI on communications from Policyholders regarding the Scheme	25/09/2019	Utmost Life and Pensions
Other		
Change in Control Submission to the PRA	12/08/2019	Utmost Life and Pensions
Investment Strategy for UKSGWP policyholders	09/08/2019	ELAS
Documentation on management of German WP fund	23/08/2019	Both
Solvency monitoring and Brexit contingency planning	28/08/2019	ELAS
Solvency sensitivities	29/08/2019	ELAS
Exposure to GAOs	25/09/2019	Utmost Life and Pensions
Risk Appetite for ELAS subsidiary	25/09/2019	Both
Policy on Non-Profit Discretion	03/10/2019	Utmost Life and Pensions
Customer Services capacity plan	04/10/2019	Both
Cost Sharing Agreement	07/10/2019	Both

Appendix 2: Summary Solvency II Financial Information for the Companies

Introduction

This appendix provides a fund-level breakdown of the estimated Solvency II financial impact of the Scheme, had it been implemented as at 30 June 2019 for both ELAS and Utmost Life and Pensions, as summarised throughout my Report. It also sets out how the composition of the SCR will change as a result of the Scheme.

Summary Solvency II Financial Information

Pre-Scheme Solvency II balance sheet

Table A2.1: ELAS pre-Scheme, pre-Scheme of Arrangement Solvency II balance sheet as at 30 June 2019

£m	ELAS
Invested Assets	6,169
Reinsurance Recoverables	378
Assets	**6,547**
Best Estimate Liability	5,600
Risk Margin	209
Transitional Measure on Technical Provisions (TMTP)	(61)
Technical Provisions (Post-TMTP)	**5,748**
Total liabilities	**5,994**
Own Funds	**553**
Solvency Capital Requirement	460
Minimum Capital Requirement	129
Capital Coverage Ratio	**120%**

Table A2.2: Utmost Life and Pensions pre-Scheme Solvency II balance sheet as at 30 June 2019

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Invested Assets	1,411	31	13	119	103	1,676
Reinsurance Recoverables	(12)	0	0	(6)	0	(19)
Assets	1,399	31	13	112	103	1,658
Best Estimate Liability	1,285	13	13	112	103	1,527
Risk Margin	31	0	0	0	0	32
TMTP[12]	(31)	(0)	(0)	(0)	(0)	(31)
Technical Provisions (Post-TMTP)	**1,286**	**13**	**13**	**112**	**103**	**1,527**
Own Funds restrictions	(2)	(18)	-	-	-	(20)
Eligible Own Funds	**111**	**0**	**0**	**0**	**0**	**111**
Solvency Capital Requirement	65	0	0	1	0	66
Capital Coverage Ratio						**168%**

Note that the above presentation differs from publicly available information on the Utmost Life and Pensions pre-Scheme balance sheet as the Risk Margin and Operational Risk component of the Solvency Capital Requirement have been moved from the ring-fenced with-profits sub-funds (WPSF2, 4 and 6) to the Non-Profit Fund.

Post-Scheme Solvency II balance sheet

Table A2.3: ELAS post-Scheme Solvency II balance sheet as at 30 June 2019

£m	ELAS
Invested Assets	72.7
Reinsurance Recoverables	8.9
Assets	**81.7**
Best Estimate Liability	76.4
Risk Margin	1.2
Transitional Measure on Technical Provisions (TMTP)	-
Technical Provisions (Post-TMTP)	**77.6**
Own Funds	**4.1**
Solvency Capital Requirement	2.0
Minimum Capital Requirement	3.3
Capital Coverage Ratio	**125%**

[12] Transitional Measure for Technical Provisions

Table A2.4: Utmost Life and Pensions post-Scheme Solvency II balance sheet as at 30 June 2019

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Invested Assets	7,616	31	13	119	103	7,881
Reinsurance Recoverables	357	0	0	(6)	0	351
Assets	**7,973**	**31**	**13**	**112**	**103**	**8,232**
Best Estimate Liability	7,611	13	13	112	103	7,852
Risk Margin	84	-	-	-	-	84
TMTP	-	-	-	-	-	-
Technical Provisions (Post-TMTP)	**7,695**	**13**	**13**	**112**	**103**	**7,936**
Own Funds restrictions	-	(18)	-	-	-	(18)
Eligible Own Funds	**278**	**-**	**-**	**-**	**-**	**278**
Solvency Capital Requirement	185	-	-	-	-	185
Capital Coverage Ratio						**150%**

Note that, as reflected in the above table, the existing Utmost Life and Pensions TMTP is assumed to have a nil-value post-Scheme.

Comparison of SCR elements

Table A2.5: ELAS pre-Scheme, pre-Scheme of Arrangement SCR components as at 30 June 2019

£m	ELAS
Market Risk	25.7
Counterparty Default Risk	32.3
Life Underwriting Risk	428.3
Diversification	(41.3)
Basic SCR	444.9
Operational Risk	18.9
Loss Absorbency Capacity	(3.4)
Total SCR	460.4

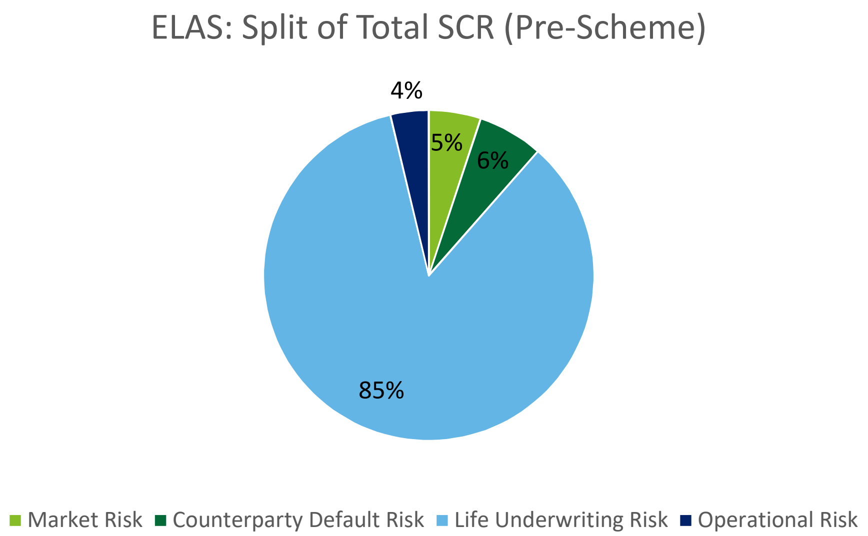
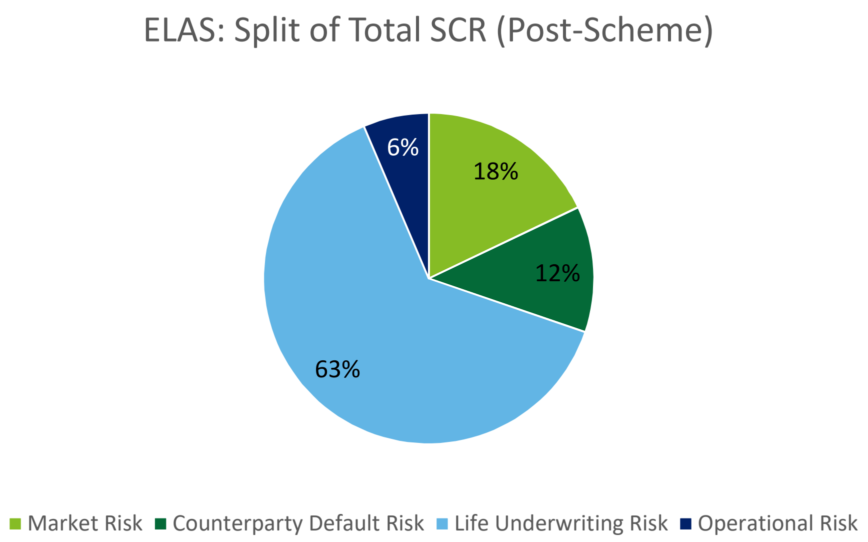


Table A2.6: ELAS (entity) post-Scheme SCR components as at 30 June 2019

£m	ELAS
Market Risk	0.5
Counterparty Default Risk	0.3
Life Underwriting Risk	1.6
Diversification	(0.5)
Basic SCR	**1.9**
Operational Risk	0.2
Total SCR	**2.0**



As stated in my Report with reference to the 31 December 2018 results, the change in the SCR split by risk is in line with my expectations given the nature of the business in ELAS both pre- and post-Scheme. The dominance of "life underwriting risk" before the Scheme is driven by the with-profits business in ELAS before the Scheme of Arrangement. After the Scheme, this component is driven by both the lapse risk and expense risk of the ELAS fund. The same commentary applies equally to the results as at 30 June 2019, as I would expect.

Table A2.7: Utmost Life and Pensions pre-Scheme SCR components as at 30 June 2019

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Market Risk	47.5	6.4	2.4	8.3	10.3	74.9
Counterparty Default Risk	3.7	0.0	0.0	0.1	0.4	4.3
Life Underwriting Risk	34.1	0.0	0.1	3.1	6.2	43.7
Diversification	(16.9)	(0.1)	(0.1)	(2.0)	(3.5)	(22.6)
Basic SCR	**68.4**	**6.4**	**2.5**	**9.7**	**13.4**	**100.3**
Operational Risk	4.4	0.1	0.1	0.5	0.4	5.4
LACTP [13]	-	(6.4)	(2.5)	(9.7)	(13.4)	(32.0)
LACDT [14]	(8.0)	-	-	-	-	(8.0)
Total SCR	**64.8**	**0.1**	**0.1**	**0.5**	**0.4**	**65.8**

[13] Loss absorbing capacity of technical provisions

[14] Loss absorbing capacity of deferred tax

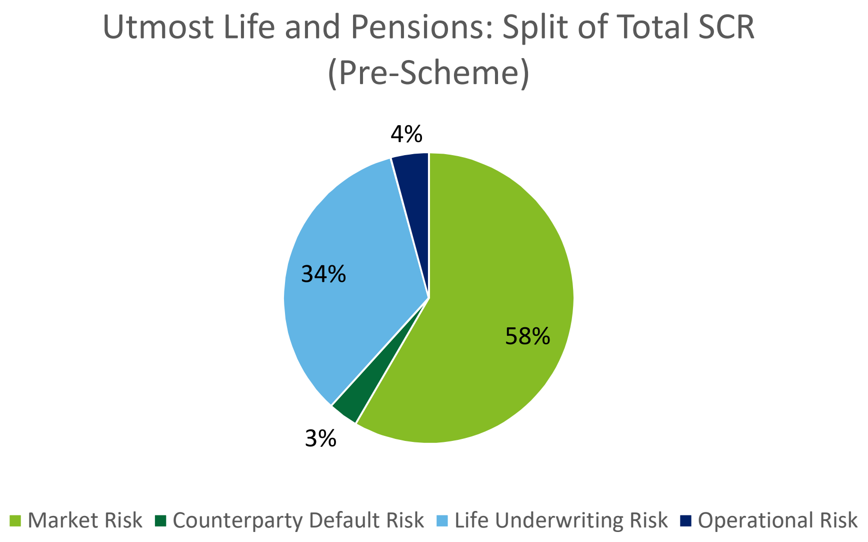
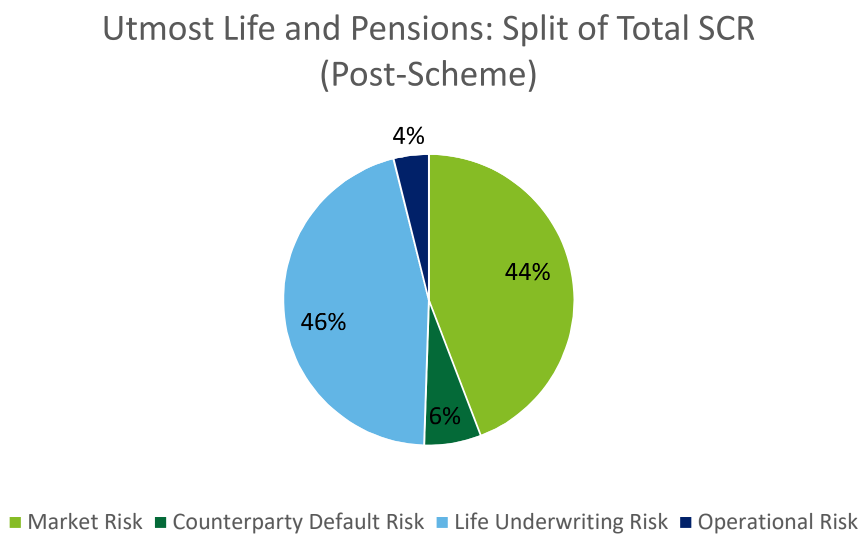


Table A2.8: Utmost Life and Pensions post-Scheme SCR components as at 30 June 2019

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Market Risk	99.9	6.4	2.4	8.3	10.3	127.3
Counterparty Default Risk	17.7	0.0	0.0	0.1	0.4	18.3
Life Underwriting Risk	121.8	0.0	0.1	3.1	6.2	131.4
Diversification	(53.0)	(0.1)	(0.1)	(2.0)	(3.5)	(58.6)
Basic SCR	**186.4**	**6.4**	**2.5**	**9.7**	**13.4**	**218.4**
Operational Risk	11.3	-	-	-	-	11.3
LACTP	-	(6.4)	(2.5)	(9.7)	(13.4)	(32.0)
LACDT	(12.3)	-	-	-	-	(12.3)
Total SCR	**185.4**	**-**	**-**	**-**	**-**	**185.4**



As stated in my Report in respect of the 31 December 2018 position: following the Scheme, "life underwriting risk" makes up a greater proportion of the Utmost Life and Pensions SCR than before the Scheme. This is due to the nature of the business transferring over from ELAS, which has a significant proportion of unit-linked business, which drives, in particular, an increase in the lapse risk component of the life underwriting risk sub-module. As expected, this remains the case based on the 30 June 2019 position and is still in line with my expectations on the change in split of SCR.

Appendix 3: Summary Sensitivities on Solvency II Financial Information for the Companies

Introduction

This appendix provides details of the sensitivities that were performed on the post-Scheme Balance Sheets for both ELAS and Utmost Life and Pensions. As for the base projections, the Capital Coverage Ratio of Utmost Life and Pensions has been calculated with reference to the SCR, and the ELAS equivalent with reference to the MCR. As with all financial projections, there are a number of underlying assumptions with additional complexity arising from Scheme-specific issues, such as future expenses and the rate at which policyholders are expected to lapse or claim their policy.

With the exception of one sensitivity (as described below), sensitivities have been assumed to happen during 2020, so that the balance sheet on 1 January 2020 (as presented in Appendix 2) is unaffected. This summary provides details of the impact on the projected balance sheets under each scenario.

The sensitivities which have been performed are:

1. A 40% fall in Equity and Property values in 2020.

2. Increase of 10% applied to expense assumptions.

3. The effect of lapse and surrender rates being 200% of best-estimate assumptions for the Transferring Unit-Linked Policies.

4. Mass lapse of 40% in 2020 of Transferring Unit-Linked Policies. Note that this mass lapse is in addition to the expected increase in policyholder lapses due to policyholders waiting to take their benefits after the Scheme of Arrangement uplift has been applied ("Pent Up" lapses as described in 2.50) which are reflected in the base balance sheet.

5. A 25bps fall in interest rates in the period leading up to the Implementation Date. This was used to estimate the change in capital injection required in the case of further declines in interest rates.

6. A combination of the Mass Lapse stress and a 20% increase to expenses stress (4. above and a more severe expense stress).

7. A combination of the 200% lapse rates for Transferring Unit-Linked Policies and the 40% equity fall (3. and 1. above)

8. A combination of the Mass Lapse and the Equity and Property stresses (4. and 1. above).

Summary projected balance sheet results and solvency capital ratios for each of these sensitivities, for both Utmost Life and Pensions and ELAS, are shown (before payment of any dividends) in the tables below.

1. 40% fall in Equity and Property values in 2020

Note that this has been modelled as an impact on the total value of the unit-linked funds, even though a significant proportion maybe still be invested in the Secure Cash Investment Fund throughout the majority of 2020.

Table A3.1 Utmost Life and Pensions Projected Balance Sheet after 40% fall in Equity and Property values in 2020

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	5,313	4,968	4,641	4,334	4,025
Technical Provisions	7,927	5,082	4,723	4,380	4,062	3,744
Own Funds	**319**	**231**	**246**	**261**	**273**	**281**
Eligible Own Funds	**301**	**216**	**231**	**246**	**258**	**268**
Solvency Capital Requirement	201	140	131	126	116	107
Capital Coverage Ratio	**150%**	**155%**	**176%**	**196%**	**222%**	**251%**

Source: Projections from Utmost Life and Pensions

Table A3.2 ELAS Projected Balance Sheet after 40% fall in Equity and Property values in 2020

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	54.9	52.3	49.9	48.5	47.6
Technical Provisions	69.0	50.9	48.1	45.6	44.1	43.1
Own Funds	**4.1**	**4.0**	**4.2**	**4.3**	**4.5**	**4.6**
Eligible Own Funds	**4.1**	**4.0**	**4.2**	**4.3**	**4.5**	**4.6**
Solvency Capital Requirement	1.5	1.2	1.1	1.1	1.0	0.9
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**122%**	**127%**	**131%**	**135%**	**139%**

Source: Projections from Utmost Life and Pensions

2. 10% increase in expense assumptions

Table A3.3 Utmost Life and Pensions Projected Balance Sheet after 10% increase to expense assumptions

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	6,656	6,216	5,798	5,407	5,014
Technical Provisions	7,927	6,370	5,914	5,480	5,077	4,676
Own Funds	**319**	**287**	**302**	**318**	**331**	**339**
Eligible Own Funds	**301**	**269**	**285**	**300**	**313**	**323**
Solvency Capital Requirement	201	166	155	143	132	120
Capital Coverage Ratio	**150%**	**162%**	**183%**	**209%**	**237%**	**268%**

Source: Projections from Utmost Life and Pensions

Table A3.4 ELAS Projected Balance Sheet after 10% increase to expense assumptions

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	68.4	64.9	61.7	59.9	58.7
Technical Provisions	69.0	64.1	60.5	57.2	55.2	53.9
Own Funds	**4.1**	**4.3**	**4.4**	**4.5**	**4.6**	**4.7**
Eligible Own Funds	**4.1**	**4.3**	**4.4**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**130%**	**134%**	**137%**	**141%**	**144%**

Source: Projections from Utmost Life and Pensions

3. The effect of lapse and surrender rates being 200% of best-estimate assumptions for the Transferring Unit-Linked Policies.

Table A3.5 Utmost Life and Pensions Projected Balance Sheet after lapse and surrender rates being 200% of best-estimate assumptions for the Transferring Unit-Linked Policies

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	6,596	6,033	5,521	5,060	4,617
Technical Provisions	7,927	6,314	5,740	5,217	4,747	4,300
Own Funds	**319**	**282**	**293**	**304**	**313**	**318**
Eligible Own Funds	**301**	**264**	**275**	**286**	**296**	**302**
Solvency Capital Requirement	201	166	155	144	132	121
Capital Coverage Ratio	**150%**	**159%**	**177%**	**199%**	**224%**	**250%**

Source: Projections from Utmost Life and Pensions

Table A3.6 ELAS Projected Balance Sheet after lapse and surrender rates being 200% of best-estimate assumptions for the Transferring Unit-Linked Policies

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	68.4	64.9	61.8	59.9	58.7
Technical Provisions	69.0	64.2	60.5	57.3	55.3	54.0
Own Funds	**4.1**	**4.2**	**4.4**	**4.5**	**4.6**	**4.7**
Eligible Own Funds	**4.1**	**4.2**	**4.4**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**128%**	**132%**	**136%**	**140%**	**143%**

Source: Projections from Utmost Life and Pensions

4. Mass lapse of 40% in 2020

Table A3.7 Utmost Life and Pensions Projected Balance Sheet after a Mass Lapse of 40% in 2020

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	5,365	5,027	4,704	4,401	4,091
Technical Provisions	7,927	5,114	4,758	4,418	4,100	3,779
Own Funds	**319**	**251**	**268**	**286**	**301**	**312**
Eligible Own Funds	**301**	**233**	**251**	**268**	**284**	**296**
Solvency Capital Requirement	201	135	127	118	109	100
Capital Coverage Ratio	**150%**	**173%**	**198%**	**228%**	**260%**	**296%**

Source: Projections from Utmost Life and Pensions

Table A3.8 ELAS Projected Balance Sheet after a Mass Lapse of 40% in 2020

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	52.9	50.4	48.0	46.7	45.8
Technical Provisions	69.0	48.8	46.1	43.6	42.1	41.1
Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Eligible Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**127%**	**131%**	**136%**	**139%**	**143%**

Source: Projections from Utmost Life and Pensions

I note that the mass lapse sensitivity has been implemented by reducing the projected number of individual and group pensions in force to the levels projected.

5. 25bps fall in interest rates in the period leading up to the Implementation Date

Table A3.9 Utmost Life and Pensions Projected Balance Sheet after a 25bps fall in interest rates in the period leading up to the implementation date

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	6,666	6,204	5,769	5,364	4,950
Technical Provisions	7,927	6,353	5,879	5,431	5,015	4,596
Own Funds	**319**	**313**	**325**	**338**	**348**	**355**
Eligible Own Funds	**301**	**295**	**308**	**320**	**331**	**339**
Solvency Capital Requirement	201	168	157	145	136	122
Capital Coverage Ratio	**150%**	**175%**	**196%**	**221%**	**244%**	**277%**

Source: Projections from Utmost Life and Pensions

Table A3.10 ELAS Projected Balance Sheet after a 25bps fall in interest rates in the period leading up to the Implementation Date

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	68.5	64.9	61.6	59.6	58.2
Technical Provisions	69.0	64.3	60.5	57.1	55.0	53.5
Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Eligible Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**127%**	**132%**	**136%**	**140%**	**143%**

Source: Projections from Utmost Life and Pensions

Note that the interest rate stress does not impact Utmost Life and Pensions' projected balance sheet as at 1/1/2020 due to the capital injection which ensures that it remains at 150% of SCR.

6. Combination of the Mass Lapse stress and a 20% increase in expenses stress

Table A3.11 Utmost Life and Pensions Projected Balance Sheet after a Combination of the Mass Lapse stress and a 20% increase in expenses stress

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	5,364	5,023	4,698	4,394	4,082
Technical Provisions	7,927	5,178	4,817	4,472	4,149	3,823
Own Funds	**319**	**185**	**206**	**227**	**245**	**259**
Eligible Own Funds	**301**	**168**	**188**	**209**	**228**	**243**
Solvency Capital Requirement	201	136	128	119	111	101
Capital Coverage Ratio	**150%**	**123%**	**147%**	**175%**	**206%**	**239%**

Source: Projections from Utmost Life and Pensions

Table A3.12 ELAS Projected Balance Sheet after a Combination of the Mass Lapse stress and a 20% increase in expenses stress

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	52.9	50.4	48.0	46.7	45.8
Technical Provisions	69.0	48.8	46.1	43.6	42.1	41.1
Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Eligible Own Funds	**4.1**	**4.2**	**4.3**	**4.5**	**4.6**	**4.7**
Solvency Capital Requirement	1.5	1.4	1.3	1.2	1.1	1.0
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**127%**	**131%**	**136%**	**139%**	**143%**

Source: Projections from Utmost Life and Pensions

7. Combination of the Increased Lapse Rates & 40% Equity Fall

Table A3.13 Utmost Life and Pensions Projected Balance Sheet after Combination of the Increase in Lapse and Surrender Rates for Transferring Unit-Linked Business and Fall in Equities Stresses

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	5,599	5,125	4,695	4,307	3,935
Technical Provisions	7,927	5,396	4,910	4,467	4,069	3,690
Own Funds	**319**	**203**	**215**	**228**	**238**	**245**
Eligible Own Funds	**301**	**188**	**200**	**213**	**223**	**231**
Solvency Capital Requirement	201	148	139	133	123	112
Capital Coverage Ratio	**150%**	**127%**	**145%**	**160%**	**182%**	**206%**

Source: Projections from Utmost Life and Pensions

Table A3.14 ELAS Projected Balance Sheet after Combination of the Increase in Lapse and Surrender Rates for Transferring Unit-Linked Business and Fall in Equities Stresses

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	54.9	52.3	49.9	48.5	47.7
Technical Provisions	69.0	50.9	48.1	45.6	44.1	43.1
Own Funds	**4.1**	**4.0**	**4.1**	**4.3**	**4.4**	**4.6**
Eligible Own Funds	**4.1**	**4.0**	**4.1**	**4.3**	**4.4**	**4.6**
Solvency Capital Requirement	1.5	1.2	1.1	1.1	1.0	0.9
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**121%**	**126%**	**131%**	**135%**	**139%**

Source: Projections from Utmost Life and Pensions

8. Combination of the Mass Lapse and the Equity and Property stresses

Table A3.15 Utmost Life and Pensions Projected Balance Sheet after a Combination of the Mass Lapse and the Equity and Property stresses

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	8,246	4,357	4,086	3,829	3,586	3,337
Technical Provisions	7,927	4,173	3,886	3,611	3,355	3,094
Own Funds	**319**	**184**	**200**	**218**	**232**	**243**
Eligible Own Funds	**301**	**169**	**186**	**203**	**217**	**229**
Solvency Capital Requirement	201	118	111	106	99	91
Capital Coverage Ratio	**150%**	**144%**	**167%**	**191%**	**220%**	**253%**

Source: Projections from Utmost Life and Pensions

Table A3.16 ELAS Projected Balance Sheet after a Combination of the Mass Lapse and the Equity and Property stresses

	1/1/2020	Year-end				
		2020	2021	2022	2023	2024
Assets	73.1	43.5	41.5	39.7	38.8	38.1
Technical Provisions	69.0	39.5	37.4	35.4	34.3	33.5
Own Funds	**4.1**	**4.0**	**4.2**	**4.3**	**4.5**	**4.6**
Eligible Own Funds	**4.1**	**4.0**	**4.2**	**4.3**	**4.5**	**4.6**
Solvency Capital Requirement	1.5	1.2	1.1	1.1	1.0	0.9
Minimum Capital Requirement	3.3	3.3	3.3	3.3	3.3	3.3
Capital Coverage Ratio	**125%**	**121%**	**127%**	**131%**	**136%**	**140%**

Source: Projections from Utmost Life and Pensions

Appendix 4: Glossary

Note that this glossary has been adapted from that provided in my Report, with only terms applicable to this Supplementary Report included.

Asset Shares are assessments of the fair value of a policy's share of the gains and losses of the fund in which they are written.

BaFin is an abbreviation for the financial service regulatory for Germany, the Federal Financial Supervisory Authority.

BEL refers to Best Estimate Liabilities, calculated under Solvency II Pillar 1 quantitative requirements, and is equal to the best estimate of the cost that will be incurred in meeting the obligations of policyholders.

Board means the board of directors of the relevant entity from time to time.

Brexit is the term commonly used to describe the impending withdrawal of the United Kingdom from the European Union, due to take effect on 31 January 2020.

Capital Coverage Ratio (CCR) refers to the ratio of assets less liabilities to the higher of the Minimum Capital Requirement and Solvency Capital Requirement. Within this Report, this is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

Capitalisation Requirement Certificate refers to the certificate to be issued by ELAS, based on analysis of information provided by Utmost Life and Pensions, to confirm that Utmost Life and Pensions will have sufficient assets to provide a Capital Coverage Ratio of the higher of the MCR and 150% of the estimated SCR on the Implementation Date.

Central Bank of Ireland (CBI) is the Irish financial services regulator, responsible for safeguarding monetary and financial stability in Ireland

Channel Islands Courts refers to the Royal Court of Jersey and the Royal Court of Guernsey.

Channel Islands Policies refers to business written by ELAS in Jersey and Guernsey.

Channel Islands Schemes are the local Schemes which will be subject to sanction of the Channel Islands Courts.

Chief Actuary (CA) is responsible for performing the actuarial function specified in the "PRA Rulebook: Conditions Governing Business" which includes contributing to the effective implementation of the risk management system, coordinating the calculation of technical provisions, and ensuring the appropriateness of the methodologies and underlying models used.

Companies means Utmost Life and Pensions Limited and ELAS.

Companies Act 2006 is the main piece of legislation which governs company law in the UK.

Court is the High Court of Justice in England and Wales.

Deloitte is Deloitte MCS Limited, a subsidiary of Deloitte LLP. Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 3311052.

ELAS is Equitable Life Assurance Society, incorporated in England in Wales with registered number AC000063.

ELAS Main Fund is the remaining ELAS fund post-Scheme, which includes the German With-Profits Fund.

ELAS OLTF is the Ordinary Long Term Fund of ELAS. This is often referred to as the ELAS With-Profits Fund, or "ELAS WPF".

Eligible Own Funds is the value of Own Funds less any assets not available to meet the Solvency Capital Requirement or the Minimum Capital Requirement under Solvency II Pillar 1 reporting.

European Insurance and Occupational Pensions Authority (EIOPA) is one of the European supervisory authorities responsible for macro-prudential oversight at the European Union level.

European Union (EU) comprises of the political and economic union of 28 member states (prior to Brexit), mostly located within Europe.

Excluded Policies are Transferring Policies which cannot be transferred to Utmost Life and Pensions at the Implementation Date.

Existing Utmost Life and Pensions Policies are the policies in the Utmost Life and Pensions long-term insurance fund prior to the Implementation Date.

Existing Utmost Life and Pensions Policyholders are the existing policyholders of Utmost Life and Pensions.

Extraordinary General Meeting (EGM) refers to a meeting of members, shareholders, or employees of an official body that occurs at an irregular time.

FCA is the Financial Conduct Authority, the conduct regulator for the UK financial services industry, with objectives to protect consumers of financial services, enhance market integrity and promote healthy competition between financial services providers.

FRC is the Financial Reporting Council, the UK's independent regulator who is responsible for setting standards for corporate reporting and actuarial practice and monitoring and enforcing accounting and auditing standards.

FSMA is the Financial Services and Markets Act 2000, as amended.

GAR refers to Guaranteed Annuity Rate, a guaranteed conversion basis for the conversion of savings to an annuity at maturity.

German With-Profits Fund is a ring-fenced fund within ELAS that will be created as part of the Scheme and to which both the UK-style and German-style German With-Profits Policies will be allocated after the Implementation Date.

German With-Profits Policies are policies sold under German law, and are described as either "UK-Style" or "German-Style", depending on their feature and the nature of their benefits.

German With-Profits Policyholders are the holders of German With-Profits Policies.

German-style German With-Profits Policies are policies which are similar to non-profit policies, but whose benefits are linked to the performance of a specific pool of assets.

German-style German With-Profits Policyholders are the holders of the German-style German With-Profits Policies.

HMRC is Her Majesty's Revenue and Customs, the government department responsible for collecting and administering taxes.

Implementation Date is 1 January 2020, the date on which the Scheme is expected to become operative (subject to the approval of the Court), although this can be extended congruently with the Scheme of Arrangement.

Independent Expert refers to Richard Baddon of Deloitte MCS Limited whose appointment, which has been approved by the PRA following consultation with the FCA, involves producing a scheme report under the requirements of the FSMA, reflecting the guidance provided by SUP 18.2 of the Regulators' Handbooks.

LACDT is the loss-absorbing capacity of deferred tax, which under Solvency II allows companies to reflect that a future loss in profits may result in a lower tax liability and so reduce capital requirements.

LACTP is the loss-absorbing capacity of technical provisions, which under Solvency II allows companies to make allowance for certain future management actions which would reduce future discretionary benefits.

LCCG refers to the Life Company Consolidation Group. Since February 2019, it has now been renamed the Utmost Group of Companies.

Matching Adjustment (MA) is one of the long term measures used in determining the liability discount rate. It is an upward adjustment to the risk-free rate where insurers hold certain long-term assets with cashflows that match the liabilities.

Minimum Capital Requirement (MCR) is the regulatory minimum level of capital an insurer must hold under Solvency II. The MCR is calculated with reference to a company's SCR, and has an absolute floor of €3.7m, the level of which is determined by EIOPA.

Non-Profit Policy is a policy (including any unit-linked policy unless stated otherwise) which is not entitled to share in the profits of the company in which it is located, including term assurance and income protection policies where specified benefits are payable on death or incapacity.

Non-Transferring Policies are the policies which will not transfer to Utmost Life and Pensions by way of a Part VII transfer. In the case of the Scheme, these are the policies sold under Irish or German law.

Non-Transferring Policyholders are the holders of the Non-Transferring Policies.

Own Funds are excess assets over liabilities, as defined by the Solvency II Directive.

Pillar 1 is one of three reporting requirements set by Solvency II regulation, covering quantitative assessment and requirements. It sets out how an insurer's assets and liabilities should be valued using the principles of market consistency to reflect the price that the market would put on those items.

Policyholder Independent Expert is the independent actuary appointed by ELAS to assess the fairness of the Scheme of Arrangement.

PRA is the Prudential Regulation Authority, the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Principles and Practices of Financial Management (PPFM) is a document describing how a with-profits fund is managed. Each with-profits fund is required to make its PPFM publicly available.

QRTs are the quarterly Quantitative Reporting Templates which firms are required to complete for private disclosure to the PRA. These templates contain key financial and solvency information.

Regulator(s) means the applicable regulator(s) of the UK insurance industry, the Prudential Regulation Authority and Financial Conduct Authority.

Regulators' Handbook of rules and guidance is issued by the Regulator(s) from time to time made pursuant to the FSMA together with the rules and regulations implemented pursuant thereto.

Reliance Mutual refers to Reliance Mutual Insurance Society, which was acquired by LCCG in April 2018 and subsequently renamed "Reliance Life" and later "Utmost Life and Pensions".

Reliance Mutual Scheme refers to the 2018 Part VII transfer of Reliance Mutual to LCCG.

Report is my Report dated 16 July 2019, as required under the terms of FSMA, Chapter 8 (Section 109).

Risk Margin (RM) is a margin which reflects the cost of holding regulatory capital in excess of the BEL, within the Solvency II Pillar 1 assessment.

Sanction Hearing is the hearing at the High Court of Justice of England and Wales at which the final decision to approve or disapprove the Scheme is made.

Scheme is the proposed transfer of business from ELAS to Utmost Life and Pensions under Part VII of the FSMA.

Scheme of Arrangement is the proposed conversion of the majority of ELAS' with-profits business to unit-linked business, under Part 26 of the Companies Act 2006.

Scheme Effective Date is the date on which the Scheme of Arrangement Court Order will be submitted to the Registrar of Companies in England and Wales for registration.

SFCR refers to the annual Solvency and Financial Condition Report, containing narrative information, which is made available to the public.

Solvency II is the solvency regime for all EU insurers and reinsurers, which came into effect on 1 January 2016.

Solvency Capital Requirement (SCR) is the primary capital requirement under the Solvency II regime and is set at a level that is expected to be sufficient to cover losses arising from an event or combination of events that is of a severity that is expected to happen only once every 200 years over a one year time horizon.

SUP 18 refers to Chapter 18 of the Supervision Manual of the Regulators' Handbooks of Rules and Guidance. It sets out the Regulators' requirements relating to the transfer of long-term insurance business.

Supplementary Report is a report produced in advance of the Sanction Hearing, to consider the impact of the Independent Expert's conclusions of events that have happened subsequent to the release of the initial Report.

TAS 100 is the Technical Actuarial Standard 100: Principles for Actuarial Work, containing generic principles and provisions for actuarial work, as defined in the Scope and Authority of Technical Standards of the FRC.

TAS 200 is the Technical Actuarial Standard 200: Insurance, containing insurance related principles and provisions for actuarial work, as defined in the Scope and Authority of Technical Standards of the FRC.

Tax Clearance is when an entity pays all its tax liabilities prior to its closure or transferral to a new owner.

Tier 1 capital is the highest quality of capital, as defined by EIOPA. Assets in this tier must be both permanently available and rank below other insurance liabilities in the event of a winding-up scenario. At least 50% of the assets held to cover the Solvency Capital Requirement must be Tier 1.

Tier 2 capital is a lower quality of capital, which is less liquid than Tier 1 capital. Tier 2 capital can cover at most 50% of the Solvency Capital Requirement.

Transferring Policies are all transferring ELAS Policies.

Transferring Policyholders are the holders of the Transferring Policies.

Transferor is ELAS.

Transitional is a widely adopted term used to describe the transitional measures which allow firms to move to full implementation of Solvency II over a period of time.

Transitional Measure on Technical Provisions ("TMTP") is a transitional arrangement permitted by the PRA and used by firms to reduce the overall level of a company's liabilities to be closer to those held under the previous regime over a period during which the impact reduces year-on-year.

Treating Customers Fairly (TCF) is the framework under which the Regulator will assess whether financial services firms treat their retail customers fairly.

TUPE refers to the Transfer of Undertakings (Protection of Employment) regulations which apply to organisations of all sizes and protect employees' rights when the organisation or service they work for transfers to a new employer.

UK-style German With-Profits Policies are the German With-Profits Policies with benefits and features similar in nature to a UK issued with-profits policy.

UK-style German With-Profits Policyholders are the holders of the UK-style German With-Profits Policies.

Utmost Group of Companies refers to the Utmost Group of Companies, the group of companies under the "Utmost" brand.

Utmost Life and Pensions is Utmost Life and Pensions Limited; a wholly-owned, indirect subsidiary of Utmost Life and Pensions Holdings Limited, incorporated in England and Wales with registered number 10559664. Until 4 March 2019, Utmost Life and Pensions Limited was known as Reliance Life Limited.

Utmost Life and Pensions Non Profit Fund (ULP NPF) refers to the non-profit sub fund within Utmost Life and Pensions Limited, to which all Transferring Policies and associated assets and liabilities will be allocated, and that will bear Utmost Life and Pensions share of the Scheme costs.

Utmost Life and Pensions Services Limited is the staff employer under the Utmost Life and Pensions structure. All employees are seconded fully to Utmost Life and Pensions Limited and, after the Scheme, will also be seconded to provide services to ELAS.

Unitised With-Profits Policy is any policy under which the value of the benefits is or may be measured in whole or in part by reference to the number and price of with-profits units (a notional unit whose value varies by reference to bonuses declared by the company) allocated to that policy.

With-Profits Actuary (WPA) is the actuary responsible for advising the directors of a company on discretionary aspects of with-profits business.

With-Profits Committee (WPC) assesses, reports on and advises the Board on all matters that affect with-profits policyholders with the primary aim of ensuring with-profits policyholders are treated fairly.

With-Profits Fund (WPF) is a fund where holders of with-profits policies have a right to share in the profits of the company or part thereof.

With-Profits Policy is a policy which is entitled to share in some of the profits of the company or part thereof.

With-Profits Sub Funds (WPSFs) are specifically the with-profits funds within Utmost Life and Pensions, known as WPSF 1, WPSF 2, WPSF 4 and WPSF 6.