Summary of the 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

16 July 2019

1. Introduction

The purpose of this document is to provide policyholders and other interested parties with a summarised version of my **Report** as the **Independent Expert** on the proposed transfer of long-term insurance business from Equitable Life Assurance Society (**ELAS**) to Utmost Life and Pensions Limited (**Utmost Life and Pensions**) (the **Transfer**). In particular, it summarises my conclusions on the potential impact of the **Transfer** on policyholders and explains my rationale for reaching those conclusions.

This summary report and the conclusions within it apply equally to business carried on in, or from within, Jersey or Guernsey.

This is intended to be a standalone summary of my **Report**, but policyholders may wish to read my full report, which provides more details of the **Transfer** and its effect on policyholders, and a more comprehensive explanation for my conclusions. The **Transfer** is described as the "Scheme" in my main **Report** but is being described as the **Transfer** in this summary to avoid confusion with the **Scheme of Arrangement.** Section 1 of my full **Report** provides details of the scope, reliances and limitations of my work and why I believe that my work has been prepared in line with the relevant regulatory and professional guidance. This information in that section applies equally to this summary report. I have included references to other sections of my full **Report** in this summary report where I consider this to be relevant. The full version of my **Report** can be obtained on the **ELAS** website.

I have been appointed as the **Independent Expert** to provide the required report on a proposed scheme for the transfer of business of **ELAS** to **Utmost Life and Pensions**. For the **Transfer**, I have been appointed jointly by **ELAS** and **Utmost Life and Pensions** (together, the **Companies**). My appointment has been approved by the **PRA**, following consultation with the **FCA**.

I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1994, and am a Partner in the Actuarial and Insurance Solutions practice of **Deloitte**. I have experience on complex engagements, including transfers of business, and have previously acted as Independent Actuary on such engagements.

I am independent of the **Companies** involved in the **Transfer**, and neither I nor any partner or member of staff of **Deloitte** has acted for the **Companies** in developing any aspects of the **Transfer**.

I have considered the effect which the proposed **Transfer** is expected to have on the different groups of policyholders in the **Companies**, and whether the position of any group is, or is likely to be, "materially adversely affected". My **Report** sets out my findings, a summary of which is included in this document, to assist the **Court** in deciding whether or not to allow the **Transfer** to go ahead.

The **Transfer** will be submitted to the **Court** at the **Sanction Hearing** expected to take place on 22 November 2019 and 25 November 2019. If approved, it is expected to become operative on the **Implementation Date** of 1 January 2020. I will continue to assess the impact of the **Transfer** in the run up to its submission to the **Court** and will produce an additional report (my **Supplementary Report**) outlining any factors that have changed my assessment of the **Transfer** or my conclusions. Once complete, this **Supplementary Report** will also be made available online and on request.

Where a term is in bold, it is either defined in this summary report or the attached glossary.

The **Financial Reporting Council ("FRC")** has issued standards which apply to certain types of actuarial work. I have prepared my main **Report** and this summary, 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 **Report** and this summary. The **Report** and this summary meet the requirements of the Actuarial Professional Standards ("APS") issued by the Institute and Faculty of Actuaries, specifically APS X1, and have been peer reviewed in accordance with APS X2.

2. Overall Conclusions

For the reasons set out below, and in the remainder of this summary report, I am satisfied that the approval of the **Transfer** will not materially adversely affect any group of policyholders. Specifically:

- I have considered the impact on policyholder benefit security and do not believe that this will be materially adversely affected either on or after the **Implementation Date** for the **Transferring Policyholders** and the **Existing Utmost Life and Pensions Policyholders**, due to the post-**Transfer** position of the **Companies** and the capital policies in place. I have yet to conclude on the level of assets to remain in **ELAS** post-**Transfer** and the proposed post-**Transfer ELAS** capital policy, and will include my conclusions on this, and in respect of the ongoing benefit security of the **Non-Transferring Policyholders**, in my **Supplementary Report**;

- I have considered the impact on policyholder benefit expectations and, with the exception of the **Non-Transferring Policyholders** (specifically the **UK-style German With-Profits Policies**), I do not believe that any groups of policyholders will be materially adversely affected by the **Transfer** on the **Implementation Date,** or in the period following the **Implementation Date**. The proposed investment strategy for the **UK-style German With-Profits Policies** is still under discussion, therefore I am unable to conclude on the impact on their benefit expectations and will provide an update on this in my **Supplementary Report;** however, I am satisfied that the other changes to these policies due to the **Transfer** are not expected to have a material adverse impact on this group of policyholders;

- I have considered the impact of the **Transfer** on the ongoing governance, investment management and administration and do not believe that there will be any material adverse effect for any group of policyholders, with the exception of the investment strategy for the **UK-style German Policyholders**, as described above;

- I have considered the tax implications of the **Transfer**, and do not believe this will lead to a material adverse effect on policyholder benefit security or expectations for any groups of policyholders; and

- I have considered policyholder communications and consider the proposed approach to be adequate for the purposes of communicating the impact of the **Transfer**.

I will keep these matters under review until the date of the **Sanction Hearing** and will draw any significant developments or changes that may affect policyholders to the attention of the **Court** in my **Supplementary Report**.

This conclusion applies equally to policies that may have been taken out as part of the business carried on in, or from within, Jersey or Guernsey which will transfer under the **Channel Islands Schemes**.

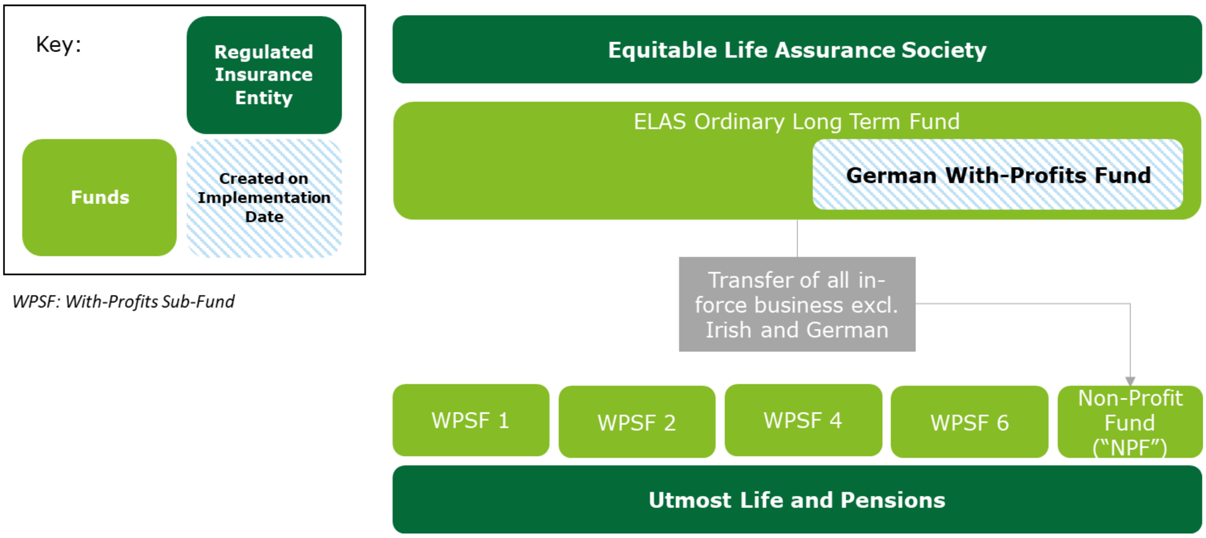
3. Scope and impact of the Transfer

If it is approved by the **Court**, the **Transfer** will transfer all of the business of **ELAS**, with the exception of those policies sold under Irish or German law, to **Utmost Life and Pensions**. It will also effect the restructure of the remaining **ELAS** business. The **Transferring Policies** consist of a broad range of business including protection, pension (individual and group), annuity and investment products. The **Non-Transferring Policies** comprise unit-linked pension, non-profit annuity and protection and with-profits products, all of which were sold under Irish or German Law.

The **Transfer** is not intended to change the benefits payable under the policies transferring to **Utmost Life and Pensions** or the way in which the business is managed going forward (although responsibility for this management will pass to **Utmost Life and Pensions** under the **Transfer**). There are some changes to how the **Non-Transferring Policies** and, specifically, the **UK-style German With-Profits Policies**, will be managed going forward. I have included further details on the changes in sections 6.3 and 7.2 of this summary of my **Report**.

A diagram outlining the transfer of policies under the **Transfer** is provided in Figure 1.1.

***Figure 1.1: Changes under the* Transfer**



If approved, the **Transfer**, together with the **Channel Islands Schemes**, will transfer all of the policies, assets and liabilities of the **ELAS With-Profits Fund** associated with the **Transferring Policies** at the **Implementation Date** into **Utmost Life and Pensions**. The approval of the **Transfer** will also effect a restructure of the remaining **ELAS** business, with a new with-profits sub-fund, the **German With-Profits Fund**, being established and with-profits policies sold under German law being allocated to this fund. The policies allocated to the **German With-Profits Fund** are the **UK-style German With-Profits Policies** and the **German-style German With-Profits Policies**.

All **Transferring Policies** and their associated assets and liabilities will be allocated to the **Utmost Life and Pensions Non-Profit Fund** (the **ULP NPF**) on the **Implementation Date**. All **Non-Transferring Policies**, and any other **Excluded Policies,** and their associated assets and liabilities will remain in **ELAS**.

The **UK-style German With-Profits Policyholders** are not included in the **Scheme of Arrangement**, as there is a risk that the **Scheme of Arrangement** won't be recognised by the German courts. However, if the **Scheme of Arrangement** is implemented, these policyholders will each be allocated an amount which is equivalent to the **primary uplift amount** which will apply to the with-profits policyholders included in the **Scheme of Arrangement**. This will be allocated to these policies through the **Transfer**. All other with-profits policyholders of **ELAS** will receive this uplift through the **Scheme of Arrangement**.

4. My role as Independent Expert

As the **Independent Expert,** I am required to consider the effect of the **Transfer** on each class of policyholder. I have considered the implications of the **Transfer** for the following groups of policyholders separately, as the analysis differs in each case:

- policyholders transferring from **ELAS** (the **Transferring Policyholders**);
- policyholders remaining in **ELAS** (the **Non-Transferring Policyholders**); and

- existing policyholders of **Utmost Life and Pensions** (the **Existing Utmost Life and Pensions Policyholders**).

Within the groups above, I have considered unit-linked policies, with-profits policies, non-profit policies and group schemes separately, where relevant.

In all cases, in arriving at my opinion I have discussed the **Transfer**'s documentation and intended operation with the management of the **Companies** as part of my review.

The **Transfer** does not change the terms and conditions of any policy. However, as policies move from one company or fund to another, other factors can change, such as the level of benefit security. I have considered the likely impacts of the **Transfer** on the security of policyholder benefits, the reasonable benefit expectations of policyholders, service standards, investment management and the governance arrangements in place to ensure policyholder interests are protected in future.

My consideration of the effects of the **Transfer** is based on the expected impact of the **Transfer** on policyholders and includes consideration of any protections built into the **Transfer**. Where I make statements in my **Report** such as "will continue to", these statements refer to the effect of the **Transfer** in isolation and do not mean that the current situation could not be changed by the **Companies**' management at some point in the future as part of the normal management of the business. Such future changes will be subject to the **Companies**' internal governance frameworks, including in relation to regulatory obligations regarding **Treating Customers Fairly (TCF)**.

I have considered whether provisions from any previous schemes relating to any of the groups of policyholders are affected by the **Transfer**. These **Existing Schemes** are either transferred or maintained under the **Transfer**. Within my analysis, I have paid particular attention to the **Reliance Mutual Scheme** (as defined in Section 3 of my main **Report**), which was another transfer scheme and defines restrictions and protections on **Existing Utmost Life and Pensions Policies**.

5. Non-Transfer related considerations

In parallel with the Part VII transfer process, **ELAS** is performing a **Scheme of Arrangement** under Part 26 of the **Companies Act 2006** to convert the majority of its with-profits business to unit-linked business, removing some of the risks associated with managing a book of with-profits policies. The **Scheme of Arrangement** covers with-profits policies sold under UK and Irish law, but those sold under German law are excluded. I am not required to opine on the appropriateness or fairness of the **Scheme of Arrangement** in my **Report**s as another actuary independent of **ELAS** (the **Policyholder Independent Expert**) has been appointed to opine on that process. The conclusions set out in my **Report**s are based on the assumption that the **Scheme of Arrangement** will be sanctioned by the **Court** and implemented immediately prior to the **Transfer** taking effect, a condition required prior to implementation of the **Transfer**. It also assumes that a vote by **ELAS** policyholders at an Extraordinary General Meeting ("**EGM**") on membership rights is passed. Should the **Scheme of Arrangement** not go ahead, or the vote is not passed, the **Transfer** will not be implemented. In that situation, all conclusions and opinions in my **Report**s will not be relevant and my **Report** will not be considered by the **Court**. I note that the **Scheme of Arrangement** and the **Transfer** are inter-dependent, therefore the **Scheme of Arrangement** and the **Transfer** will only be implemented if both are approved by the **Court**.

At the time of writing, it is unclear what the impact of the UK leaving the **European Union** ("**EU**") will be on UK insurance regulation. This process is widely referred to within the UK as "**Brexit**". My **Report** assumes that **Solvency II**, the UK Insurance Industry's current solvency regime, continues to apply, as there is nothing to suggest that any changes will be made after the UK leaves the **EU**.

Irish and German regulators, the Central Bank of Ireland ("**CBI**") and the Federal Financial Supervisory Authority (more commonly known by its German abbreviation, "**BaFin**"), have indicated a grandfathering period of 3 years and 21 months from the **Brexit** effective date, respectively, meaning that UK insurers can continue to receive premiums from and pay claims to non-UK policyholders in this period. My **Report** does not consider the options available to **Utmost Life and**

Pensions at the end of the grandfathering period. If there is a requirement to transfer the policies remaining in **ELAS**, which were sold under Irish or German law, to a **European Union** domiciled entity after this point, this will be subject to a review by an **Independent Expert** appointed to opine on that specific transfer at that time, and is therefore outside the scope of my opinion.

6. Benefit Security

Another key aspect of my considerations is the security of benefits. I would be concerned if the **Transfer** meant that some policies move from a financially strong company to a weak one which has a significant chance of not honouring its obligations to policyholders.

The **Regulators** are responsible, amongst other things, for the supervision of UK authorised insurance companies. Each of the **Companies** are managed to meet or exceed minimum capital requirements set out in regulations. These set a common standard – for example, the **Solvency Capital Requirement** is to ensure that a company has enough capital to continue to meet its best estimate of the policyholder liabilities following the most onerous event or combination of events of a severity expected to occur only once in every 200 years. Based on my review, I confirm that there is expected to be a surplus in **ELAS** and **Utmost Life and Pensions** in excess of the regulatory requirements immediately following the **Transfer**. For **ELAS**, the post-**Transfer** regulatory capital requirement is the **Minimum Capital Requirement** (**MCR**). For **Utmost Life and Pensions**, this is the **Solvency Capital Requirement** (**SCR**).

I consider the comparison of indicative solvency ratios, such as the ratio of assets less liabilities to regulatory capital requirements (the **Capital Coverage Ratio**), to be a useful indicator of the immediate impact of the **Transfer** on the level of benefit security provided to policyholders. Where these ratios increase, it might imply, other things being equal, more security for the policyholders immediately following the **Transfer**. The **Companies** have estimated these ratios on a **Solvency II** basis, and I have considered these in forming my opinion, having reviewed significant changes for reasonableness.

6.1. Overview of solvency information

The estimated impact of the **Transfer** on the **Solvency II Capital Coverage Ratio** is presented in the figures in Table 6.1 below, with a more detailed breakdown given in Appendix 6 of my main **Report**.

As stated above, I consider the use of solvency ratios, such as the **Capital Coverage Ratio,** "pre" and "post" the **Transfer** to be a useful indicator of the immediate impact of the **Transfer** on the level of benefit security provided to policyholders. The figures in the below table provide solvency information for **ELAS** and **Utmost Life and Pensions** both pre- and post-**Transfer:**

Table 6.1 Estimated Impact of the Transfer on Solvency II capital position as at 31 December 2018 for ELAS and Utmost Life and Pensions

£m	Pre-Transfer		Post-Transfer	
	Pre-SoA[1] ELAS	Utmost Life and Pensions	ELAS	Utmost Life and Pensions
Assets	6,004	1,627	73	7,641
Reinsurance	365	(15)	8	341
Total Assets	**6,369**	**1,611**	**82**	**7,982**
Technical Provisions	5,497	1,478	78	7,682
Other liabilities	214	-	-	-
Total Liabilities	**5,711**	**1,478**	**78**	**7,682**
Own Funds[2]	**658**	**134**	**4**	**300**
Eligible Own Funds	**658**	**115**	**4**	**285**
Solvency Capital Requirement	413	65	2	190
Minimum Capital Requirement	125	21	3	63
Capital Coverage Ratio[3]	**159%**	**178%**	**125%**	**150%**

Source: Financial analysis provided by the Companies

The estimated impact of the **Transfer** on the solvency position for policyholders has been determined with reference to conditions as at 31 December 2018 for **ELAS** and **Utmost Life and Pensions**, as shown in Table 6.1.

I have no reason to believe the impact of the **Transfer** will be materially different at the planned **Implementation Date** (being 1 January 2020) but will continue to review this position in advance of the **Sanction Hearing** where the **Transfer** will be put to the **Court** for approval. I will report upon any changes in my **Supplementary Report**.

While the immediate impact of the **Transfer** is an important consideration in my assessment, I believe it to be arguably more important to consider the expected level of capital held in the longer term. Companies will usually choose to hold a level of capital in excess of minimum regulatory capital requirements, so that they can continue to meet them after suffering losses during adverse conditions. The **Companies**' approaches to accepting and managing risk are set out in their capital policies which include minimum and, in the case of **Utmost Life and Pensions**, target levels of capital coverage which they aim to meet. These minimum and target levels exceed the regulatory minimum requirements, providing additional security for policyholders. For solvency management, these thresholds are effectively the biting constraint (i.e. the factor which would, for example, limit dividend payments) and I have placed considerable weight on these in reviewing policyholder security.

I have considered the ability of both **ELAS** and **Utmost Life and Pensions** to meet the minimum and target **Capital Coverage Ratios** following the **Transfer** and the relative strengths of the **ELAS** and **Utmost Life and Pensions** minimum capital levels applicable before and after the **Transfer.**

[1] Scheme of Arrangement abbreviation

[2] 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.

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

The capital policies of the **Companies** are described in detail in Section 5 of my main **Report**. These provide protection for policyholders against the risk of their benefits not being paid.

I also consider any "contagion" risk introduced to **Transferring Policyholders** and **Existing Utmost Life and Pensions Policyholders** as a result of the **Transfer**.

6.2. Transferring Policyholders

On the basis of the analysis below, I am satisfied that the **Transfer** will not have a materially adverse effect on the benefit security of the **Transferring Policyholders**.

Table 6.1 shows that, had the **Transfer** taken effect on 31 December 2018, **Utmost Life and Pensions** post-**Transfer** would have had a lower **Capital Coverage Ratio** than **ELAS** pre-**Scheme of Arrangement**, with coverage falling from 159% to 150%. This post-**Transfer Capital Coverage Ratio** is achieved through an injection of capital from Utmost Life and Pensions Holdings Limited, the parent company of **Utmost Life and Pensions** immediately prior to the **Transfer**, a condition of the **Scheme of Arrangement.**

The analysis indicates that, had the **Transfer** been effective as at 31 December 2018, the **Transferring Policies** would have continued to be held in a company with capital that represents an excess over the **Solvency II** regulatory capital requirements and that is in line with the capital targets under the existing **ELAS** Capital Policy immediately following the implementation of the **Transfer**.

Although the **Capital Coverage Ratio** for **Utmost Life and Pensions** post-**Transfer** is lower than that for **ELAS**, pre-**Scheme of Arrangement**, I do not believe this materially adversely affects the benefit security of **Transferring Policyholders** for the reasons set out in 6.1.

The **ELAS** Capital Policy and the **Utmost Life and Pensions** Capital Policy govern the management of capital and risks within the relevant company now and in the future, as described in Section 5 of my main **Report**. As a consequence of the **Transfer**, the **Utmost Life and Pensions** Capital Policy will apply for all **Transferring Policies** and I consider the effect of this on the benefit security of these policyholders below.

The **Utmost Life and Pensions** target **Capital Coverage Ratio** is consistent with that of **ELAS**: 150%. Given the **Utmost Life and Pensions** target **Capital Coverage Ratio** of 150% of SCR is the "biting" constraint on the payment of dividends and subordinated debt, I do not believe that the change from the **ELAS** Capital Policy to the **Utmost Life and Pensions** Capital Policy will adversely affect the **Transferring Policyholders**. **Utmost Life and Pensions** has also set a minimum **Capital Coverage Ratio** of 135% of SCR, below which management actions may be taken to recover the level of solvency.

In addition, I note that **Utmost Life and Pensions** has the ability to raise capital through the issuance of debt in line with its capital policy. This can be either from external investors or through its parent company, Utmost Life and Pensions Holdings Limited, part of the **Utmost Group of Companies**. In April 2018, **Utmost Life and Pensions** (formerly known as **Reliance Life**) received a loan from its parent company, the **Utmost Group of Companies**, to maintain a **Capital Coverage Ratio** of over 150% of SCR following the acquisition of **Reliance Mutual**. The loan is subordinated debt that does not have to be repaid in the event that **Utmost Life and Pensions' Capital Coverage Ratio** is lower than 150% of SCR. Further details are set out in Section 5 of my main **Report**. I consider that access to such capital support, although not guaranteed, provides a further degree of security in the event of a future shortage of capital, in addition to that provided by the **Capital Coverage Targets** of **Utmost Life and Pensions** itself. **ELAS** currently has no external capital support arrangements in place given its status as a mutual insurer.

While the relative strength of these capital policies is a key factor in the consideration of the impact of the **Transfer** on the **Transferring Policies**, I have also considered other qualitative elements of the capital policies and any impact of the **Transfer** on the ability of **Utmost Life and Pensions** to meet its capital requirements on an ongoing basis. In the event that **Utmost Life and Pensions** was unable to meet its capital target under the **Utmost Life and Pensions** Capital Policy, it would be required to undertake actions to return to a position under which it could meet this target. This includes limits on the ability for capital to be removed from **Utmost Life and Pensions**, such as through the payment of dividends to its parent. Such protections have allowed me to place emphasis on the strength of the relevant capital targets in **Utmost Life and Pensions**.

As discussed in Section 5 of my main **Report**, any future changes to the **Utmost Life and Pensions** Capital Policy must be approved by the **Utmost Life and Pensions Board**. Pre-**Transfer**, **ELAS** follows a similar governance process, requiring capital policy updates to be approved by the **ELAS Board**. I recognise that the focus of the **ELAS** and **Utmost Life and Pensions** Boards could be considered to be different, with **ELAS** making decisions only in respect of policyholders, whereas **Utmost Life and Pensions** has to consider both policyholders and shareholders.

When considering the relative strength of the capital policies, it is also important to consider the differences in the corporate structures of the **Companies** and, particularly, the difference between a mutual and proprietary company. In particular:

- in a mutual, such as **ELAS**, all assets are ultimately expected to be distributed to policyholders (with the exception of assets required to meet the MCR prior to de-authorisation of the company). **ELAS** achieves this distribution by means of an enhancement to the claim value of with-profits policies, a bonus that is only paid out when a policyholder claims. Until that point, the assets remain within **ELAS** and it has the ability to amend the expected level of future bonuses should it need to improve its solvency position. This flexibility of distribution could be considered to provide additional benefit security to the policyholders. However, as a mutual, **ELAS** is unlikely to be readily able to raise capital from external sources; and

- in contrast, in a proprietary company, such as **Utmost Life and Pensions**, assets over and above the target **Capital Coverage Ratio** have the potential to be distributed by the company in the form of dividends. If such a dividend were to be paid, these assets would no longer be available to support policyholder benefits. This could be interpreted as representing a lower level of policyholder security than were the assets to be retained in the company. However, this needs to be balanced by the fact that a proprietary company has a relatively greater ability to raise capital, for example through issuing debt or equity, which is not an option available to a mutual.

Given my review of the governance frameworks in both **ELAS** and **Utmost Life and Pensions** I am satisfied that any changes to the **Utmost Life and Pensions** Capital Policy in the future will go through a governance process which will provide review and challenge for the following reasons:

- the members of both Boards include **Senior Managers** (i.e. individuals who have been approved by the **FCA** and/or **PRA** to perform such a role, and are certified under the **Senior Managers and Certification Regime**);

- additionally, both **Companies** are overseen by the **FCA**, and therefore bound by the same regulations and guidance with regards to conduct related matters, including **Treating Customers Fairly**, therefore the approval of any changes by the Boards of **ELAS** and **Utmost Life and Pensions** would be expected to pay due regard to the fair treatment of policyholders; and

- further, **Utmost Life and Pensions** has an established practice of setting and maintaining the **Utmost Life and Pensions** Capital Policy, and therefore has knowledge and understanding of the Board’s role in managing such a policy.

The following key considerations relate to the level of "contagion risk" that the **Transferring Policyholders** are exposed to i.e. that losses in another part of **Utmost Life and Pensions** impact their benefit security. Taking account of these, I am satisfied that the **Transfer** is not likely to materially adversely impact the benefit security of these policyholders:

- although the **Transfer** will lead to the **Transferring Policyholders** being exposed directly to the risks within **Utmost Life and Pensions**, benefits would only be theoretically at risk of being reduced in the extreme event of the insolvency of **Utmost Life and Pensions**. Such an event is of low likelihood as a result of the existence of the **Utmost Life and Pensions** Capital Policy and the availability of support from its parent, the **Utmost Group of Companies**;

- in accordance with the **Reliance Mutual Scheme**, the **ULP NPF** is required to provide capital support in the event that any WPSF is unable to meet its own regulatory requirements. Support to cover a shortfall of assets compared to liabilities would be provided in the form of a contingent loan. Support to cover a shortfall compared to the capital requirements (including solvency capital) will be provided in the form of a notional allocation of capital in the **ULP NPF**. In the event that providing such capital support would result in the **ULP NPF** being unable to meet its own capital requirements, management would ensure that this did not remain the case for more than six months. This is in line with the **Utmost Life and Pensions** Capital Policy, detailed in Section 5 of my **Report**; and

- the **Utmost Life and Pensions WPSFs** are managed to distribute all surplus, defined as assets in excess of guaranteed liabilities, in each of the **WPSFs**. In the event that any **WPSF** falls below its target capital there are management actions that could be taken to reduce the cost of the risks borne by the fund in question, with the aim of restoring the capital position. These actions would be taken before support is sought from the **ULP NPF** therefore these reduce the likelihood that a **WPSF** would require support from the **ULP NPF**.

Taking account of these, which I consider to be events of low likelihood, I am satisfied that the **Transfer** is not likely to materially adversely impact the benefit security of these policyholders.

6.3. Non-Transferring Policyholders

On the basis of the analysis below, I expect to conclude that I am satisfied that the **Transfer** will not have a materially adverse effect on the benefit security of the **Non-Transferring Policyholder**s; however, my conclusions in respect of the proposed level of assets to remain in **ELAS** after the **Transfer** are outstanding, and will be reflected in my **Supplementary Report**.

For the **Non-Transferring Policies**, the **Transfer** requires a minimum of the higher of the 125% of the **Minimum Capital Requirement (MCR)** and 150% of the **Solvency Capital Requirement (SCR)** to be retained in **ELAS** at the **Implementation Date,** in line with the proposed **ELAS** Capital Policy. Had the **Transfer** been implemented on 31 December 2018, the **MCR** (€3.7m, equivalent to £3.3m converted at the **EIOPA** specified exchange rate, which is greater than 150% of the **SCR**, £3.1m) would have been the biting scenario.

The analysis indicates that, had the **Transfer** been effective as at 31 December 2018, the **Non-Transferring Policies** would have continued to be held in a company with capital that represents an excess over the **Solvency II** regulatory capital requirements, in line with the capital targets under the **ELAS** Capital Policy immediately following the implementation of the **Transfer**. On an ongoing basis, **ELAS** will be managed in line with the revised **ELAS** Capital Policy, which will be updated in line with the **Utmost Life and Pensions** Capital Policy. Post-**Transfer**, the biting constraint on capital within **ELAS** is expected to be the 125% of **MCR** condition.

As set out in section 5 of my main **Report**, both the **ELAS** Capital Policy and the **Utmost Life and Pensions** Capital Policy target levels of capital to be held in excess of the regulatory **Solvency II Solvency Capital Requirement**. The **Utmost Life and Pensions** Capital Policy has a two-tiered approach:

- 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 125% of MCR and 150% of **MCR** post-dividend payment.

It is worth noting that, at all times, **ELAS** must hold sufficient capital to meet the minimum **MCR**. The **MCR** is a fixed amount (€3.7m) specified by **EIOPA** and currently exceeds 150% of **ELAS**'s **SCR**. It is expected to do so going forward as the **SCR** will run-off as the **ELAS** business runs off over time. Given this, it is expected that the 125% of **MCR** condition will remain the biting constraint on capital going forward, and will therefore be the level below which actions must be taken to restore the solvency position of **ELAS**. I would expect ELAS to have assets sufficient to meet the **MCR** on both the **Implementation Date** and in the period following the **Implementation Date** such that the proposed post-Scheme **ELAS** Capital Policy and regulatory requirements continue to be met. I will provide my conclusions regarding the appropriateness of this minimum level of capital for the **Non-Transferring Policyholders** in my **Supplementary Report**.

In addition, another consideration is that **Utmost Life and Pensions** is able to seek external capital both from its investors and through its parent company, Utmost Life and Pensions Holdings Limited, whereas **ELAS**, as a mutual insurer prior to the **Transfer**, does not have access to such capital support arrangements. This is a potential benefit to the post-**Transfer ELAS** entity, which will be a subsidiary of **Utmost Life and Pensions** from the **Implementation Date**.

There are no changes to the governance of the **ELAS** Capital Policy, with the Board of **ELAS** required to approve any changes to the **ELAS** Capital Policy before these are effective.

My conclusions with respect to the level of assets to remain in **ELAS** and the appropriateness of the proposed minimum **Capital Coverage Ratio** post-**Transfer** remain outstanding; however, I am satisfied that the other changes to the **ELAS** Capital Policy **Transfer** are not likely to materially adversely impact the benefit security of these policyholders.

6.4. Existing Utmost Life and Pensions Policyholders

On the basis of the analysis below, I am satisfied that the **Transfer** will not have a materially adverse effect on the benefit security of the **Existing Utmost Life and Pensions Policyholders**.

Table 6.1 shows that, had the **Transfer** taken effect on 31 December 2018, **Utmost Life and Pensions** post-**Transfer** would have had a lower **Capital Coverage Ratio** than pre-**Transfer**, with coverage falling from 178% to 150%, with a capital injection required from Utmost Life and Pensions Holdings Limited to achieve the post-**Transfer** capital coverage. Had the **Transfer** been effective as at 31 December 2018, **Utmost Life and Pensions** would have continued to hold capital that represents an excess over the **Solvency II** regulatory capital requirements and would have met its capital targets under the **Utmost Life and Pensions** Capital Policy immediately following the implementation of the **Transfer**. As noted in 6.2, this post-**Transfer Capital Coverage Ratio** is achieved through an injection of capital from Utmost Life and Pensions Holdings Limited, the parent company of **Utmost Life and Pensions**, a condition of the **Scheme of Arrangement**.

Although the **Capital Coverage Ratio** for **Utmost Life and Pensions** post-**Transfer** is lower than that pre-**Transfer**, I do not believe that this materially adversely affects the benefit security of **Existing Utmost Life and Pensions Policyholders** for the reasons set out in 6.1.

Following the **Transfer**, the **Capital Coverage Ratio** targeted under the **Utmost Life and Pensions** Capital Policy, as set out in Section 5 of my main **Report**, will not be changed by the **Transfer**. Specifically, neither the minimum or target **Capital Coverage Ratio** nor the governance related to changing or resolving a breach of these targets will change as a result of the **Transfer**. **Existing Utmost Life and Pensions Policyholders** will continue to have a level of ongoing security targeted above that of the regulatory requirements.

The **Transfer** does not change the existing capital support mechanisms in place for the **Utmost Life and Pensions WPSFs**. Immediately following the **Transfer**, the level of capital available to support these funds is unchanged and there will be no changes to the conditions under which this capital is made available. I would not have expected these support arrangements to have changed as a result of the **Transfer**.

In the event that the **Transfer** is approved, the **Existing Utmost Life and Pensions Policyholders** will be fully exposed to the risks associated with the **Transferring Policies**. The **Scheme of Arrangement**, which will be implemented immediately prior to the **Transfer**, reduces some of the more material risks associated with the **Transferring Policies**, such as investment risk, which is passed to the **Transferring Policyholders** following conversion of their policies from with-profits to unit-linked, reducing the **Existing Utmost Life and Pensions Policyholders'** potential exposure to these risks. The remaining risks associated with the **Transferring Policies** will alter the extent to which policyholders in **Utmost Life and Pensions** are exposed to "contagion" risk, whereby losses in another part of **Utmost Life and Pensions** could impact their benefit security. Based on my analysis in my main **Report**, I expect the risk of an adverse impact on the benefit security of **Existing Utmost Life and Pensions Policyholders** to be of low likelihood.

Such an impact would only occur in the event that **Utmost Life and Pensions** was unable to meet its regulatory capital requirements. The purpose of the **Utmost Life and Pensions** Capital Policy is to maintain a level of capital in excess of the capital requirements in order to minimise this risk. The level of capital specified by the **Utmost Life and Pensions** Capital Policy includes a target based on a percentage of the **Solvency II Solvency Capital Requirement**, which, in turn, is based on the risks to which **Utmost Life and Pensions** is exposed. Changes in the risk profile resulting from the **Transfer** are reflected in the underlying **Solvency II Solvency Capital Requirement** and the **Utmost Life and Pensions** Capital Policy target. The extent of change in contagion risk is limited, provided **Utmost Life and Pensions** can meet the target under its capital policy. As discussed above, **Utmost Life and Pensions** is expected to be able to meet its capital target whether the **Transfer** is approved or not. Analysis provided by **Utmost Life and Pensions** indicates that the risk profile of **Utmost Life and Pensions** is not significantly changed by the approval of the **Transfer**.

6.5. Conclusion

I am satisfied that the **Transfer** will not materially adversely impact the benefit security of any group of policyholders.

7. Policy Benefit Expectations

In considering policyholder benefit expectations, I would be concerned if the **Transfer** was likely to materially adversely affect the level of benefits expected to be paid under any policy, but I have concluded that this is not the case for the **Transferring** and **Existing Utmost Life and Pensions Policyholders**. In addition, I am satisfied that this is not the case for the **Non-Transferring Policyholders**, with the exception of the proposed changes to the investment strategy for the **UK-style German With-Profits Policies**, which has not yet been finalised, and therefore I have been unable to conclude on.

I confirm that for all groups of policyholders the **Transfer** does not change the:

- value of any policy, with the exception of **UK-style German With-Profits Policies** in the new **German With-Profits Fund**, which will be allocated their uplift to their policy value through the **Transfer**, rather than the **Scheme of Arrangement**;
- death, maturity or other contingent benefit payable under any policy;
- surrender value of any policy;
- premiums payable under any policy;

- current or expected level of charges under any policy, with the exception of those applying to the **UK-style German With-Profits Policies** in the new **German With-Profits Fund**, which will change as a result of the **Transfer**;

- asset mix underlying any policy or the minimum range of investment choices available, with the exception of assets backing the **UK-style German With-Profits Policies** in the new **German With-Profits Fund**, which are expected to change following the **Transfer**;

- range of options available under any policy and any guarantees included in the contract (including Guaranteed Annuity Rates and Guaranteed Minimum Pensions);

- charges made for tax under any policy, or their eligibility for any favourable tax treatment; and

- terms and conditions of any policy.

As detailed in 7.2, and in section 7 of my main **Report**, I do not consider the above changes to the **UK-style German With-Profits Policies** to materially adversely affect the holders of these policies, but note that aspects of the changes, including the proposed investment management of the **German With-Profits Fund**, are still under discussion and I will provide an update on these in my **Supplementary Report**.

I note, for completeness, that a number of these policy features will be altered as a result of the **Scheme of Arrangement** that will be effected immediately before the **Transfer**. The fairness of these changes has been considered by the **Policyholder Independent Expert** and is therefore not in scope of my **Report**.

I would be concerned if the **Transfer** were to lead to a change in the governance arrangements in place to protect the interests of policyholders where there is significant discretion in relation to the level of their benefits (such as the process for setting with-profits bonuses, or changing the levels of charges to unit-linked funds).

I am satisfied that the **Transfer** will not materially change the governance arrangements for **Transferring and Non-Transferring Policyholders** of **ELAS** or **Existing Utmost Life and Pensions Policyholders**, since:

- both the **Companies** comply with **FCA** requirements around unit-linked and with-profits business that ensure the fair treatment of policyholders and this will not change as a result of the **Transfer**;

- Schedule 2 to the **Transfer** sets out a suite of protections in place in respect of the **Transferring** and **Non-Transferring Policyholders**; and

- **Utmost Life and Pensions** has a policy on non-profit discretion and a Fair Customer Outcomes Governance Committee in place to ensure the fair treatment of non-profit policyholders which will cover the **Transferring Policyholders** as well as **Existing Utmost Life and Pensions Policyholders**.

Notwithstanding the differences in responsibilities of the **ELAS** and **Utmost Life and Pensions Boards**, the remits of the Boards of **ELAS** and **Utmost Life and Pensions** in relation to managing the **Transferring Policies** are similar, with both Boards having a number of experienced individuals on them, so there is nothing to suggest that the level of challenge or process for challenging any material changes will differ. In addition, the members of both Boards include **Senior Managers** (i.e. individuals who have been approved by the **FCA** and/or **PRA** to perform such a role, and are certified under the **Senior Managers and Certification Regime**). Further, both **ELAS** and **Utmost Life and Pensions** have an established practice of setting and maintaining their respective capital policies and other internal governance policies.

7.1. Transferring Policyholders

The majority of the **Transferring Policies** will be unit-linked pension policies (group and individual, some of which were with-profits policies prior to the **Scheme of Arrangement**) and protection policies, with the remainder constituting non-linked, non-profit annuities in payment and both unit-linked and non-linked bonds.

Taking account of the following considerations, I am satisfied that the **Transfer** will not materially adversely affect the benefit expectations of the holders of the **Transferring Policies**.

For the reasons set out below, I am satisfied that the **Transfer** does not have a material adverse impact on the benefit expectations of the **Transferring Policyholders** with **unit-linked policies**:

- the benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The **Transfer** does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. Schedule 2 of the **Transfer** sets out maximum Annual Management Charges which can be applied to the **Transferring Policies** following the **Transfer**. No additional charges, other than those currently applied to the policies in line with the policy terms and conditions, are permitted to be applied to these policies after the **Transfer**;

- the **Transfer**, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund. As part of the **Scheme of Arrangement**, a new Investment Manager, JP Morgan Asset Management, has been appointed to provide the unit-linked funds for the policyholders in scope of the **Scheme of Arrangement**, in addition to **ELAS**' existing Investment Manager, Aberdeen Standard Investments. This has been considered by the **Policyholder Independent Expert** as part of his considerations of the **Scheme of Arrangement**;

- following the **Implementation Date**, JP Morgan Asset Management will also manage all new unit linked assets, including those for policies that were unit-linked prior to the **Scheme of Arrangement**. This means that, if new premiums are paid by existing unit-linked policyholders after the **Transfer**, and if total premium income is greater than the unit-linked outflows (claims and charges) in that particular period, the net premiums will be invested in JP Morgan Asset Management. If outflows are greater than income, these premiums will be invested in the existing Aberdeen Standard Investments funds. The JP Morgan Asset Management funds will be similar to those funds currently offered by Aberdeen Standard Investments, and the unit price will reflect the mix of investments, therefore unit-linked policyholder expectations will continue to be met; and

- the value of each policy's unit holdings will be unchanged by the **Transfer**, and the **Transfer** will not change the unit-pricing principles and basis for **Transferring Policies**.

For completeness, I note that a number of the **Transferring Policyholders** with unit-linked benefits previously had with-profits benefits which were converted to unit-linked as part of the **Scheme of Arrangement** effected immediately prior to the **Transfer**. Consistent with the rest of my **Report**, I have not considered the conversion from with-profits to unit-linked, as the fairness of this has been opined on by the **Policyholder Independent Expert**.

For the reasons set out below, I am satisfied that the **Transfer** does not have any effect on the benefit expectations of the **Transferring Policyholders** with non-profit policies:

- non-profit policies have guaranteed benefits and specified premiums, and these do not change under the **Transfer**. There will also be no change to the terms and conditions of these policies; and

- some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the **Transfer**.

For the reasons set out below, I am satisfied that the **Transfer** does not have a material adverse impact on the benefit expectations of the **Transferring Policyholders** who are members of group scheme policies:

- the group schemes operate in a similar manner to unit-linked business and so the conclusions in respect of unit-linked policies also apply here. There will also be no change to the terms and conditions of these schemes.

The change in the **Articles of Association**, effected following a positive vote at the **EGM**, will remove the membership rights of those **Transferring Policyholders** who are members of **ELAS** prior to the **Implementation Date** and grant sole membership to **Utmost Life and Pensions**. (Note that not all **Transferring Policyholders** are members.) Therefore, the **Transfer**, of itself, does not change the membership rights of any **Transferring Policyholder**. As the transfer of membership rights to **Utmost Life and Pensions** is a prerequisite for the **Scheme of Arrangement**, the fairness of this has been considered by the **Policyholder Independent Expert** as part of his report and is therefore out of scope of my **Report**.

7.2. Non-Transferring Policyholders

The **Non-Transferring Policies** comprise policies sold under Irish or German law:

- unit-linked pension policies and bonds (some of which were with-profits policies prior to the **Scheme of Arrangement**) and protection policies;

- non-linked, non-profit temporary assurances, deferred annuities and annuities in payment; and

- a small number of **UK-style German With-Profits Policies** and **German-style German With-Profits Policies** which were originally sold under German law, and were excluded from the **Scheme of Arrangement**.

Taking account of the following considerations, I am satisfied that the **Transfer** will not materially adversely affect the benefit expectations of the holders of the **Non-Transferring Policies**, but note that my conclusions in respect of the proposed investment strategy for the **UK-style German With-Profits Policies** is still outstanding. The conclusions will be included in my **Supplementary Report**.

For the reasons set out below, I am satisfied that the **Transfer** does not have a material adverse impact on the benefit expectations of the **Non-Transferring Policyholders** with **unit-linked policies**:

- the benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The **Transfer** does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. Schedule 2 of the **Transfer** sets out maximum Annual Management Charges which can be applied to the **Transferring** and **Non-Transferring Policies** following the **Transfer**. No additional charges, other than those currently applied to the policies in line with the policy terms and conditions, are permitted to be applied to these policies after the **Transfer**;

- the **Transfer**, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund;

- after the **Implementation Date**, JP Morgan Asset Management will manage all new unit-linked asset investments. This means that, if new premiums are paid by existing unit-linked policyholders after the **Transfer**, and if total premium income is greater than the unit-linked outflows (claims and charges) in that particular period, the net premiums will be invested in JP Morgan Asset Management funds. If outflows are greater than income, these premiums will be invested in the existing Aberdeen Standard Investments funds. The JP Morgan Asset Management funds will be similar to those funds currently offered by Aberdeen Standard Investments, and the unit price will reflect the mix of investments, therefore unit-linked policyholder expectations will continue to be met; and

- the value of each policy's unit holdings will be unchanged by the **Transfer**, and the **Transfer** will not change the unit-pricing principles and basis for **Non-Transferring Policies**.

For completeness, I note that a number of the **Non-Transferring Policyholders** with unit-linked benefits previously had with-profits benefits which were converted to unit-linked as part of the **Scheme of Arrangement** effected immediately prior to the **Transfer**. Consistent with the rest of my **Report**, I have not considered the conversion from with-profits to unit-linked, as the fairness of this has been opined on by the **Policyholder Independent Expert**.

For the reasons set out below, I am satisfied that the **Transfer** does not have any effect on the benefit expectations of the **Non-Transferring Policyholders** with **non-profit policies**:

- non-profit policies have guaranteed benefits and specified premiums, and these do not change under the **Transfer**. There will also be no change to the terms and conditions of these policies; and

- some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the **Transfer**.

For the reasons set out below, I am satisfied that the **Transfer** does not have a materially adverse effect on the benefit expectations of the **Non-Transferring Policyholders** with **with-profits policies**:

- following implementation of the **Transfer**, the **UK-style German With-Profits Policyholders** will share only in the profits and losses of the **German With-Profits Fund**. However, the **UK-style German With-Profits Policyholders** will receive an uplift to their policy, which reflects their fair share of the **Estate** of **ELAS** following the **Scheme of Arrangement**. This is effected through the **Transfer**, as the **UK-style German With-Profits Policyholders** do not participate in the **Scheme of Arrangement**. The fairness of the uplift has been opined on by the **Policyholder Independent Expert** and is therefore out of scope of my **Report**. No such uplift will be applied to the **German-style German With-Profits Policies** in line with their terms and conditions and past practice;

- following the **Transfer**, there will be limited smoothing of policy values on payout, with unsmoothed asset share being used on claim, and smoothing applied only in more extreme scenarios. These extreme scenarios would be scenarios whereby continuing to pay unsmoothed asset share would be unfair to either the policyholder leaving the fund or those remaining in the fund. Any smoothing for these scenarios could enhance or reduce payouts, but would be neutral to the **German With-Profits Fund** over time. I consider this to be fair to this group of policyholders as this lack of future smoothing has enabled **ELAS** to maximise the primary uplift values, and the **UK-style German With-Profits Policyholders** have benefited from this through their uplift. Given that the surplus considered to be attributable to these policyholders by the **Policyholder Independent Expert** has been distributed through the uplift to be applied to the policy values on the **Implementation**

Date, limited surplus is expected to be available and to arise in such a small fund, with a very small number of policyholders, therefore there would be a constraint on the ability to smooth. There are no changes to the smoothing applied to the **German-style German With-Profits Policies** following the **Transfer**, which are more similar in nature to **non-profit policies**;

- the 0% investment guarantees attached to some of the **UK-style German With-Profits Policies** will be met by the **ELAS** Main Fund, by way of an inter-fund reinsurance arrangement between the **German With-Profits Fund** and the **ELAS** Main Fund, as set out in Schedule 3 of the **Transfer**. If economic conditions are such that these guarantees become more expensive to provide for, a charge may be applied to the with-profits policies to cover the cost of paying these benefits. In line with Schedule 2 (Part B) of the **Transfer**, any guarantee charge will be capped at 0.5% per annum, and will be agreed on by the **ELAS Chief Actuary** and **With-Profits Actuary**. Given that these guarantees are not currently onerous, and that the uplift to be applied to the policies will reduce the expected cost of the Investment Guarantees, I consider the likelihood of this charge being applied to these policyholders as being low. The investment guarantees on the **German-style German With-Profits Policies** will continue to be met through continuation of the existing asset and liability cash flow matching investment strategy, in line with current practice, and no charge will be applied to these policies. The Guaranteed Annuity Rate ("GAR") attached to some policies will also be met by the **ELAS** Main Fund, under the same inter-fund reinsurance arrangement described above, but no guarantee charge will be taken for this benefit in line with the **Transfer** under any conditions;

- the investment strategy underlying the **UK-style German With-Profits Policies** in the **German With-Profits Fund** is expected to change to invest assets in a managed fund denominated or priced in Euros. At the time of writing, this is expected to be Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies with a currency hedge implemented to reduce the currency risk exposure. I will provide an update on this as part of my **Supplementary Report**. The investment strategy for the **German-style German With-Profits Policies** will remain unchanged;

- the **Transfer** specifies a fixed charge of 0.75% per annum to be applied to the **UK-style German With-Profits policies**. This charge can only be increased if certain conditions, specified in Schedule 2 to the **Transfer**, are met. In the event of any increase, the charge is capped at 1% per annum. This will help mitigate the expense risk associated with managing a very small fund in run-off. The charge structure for the **German-style German With-Profits Policies** will remain unchanged;

- the **German With-Profits Fund** is required to have its own **With-Profits Actuary** and **With-Profits Committee**. The scope of the role of the **Utmost Life and Pensions With-Profits Actuary** and the terms of reference of **Utmost Life and Pensions**' existing with-profits governance arrangements are expected to be extended to cover the **German With-Profits Fund** in **ELAS**. I believe this to be a reasonable approach given the size of the **German With-Profits Fund**; and

- I have taken comfort in the fact that the current **With-Profits Actuary** of **ELAS**, who knows the business and the past practices regarding the treatment of both the **UK-style** and **German-style German With-Profits Policyholders**, has concluded that the benefit expectations of the **German With-Profits Policyholders** are not materially adversely affected, although I have not placed reliance on her conclusions and have formed my own conclusions throughout my **Report**.

The change in the **Articles of Association**, effected following a positive vote at the **EGM**, will remove the membership rights of all with-profits policyholders of **ELAS** (both **Transferring** and **Non-Transferring**) prior to the **Implementation Date** and grant sole membership **to Utmost Life and Pensions**. Therefore, the **Transfer**, of itself, does not change the membership rights of any **Non-Transferring** Policyholder. As the transfer of membership rights to **Utmost Life and**

Pensions is a prerequisite for the **Scheme of Arrangement**, the fairness of this has been considered by the **Policyholder Independent Expert** as part of his report and is therefore out of scope of my **Report**.

I note, however, that the **UK-style German With-Profits Policyholders** participate in the profits of **ELAS** through their policy terms and conditions, rather than their membership rights. The Part VII transfer will effect the restructure of the remaining **ELAS** business, with both the **UK-style** and **German-style German With-Profits Policyholders** being ring fenced in a new with-profits sub-fund in **ELAS**, the **German With-Profits Fund**. Given the investment strategy and proposed management of the fund, the emergence of surplus is expected to be minimal. Given that the **UK-style German With-Profits Policies** will be allocated an uplift to their policy value on the **Implementation Date**, which represents their share of the distributable assets in ELAS and essentially crystallises future surplus distributions, I do not believe this will materially adversely affect this group of policyholders. The **German-style German With-Profits Policyholders** do not currently participate in distributions of **ELAS**' distributable assets, as their benefits are linked to a specific pool of assets, and this will not change as a result of the **Transfer**. Any new distribution of surplus will not be guaranteed and is expected to be small given that all distributable assets in **ELAS** have been distributed in full through the **Scheme of Arrangement**; given the size of the remaining fund, a material level of surplus is not expected to arise. This will be documented in the new **German With-Profits Fund PPFM**.

7.3. Existing Utmost Life and Pensions Policyholders

The **Existing Utmost Life and Pensions Policies** include with-profits, unit-linked, annuities and other **non-profit policies**. The factors pertinent to the benefit expectations of policyholders in each category of business are substantially different, and have been considered separately in my analysis. This reflects the varying extents to which management discretion can play a part in determining the level of benefits payable.

Taking account of the following considerations, I am satisfied that the **Transfer** will not materially adversely affect the benefit expectations of the holders of the **Existing Utmost Life and Pensions Policies**.

For the reasons set out below, I am satisfied that the **Transfer** does not have any effect on the benefit expectations of the **Existing Utmost Life and Pensions Policyholders** with **with-profits policies**:

- there will be no change to the way in which discretionary benefits, such as regular and terminal bonuses, are calculated or the calculation of the "**asset shares**" which are as defined in the glossary of my main **Report**;

- the benefits payable on such with-profits policies can depend to an extent on the financial position of the fund in which they are held. As discussed in Section 5 of my main **Report**, the **Transfer** is not expected to have any impact on the financial position of the funds;

- the **Utmost Life and Pensions WPSFs** contain non-profit business. The **Transfer** will not change the funds in which this business is held or the ownership of profits arising on this business;

- the **Transfer** does not change the basis on which expenses are allocated to the **Utmost Life and Pensions WPSFs**. The costs of the **Transfer** will not be met, in any way, by these funds;

- the **Transfer** does not change the **Principles and Practices of Financial Management** ("**PPFM")** document for any of the **Utmost Life and Pensions WPSFs**; and

- more generally, the **Transfer** does not change who is responsible for the management of these policies or the processes by which these policies are managed. As a result, even where the benefits payable include a significant discretionary element, the **Transfer** will not change the approach taken by management to set this discretionary element.

For the reasons set out below, I am satisfied that the **Transfer** does not have any effect on the benefit expectations of the **Existing Utmost Life and Pensions Policyholders** with **unit-linked policies**:

- immediately after the implementation of the **Transfer**, the unit-linked policies in **Utmost Life and Pensions** will remain invested in the same unit-linked funds as previously, with the same number and value of units, and with the same range of fund choice available to them;

- the value of each policy's unit holdings will be unchanged by the **Transfer**, and the pricing principles used for each unit-linked fund will be unchanged by the **Transfer**. The level of fund charges will also be unchanged; and

- there will be no change to the investment mandates, charges or taxation of any unit-linked fund as a result of the **Transfer**. Any future changes by **Utmost Life and Pensions** to its investment management will be as part of its normal course of business and will go through its "business as usual" governance process, as it would have done prior to the **Transfer**.

For the reasons set out below, I am satisfied that the **Transfer** does not have any effect on the benefit expectations of the **Existing Utmost Life and Pensions Policyholders** with **non-profit policies**:

- the benefits payable under existing **non-profit policies** in **Utmost Life and Pensions** are fixed, or escalate with respect to inflation or at a fixed rate. The **Transfer** will have no effect on the benefits or premiums payable under any non-profit policy. The terms and conditions of the existing **non-profit policies** in **Utmost Life and Pensions** will not be changed by the **Transfer**; and

- the **Transfer** will not affect the current premium levels or charges of any **non-profit policies** with reviewable premiums or charges. Future reviews will continue in accordance with existing practice and having regard to **Treating Customers Fairly**.

The **Transfer** does not change the membership rights of any **Existing Utmost Life and Pensions Policyholders** who currently have membership rights.

7.4. Conclusions

I am satisfied that the **Transfer** will not materially adversely affect the benefit expectations of any group of policyholders.

8. Excluded Policies

The **Transfer** provides for any **Transferring Policies** which it is not possible to transfer to **Utmost Life and Pensions** at the **Implementation Date** (for legal, regulatory or other reasons) to be excluded from the **Transfer** (the **Excluded Policies**). This could happen, for example, if certain required approvals from non-UK regulatory bodies are not received in time for the liabilities to transfer as planned, or if the **Channel Islands Schemes** are delayed. Any **Excluded Policies** will be fully reinsured to **Utmost Life and Pensions** from the **Implementation Date**, allowing them to be treated as far as possible in the same way as if they had transferred under the **Transfer**.

I understand from the **Companies** that there are not expected to be any **Excluded Policies**. If there are, I am satisfied that the proposed treatment is fair to policyholders and that my conclusions in respect of the policyholders transferring under the **Transfer** apply equally to them. Many other schemes have used the same approach.

Although the **Non-Transferring Policyholders** are excluded from the **Transfer**, I have considered this group of policyholders separately throughout my **Report**, given that they will be permanently excluded from the **Transfer**. Given this, my considerations in relation to the **Transferring Policyholders** do not apply equally to them, unless otherwise stated in my **Report**.

9. Service standards

Under the **Transfer**, all policies, including those which transfer, will continue to be administered on the same underlying systems as now, by staff from the same company as currently. All staff of **ELAS** will transfer to **Utmost Life and Pensions Services Limited** under the **Transfer of Undertakings (Protection of Employment)** ("**TUPE"**) Regulations. They will be deployed by **Utmost Life and Pensions Services** to **ELAS** and **Utmost Life and Pensions** in line with the demands of the businesses, providing continuity of service to both the **Transferring** and **Non-Transferring Policyholders**. The service level standards to be provided by **ELAS** and **Utmost Life and Pensions** post-**Transfer** are set out in Schedule 2 to the **Transfer**. Accordingly, I am satisfied that there will not be any impact on the quality of administration services for any group of policyholders as a consequence of the **Transfer**, or to the costs they bear in this respect.

Utmost Life and Pensions has discussed with me its plans to ensure continuity of service and its ability to meet additional policyholder demands immediately after the **Transfer** has been implemented. At the time of writing, **Utmost Life and Pensions** is in the process of producing a capacity plan to demonstrate how any additional customer service support would be provided, in the event of an increase in policyholder enquiries and requests. Although I have not yet had sight of this, I am satisfied that **Utmost Life and Pensions** is giving consideration to the post-**Transfer** servicing demand immediately after the **Implementation Date**, with the objective of not adversely affecting policyholder servicing, and will provide an update on this in my **Supplementary Report**.

Following the **Transfer**, correspondence to **Transferring Policyholders** will use the **Utmost Life and Pensions** brand and the payee name on future payments to these policyholders will be changed. **Transferring Policyholders** will be directed to the **Utmost Life and Pensions** website which will be updated to include details relevant to **ELAS** business.

Correspondence to **Non-Transferring Policyholders** will retain the **ELAS** branding.

10. Investment management

The **Transfer**, of itself, will not change the investment management of the unit-linked funds for any policyholders, with the exception of new unit-linked assets invested in after the **Implementation Date**. Immediately following the **Transfer**, with the exception of these new unit linked assets, the existing unit-linked funds will continue to be performed by the same fund managers, using the same processes as are in place at the **Implementation Date**, and the funds will have the same investment mandates and objectives as now.

I note that, as part of the **Scheme of Arrangement**, a new fund Investment Manager, JP Morgan Asset Management, will be used to manage the new fund range set up for the **Transferring Policyholders** that are in scope of the **Scheme of Arrangement**, in addition to **ELAS**' existing Investment Manager, Aberdeen Standard Investments. The range of funds available to these policyholders has been considered by the **Policyholder Independent Expert** and is therefore out of scope of my **Report**. After the **Implementation Date**, JP Morgan Asset Management will manage all new unit-linked asset investments. This means that, if new premiums are paid by existing unit-linked policyholders after the **Transfer**, and if total premium income is greater than the unit-linked outflows (claims and charges) in that particular period, the net premiums will be invested in JP Morgan Asset Management. If outflows are greater than income, these premiums will be invested in the existing Aberdeen Standard Investments funds. The JP Morgan Asset Management funds will be similar to those funds currently offered by Aberdeen Standard Investments, managed using the same investment mandates, and the unit price will reflect the mix of investments, therefore unit-linked policyholder expectations will continue to be met.

Investment management of the **Non-Transferring Policies** is in line with that for the **Transferring Policies**, described above, with the exception of assets allocated to the new **German With-Profits Fund** in respect of the **UK-style German With-Profits Policies**. The investment strategy underlying the **UK-style German With-Profits Policies** is expected to change to invest assets in a managed fund denominated or priced in Euros. At the time of writing, this is expected to be Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies, with a hedge implemented to reduce policyholders' exposure to currency risk. I will provide an update on the proposed investment strategy in my **Supplementary Report**.

Over the longer term, the investment strategy, and the range of funds available to both **Transferring Policyholders** and **Existing Utmost Life and Pensions Policyholders** are expected to either remain unchanged or be expanded. Given that this decision would be made under the normal course of business, with consideration of policyholder impacts and ultimate sign-off from the **Utmost Life and Pensions Board**, I would not expect any changes to investment management in future to have a materially adverse effect on policyholders.

11. Tax considerations

I have discussed the potential tax implications of the **Transfer** with the **Companies** and have reviewed the clearances and confirmations that they are seeking from **HMRC**. I summarise my conclusions in Section 9 of my main **Report** and will provide a further update in my **Supplementary Report**. I am not aware of any likely material adverse tax effects of the **Transfer** or of any reasons why any such confirmations that remain outstanding should not be forthcoming.

12. Costs of the Transfer

The **ELAS With-Profits Fund** will bear **ELAS**'s share of the **Transfer** costs, which will be applied prior to the **Scheme of Arrangement** and **Transfer**. The **ULP NPF** will bear **Utmost Life and Pensions'** share of the **Transfer** costs. I consider this to be the most fair and reasonable approach in apportioning the costs, with each company paying for their respective costs and no costs being directly attributable to policyholders (noting that costs associated with the **Transfer** will reduce the amount available to be distributed as part of the uplift **to ELAS** with-profits policies).

As a company in run-off, **ELAS** is subject to the future risks and issues associated with long-term run-off, such as loss of economies of scale, with per policy costs therefore increasing. As a result, if the **Transfer** is not approved, the financial position of **ELAS** would be impacted by the costs incurred in preparing for the **Transfer**; however, analysis produced by **ELAS** indicates that this impact is not expected to materially adversely affect policyholder benefits or security. **ELAS** is monitoring regularly the cost of rolling back from the **Transfer** against its risk appetite framework and I have taken this into account when forming the conclusions in my **Report**.

13. Policyholder communications

The **Companies** will inform all groups of policyholders (subject to certain dispensations being sought as part of the **Court** process for the **Transfer**) about the **Transfer** through an explanatory booklet sent out as a direct mailing. The cover letter included in the mailing will be tailored for each group of policyholders and will direct them to relevant sections of the booklet, with other **ELAS** policyholders being directed to sections which are of relevance to them. The mailing will include details of the **Scheme of Arrangement** and the **EGM** vote, as well as the **Transfer**.

Utmost Life and Pensions Policyholders will receive a less detailed mailing that will instead guide policyholders to specific website content where further technical information can be easily obtained, and a contact for requesting additional printed material, free of charge. I have reviewed the proposed approach by which each of the **Companies** will communicate the **Transfer** in Section 11 of my main **Report** and am satisfied that it is reasonable.

14. Objections

Any policyholder who feels they will be adversely affected by the **Transfer** may put their objections to the **Court** either in writing, by attending the **Sanction Hearing** or by asking a representative to raise their objection. Alternatively they can submit objections to **ELAS** (or their legal advisors) by telephone or in writing. In deciding whether to sanction the **Transfer**, the **Court** will consider any objections. I will also consider objections that have been made in writing sufficiently in advance of the **Court** date in coming to my view on the appropriateness of the **Transfer**, and will report as appropriate in my **Supplementary Report**. I will also consider any objections made to the **Court** sufficiently in advance of the hearing of the **Court**.

Glossary

Articles of Association is a document which sets out the rules according to which a company must be run and administered.

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 the better known abbreviation for the financial service regulator for Germany, the Federal Financial Supervisory Authority.

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 place on 31 October 2019.

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 my Report, this is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

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

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 and ELAS.

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

Conventional With-Profits Policy is a policy where a policyholder pays a premium or a series of premiums in return for the insurance company providing a benefit after a specified event or date. The basic benefit is increased throughout the policy term with the addition of regular bonuses.

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 With-Profits Fund, also referred to in some policyholder literature as the ELAS OLTF, or ELAS Ordinary Long Term Fund is the main fund of ELAS.

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.

German With-Profits Fund is a ring-fenced fund within ELAS that will be created as part of the Transfer 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 Transfer 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.

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-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 Transfer, these are the policies sold under Irish or German law.

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

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.

Pillar 2 addresses the qualitative element of Solvency II and requires insurers to prepare an Own Risk & Solvency Assessment (ORSA) and submit to the PRA.

Policyholder Independent Expert is the independent actuary appointed by ELAS to assess 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.

Primary uplift amount is the uplift to be allocated to ELAS with-profits policyholders following the Scheme of Arrangement. In the case of the UK-style German With-Profits Policyholders, this uplift will be allocated to policies through the Transfer.

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.

Regulator(s) means, the applicable regulator(s) of the UK insurance industry, the Prudential Regulation Authority and the 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 Part VII Transfer of long term insurance business from Reliance Mutual to Reliance Life Limited in April 2018.

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

Report refers to my Report as the Independent Expert on the proposed transfer of long-term insurance business from Equitable Life Assurance Society (ELAS) to Utmost Life and Pensions Limited as required under the terms of FSMA, Chapter 8 (Section 109).

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 Transfer is made.

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.

Senior Managers are, as defined by the Senior Managers & Certification Regime, senior people in key roles of responsibility within the UK financial services industry, who require approval from the PRA and/or the FCA (as required) to perform their role.

Senior Managers & Certification Regime (SM&CR) is the regime for approval of senior persons in key roles of responsibility within the UK financial services industry, and, for insurers, is overseen by both the PRA and FCA.

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 on 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.

Transfer is the proposed transfer of long-term insurance business from ELAS to Utmost Life and Pensions under Part VII of the FSMA. This is referred to throughout my main Report as the "Scheme".

Transferring Policies are all transferring ELAS Policies.

Transferring Policyholders are the holders of the Transferring Policies.

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 the Utmost Group of Companies, 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 will bear Utmost Life and Pensions' share of the Transfer costs.

Utmost Life and Pensions Services 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 Transfer, will also be seconded to provide services to ELAS.

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) assess, 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.

Deloitte.