



Report of the With-Profits Actuary of Utmost Life and Pensions Limited on the proposed transfer of business from Equitable Life Assurance Society

Ravi Dubey, FIA

With-Profits Actuary

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1. INTRODUCTION

PURPOSE AND SCOPE

- 1.1 The purpose of this report is to consider the impact of the proposed transfer ("the Transfer") of the long term insurance business of Equitable Life Assurance Society ("ELAS") to Utmost Life & Pensions Limited ("Utmost Life" or "ULPL"). The policies written by ELAS under Germany or Irish law are excluded from the Transfer and remain in ELAS.
- 1.2 The transfer will be achieved by a Scheme of Transfer under Part VII of the Financial Services and Markets Act 2000 in respect of the UK business of ELAS, under the Insurance Business (Bailiwick of Guernsey) Law 2002 in respect of the Guernsey business of ELAS and under the Insurance Business (Jersey) Law in respect of the Jersey business of ELAS.
- 1.3 Immediately prior to the Transfer, ELAS propose to carry out a Scheme of Arrangement ("the Arrangement") under Part 26 of the Companies Act 2006 to convert the with-profits business (excluding German with-profits business) of ELAS to unit-linked and to remove rights to invest in with-profits.
- 1.4 The Transfer will not proceed unless the Arrangement is approved and all other conditions for the Transfer are satisfied. Both schemes are expected to be implemented on 1 January 2020.
- 1.5 This report has been prepared in my capacity as With-Profits Actuary ("WPA") for ULPL. In this report, I have assessed the risks and benefits of the Transfer to with-profits policyholders of ULPL. I have also considered the information needs of these policyholders and the extent to which the communications they receive in connection with the Transfer may be regarded as clear, fair and not misleading.

CREDENTIALS

- 1.6 I am a Fellow of the Institute and Faculty of Actuaries and hold a current With-Profits Actuary Certificate issued by the Institute and Faculty of Actuaries that authorises me to practice as a WPA. I have been appointed as WPA of ULPL (previously known as Reliance Life) since 20 December 2018.

TECHNICAL ACTUARIAL STANDARDS

- 1.7 I have prepared this report in accordance with the relevant Technical Actuarial Standards ("TAS") issued by the Financial Reporting Council, TAS 100 (Principles for Technical Actuarial Work), TAS 200 (Insurance) and the Actuarial Profession Standards issued by the Institute and Faculty of Actuaries, APS L1: Duties and Responsibilities of Life Assurance Actuaries, APS X2: Review of Actuarial Work. In line with APS X2 this report has been externally peer reviewed by Geoffrey Ross, the previous WPA of ULPL who is an independent consultant.

RELIANCE'S AND LIMITATIONS

- 1.8 In preparing this report I have considered the Arrangement document and the associated Policyholder Independent Expert's Report, the Transfer document and the associated Independent Expert's ("IE's") report, the report by the Chief Actuary of ULPL and the reports by the Chief Actuary and WPA of ELAS. These latter reports cover both the Arrangement and the Transfer from an ELAS policyholder perspective.

- 1.9 I have relied on the report produced by the Chief Actuary of ULPL including the figures contained in the report and reliance's noted in the report. I have reviewed the information to check that it is reasonable and that any conclusions drawn from it are reasonable. This report should be read in conjunction with the report of the Chief Actuary of ULPL.
- 1.10 I have also relied upon the accuracy and completeness of the data and information supplied to me, both verbal and written, by ULPL and ELAS to enable me to complete my report. I have reviewed the information for consistency and reasonableness based on my knowledge of the UK life insurance industry but have not otherwise verified it. I expect to write a supplementary report prior to the final Court Hearing for Sanction of the Transfer Scheme and should I become aware of any material changes that affect my conclusions in this report I will raise them in my supplementary report.
- 1.11 This report is produced for the Board and the With-Profits Committee of ULPL, however, I understand that it will also form part of the documentation supporting the Transfer and may thus be used by the IE as well as relevant Courts and Regulators to support their assessment of the Scheme of Transfer. The report will also be made available to policyholders on the ULPL website, although it does not purport to advise individual policyholders.

2. SUMMARY OF CONCLUSIONS

2.1 SECURITY OF POLICYHOLDER BENEFITS

- The proposed Transfer has no material adverse effect on the security of the with-profits policyholders' benefits in any of the with-profits sub-funds of ULPL.

2.2 POLICYHOLDER BENEFIT EXPECTATIONS

- The benefit expectations and fair treatment of the with-profits policyholders of ULPL will not be adversely affected by the Transfer.

2.3 POLICYHOLDER COMMUNICATIONS

- The information and communication needs of the with-profits policyholders of ULPL will be met by the proposed communication strategy when carried out.

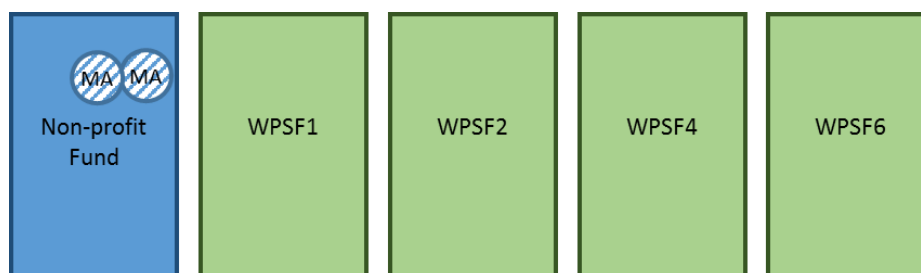
3. BACKGROUND INFORMATION

- 3.1 The background to ULPL and ELAS is fully described in Sections 3.3 and 3.4 of the ULPL Chief Actuary's report and I have only produced a summary of the background in my report.

BACKGROUND TO ULPL

- 3.2 ULPL is a UK authorised life insurance company set up by Utmost Group of Companies (previously known as LCCG) for the purpose of life insurance acquisitions in the UK, the first of which was the business of Reliance Mutual Insurance Society ("RMIS") on 01 April 2018. ULPL is regulated by the PRA and FCA. ULPL has a non-profit sub-fund ("NPF") and four with-profits sub-funds ("WPSFs") all of which are ring fenced and closed to new

business apart from contractual top ups. The diagram below shows the ULPL Fund structure.



- 3.3 WPSF 1 contains with-profits business originally written by RMIS and also contains business written by other companies, all of which were acquired by RMIS prior to 1972. WPSF 1 includes both Industrial Branch (“IB”) and Ordinary Branch (“OB”) with-profits business. WPSF2 contains business previously written by Criterion Life Assurance which was transferred to RMIS in 2004. WPSF 4 contains the business previously contained in the Family Assurance Time Retirement Annuity Fund which transferred to RMIS in 2004. WPSF 6 contains the business transferred from Hearts of Oak Friendly Society (HOFS) in 2007.
- 3.4 The business in all four WPSFs were transferred to ULPL on 01 April 2018.
- 3.5 The table below shows the number of policies and the fund size for each of the ULPL with-profits sub-funds as on 31 December 2018

Fund Breakdown	WPSF 1	WPSF 2	WPSF 4	WPSF 6	Total
Assets (£m)	29.7	12.3	118.9	99.4	260.3
Policies	14,004	1,458	6,077	4,802	26,341

- 3.6 The Non-Profit Fund (“NPF”) contains two ring fenced Matching Adjustment (“MA”) portfolios. The two MA portfolios are in relation to the Annuities and Funeral Plan liabilities of ULPL. Other businesses within the NPF includes unit linked, conventional OB and IB businesses. The business in the NPF was all transferred to ULPL on 01 April 2018.

ULPL CAPITAL POLICY

- 3.7 ULPL maintains a capital policy based on the Solvency Capital Requirement (“SCR”) coverage, the SCR being a measure of the financial strength of an insurance company and the SCR coverage is the ratio of the company’s surplus assets to the amount of capital it is required to hold. The higher the SCR coverage the greater is the buffer available to absorb any losses that may occur in the future.
- 3.8 The policy states that a level of coverage should be maintained above 135% of SCR on an ongoing basis. Additionally, no dividend payments or repayment of debt interest to a parent company within the group may be made if the payment or repayment would reduce the SCR coverage below 150%.
- 3.9 At 31 December 2018 the SCR coverage for ULPL was 178%. The SCR coverage of 178% is post allowance for Ring Fencing Restrictions and Tier 2 Capital Restrictions.

BACKGROUND TO ELAS

- 3.10 ELAS is a mutual organisation set up and run for the benefit of its members, who as set out in the Articles of Association of ELAS are the with-profits policyholders.

- 3.11 ELAS is authorised in the United Kingdom by the PRA. It is regulated by the PRA and the FCA.
- 3.12 ELAS business, post Scheme of Arrangement, will consist of a range of non-profit and unit linked products, and a small number of German with-profits policies. The table below shows the summary of business in ELAS post Scheme of Arrangement.

Type of Business	Individual Policies and Group Scheme Members at 31 Dec 2018 (post Scheme of Arrangement)
Unit Linked	160,617
Other Non-Profit	23,133
Group Schemes	144,265
German With-Profit - UK Style	327
German With-Profit - German Style	153
Total	328,495

- 3.13 Group Schemes in the above table represents number of members for c2300 Group Schemes. The Group Scheme liabilities are unit-linked liabilities.
- 3.14 There is Irish and German business within ELAS which will not be transferring. The German business includes some with-profits policies which are subject to the rules of the German Regulator, BaFin. The non-transferring policies will remain in ELAS which will, post the Transfer, become a subsidiary of ULPL. The total value of the liabilities, as at 31 December 2018, remaining in ELAS post the Transfer is £ 78m.

4 SUMMARY OF THE PROPOSED SCHEME

- 4.1 The majority of the long-term insurance business of ELAS is to be transferred to ULPL by means of the Transfer. Immediately prior to the Transfer, the Arrangement under Part 26 of the Companies Act 2006 will be carried out by ELAS.
- 4.2 The purpose of the Arrangement is to remove from with-profits policies (excluding German with-profits policies) any contractual guarantees to pay benefits calculated by reference to either the premiums paid or the period of time such premiums have been invested (such guarantees being "Guaranteed Investment Returns" or "GIRs"). However, with-profits policies which have guaranteed annuity rates and guaranteed minimum pensions will not have these guarantees removed.
- 4.3 At the same time, the Arrangement will convert all ELAS with-profits policies (excluding German with-profits policies) into unit-linked policies and all with-profits policies will have any right to invest in the ELAS with-profits fund removed (including hybrid unit linked policies which have such a right) and such policies will have no further interest in the surplus assets of ELAS. The policies are expected to receive an uplift to their policy values through distribution of capital of ELAS.

- 4.4 As this Arrangement is due to take place immediately prior to the Transfer, my conclusions assume that the Arrangement is sanctioned. If the Arrangement is not sanctioned then my understanding is that the Transfer will not go ahead.
- 4.5 The existing members of ELAS (being, broadly speaking, with-profits policyholders) will lose their membership rights as a result of their with-profits investments being re-directed into unit-linked benefits (together with the conversion of with-profits policies into unit linked policies where necessary). Prior to the Arrangement, an ELAS member vote will be held to change the Articles which, if in favour, will result in ULPL becoming the single member of ELAS when the Arrangement takes effect.
- 4.6 The purposes of the Transfer Scheme and the Scheme of Arrangement are therefore to:
- Safeguard the security of benefits for ELAS policyholders following the Arrangement and the distribution of the surplus assets of ELAS through uplifts in policy values for with-profits policyholders;
 - Contribute to the growth of ULPL's business and reduce the negative consequences of diseconomies of scale that are otherwise likely to be experienced by both ELAS and ULPL as policies mature or run-off.
- 4.7 The Transfer will not take place unless:
- Creditors of the Arrangement vote in favour of the Arrangement, by the requisite majorities.
 - Members of ELAS vote in favour of the changes to the Articles of ELAS, by the requisite majority.
 - The schemes are sanctioned in the UK.
 - Other commitments are met, including the injection of capital into ULPL to meet the ULPL SCR capital policy coverage at the Implementation Date.
- 4.8 Under the Transfer, all of the liabilities of ELAS (excluding the business as discussed in section 3.14) will be transferred to the non-profit fund of ULPL. These include insurance liabilities and all (excluding those in relation to business as discussed in 3.14) associated liabilities such as any liability for compensation and redress, including any historic mis-selling liabilities and any liability in connection with policies that have lapsed, surrendered or matured.
- 4.9 ELAS will become a subsidiary of ULPL and will remain capitalised in line with the ULPL capital policy
- 4.10 If any policies (except policies written in Ireland or Germany) are excluded from the Transfer, ULPL will cover 100 per cent of the liability in respect of these policies through an excluded policies reinsurance agreement.
- 4.11 By the Implementation Date of the Transfer Utmost Group of Companies (UGoC) will recapitalise ULPL such that ULPL continues to meet its capital policy, with 150% of SCR being the minimum level of capital required immediately following the Transfer.
- 4.12 ULPL will pay its own costs associated with the Scheme. Certain costs, including court costs and the cost of the IE which are incurred jointly will be split equally between ULPL and ELAS.

5 THE EFFECT OF THE TRANSFER – SECURITY

- 5.1 As the WPA of ULPL my responsibility is to consider the interests of the with-profits policyholders of ULPL and to report on the effect of the Transfer on their security, benefit expectations and information and communication needs. This section of my report considers the effect of the Transfer on the security of these policyholders,

CAPITAL AND SOLVENCY

- 5.2 The existing capital policy of ULPL, which will continue unchanged following the Transfer, is to retain SCR coverage of a minimum of 150% immediately post payment of any dividend or interest and a lower minimum SCR of 135% on an ongoing basis.
- 5.3 The capital policy of UGoC is to maintain the solvency coverage of 135% of SCR throughout its insurance subsidiaries and a coverage of at least 150% in a subsidiary following payment of a dividend from the subsidiary. The capital injection required to achieve solvency coverage of 150% for ULPL at the Implementation date has been guaranteed by Oaktree.
- 5.4 I note that the capital coverage ratio for ULPL will reduce from 178% to 150%, based on the estimated (as at 31 December 2018) combined balance sheet post the Transfer. This reduction in coverage ratio is not expected to have material adverse impact on the security of benefits for ULPL WPSFs policyholders. The existing capital policy allows payment of dividends if the coverage ratio is in excess of 150%. The absolute level of surplus capital, post transfer, will be higher than the current level of surplus capital. The capital policy can only be changed with the approval of the Board.
- 5.5 As the WPSFs in ULPL already operate as ring fenced funds, the Transfer will not affect the capital requirements of these sub-funds.
- 5.6 The policyholders in ULPL WPSFs are exposed to contagion risk from the other business of ULPL. The extent of this risk will change as a result of the Transfer due to the risks associated with the business transferring from ELAS. The majority of the transferring business is unit-linked business which has a comparatively low SCR requirement. The risk profile post the Transfer will be reflected in the solvency capital requirement and the extent of the change in contagion risk is limited so long as ULPL can meet the minimum solvency coverage under its capital policy. Based on this assumption, in my opinion, there is no material change in contagion risk from the business transferring from ELAS.
- 5.7 There is not expected to be any material change in the impact of taxation on the security afforded with-profits policyholders following the transfer as each of the WPSFs will still be taxed as if it were a stand-alone mutual but with flexibility to change this in future if tax legislation changes, subject to the advice of the With-Profits Committee and WPA.

CAPITAL SUPPORT

- 5.8 Capital support required (where support is not provided as a contingent loan) to cover a WPSF's capital requirements is provided by the NPF. Interest charge for such a support is 4% per annum and interest charged quarterly in arrears based on the average amount of support provided over the quarter.

- 5.9 If there is a shortfall of assets over liabilities in a WPSF and requires transfer of assets into the sub-fund to cover the regulatory liabilities the fund is charged at 4% plus the prevailing yield on 10 year gilts.
- 5.10 There is no charge for support provided to cover requirements associated with operational capital risk in WPSFs 2, 4 and 6. This is because of a change to the valuation approach for WPSFs 2, 4 and 6 which was implemented at 31 December 2017. WPSF1 covers its own operational risk SCR. These capital support arrangements are not changed by the Transfer.

SERVICE STANDARDS, ADMINISTRATION AND GOVERNANCE

- 5.11 There are no planned changes to the existing operational and administrative arrangements for the existing ULPL business. ULPL has a Service Standards Policy which is reviewed annually by the Risk and Compliance Committee of ULPL. The service standards are monitored regularly by the Fair Customer Outcomes Governance Committee (FCoG). Thus I am satisfied that there is not a material risk of reduced service standards resulting from the Transfer that would affect the security of the with-profits policyholders.
- 5.12 The Transfer is not changing the Board or Committee structure of ULPL and thus there is no change in the governance framework for the management of with-profits business.

CONCLUSION

- 5.13 My conclusion from the above analysis is that the proposed Transfer has no material adverse effect on the security of the with-profits policyholders' benefits in any of the four existing with-profits sub-funds of ULPL.

6 THE EFFECT OF THE TRANSFER SCHEME – BENEFIT EXPECTATIONS

- 6.1 In this section I consider whether the benefit expectations of the with-profits policyholders of ULPL are materially adversely affected by the proposed Transfer. The benefit expectations of the with-profits policyholders comprise the guaranteed benefits and any final bonus (being the policy's share of the remaining assets in the WPSF) paid when the policy benefits are claimed. As the with-profits funds are closed to new business, final bonuses are set with the aim of distributing the entire fund to the policyholders over the run-off period.
- 6.2 None of the policy conditions of any of the with-profits policies in ULPL (as amended by previous schemes) are being changed by the Transfer and the benefit expectations of the with-profits policyholders as defined in the policy conditions are thus unchanged.
- 6.3 No changes to Principles or Practices in the ULPL PPFM are being made as a result of the Transfer and consequently there will be no change in the way the with-profits business of ULPL is managed. Thus the way bonus rates are derived, governance structure and investment strategy will not change as a result of the Transfer.
- 6.4 The existing investment management arrangements of the with-profits funds in ULPL will continue to be in accordance with the PPFM of ULPL. However, I understand that there may be a change in investment manager following the Transfer and thus a potential change in the fund (and underlying exposures) in which surplus assets in the

with-profits funds are invested. This could result in a change in the risk profile of the surplus assets investments.

- 6.5 Each of the WPSFs is ring fenced with expense charges and investment strategies that are not changed by the Transfer.

CONCLUSION

- 6.6 Thus in my opinion the Transfer accords with the requirement to treat the with-profits policyholders of ULPL fairly and their benefit expectations will not be materially adversely affected by the Transfer.

7 INFORMATION AND COMMUNICATION NEEDS OF WITH-PROFITS POLICYHOLDERS

- 7.1 In this section I consider the information and communication needs of the with-profits policyholders of ULPL.
- 7.2 Notification of the Transfer will be published in the official gazettes and three UK newspapers. In addition, subject to waivers being granted to avoid publication on the grounds of cost in each jurisdiction where policyholders currently reside, notification will be published in two national newspapers of the two EEA states where at least 150 policyholders currently reside, namely France and Spain. The approach, in my opinion, to publish in the selected national newspapers is reasonable.
- 7.3 An explanatory letter will be sent to each of ULPL policyholders that it holds a current address for on its computerised policyholder administration systems as at [15 May] 2019, explaining why they have been written to and setting out details of the Transfer of the ELAS business into Utmost Life. I have reviewed the letter and am satisfied that it is clear, fair and not misleading and appropriate to the needs of the with-profits policyholders of ULPL.
- 7.4 ULP is seeking dispensation from notifying uncontactable policyholders. ULP carried out tracing exercises in recent years as part of the transfer of business from RMIS. As the tracing exercise was carried out in the recent past in my opinion it is not unreasonable to seek dispensation from notifying such policyholders.
- 7.5 The Utmost Life website will also show the policyholder letter in anonymised form, the Transfer document (and a summary of it), the Legal Notice, the IE report (and a summary of the IE report) and the ULPL CA and WPA reports, as well as copies of the documentation for the Jersey and Guernsey transfer schemes. A helpline will also be maintained to allow policyholders to request further information regarding the Transfer. Copies of the Transfer document and the above reports will be given free of charge to any one requesting them.

CONCLUSION

- 7.6 I am satisfied that the information and communication needs of the with-profits policyholders of ULPL will be met by the communication strategy regarding the Transfer outlined above.

8 OVERALL CONCLUSION

- 8.1 In my opinion, the Transfer has no material adverse effect on the security of the ULPL with-profits policyholders' benefits or their benefit expectations.

APPENDIX1: GLOSSARY

AMC	Annual Management Charge
BEL	Best estimate liability
CA	Chief Actuary
Creditors	Policyholders with rights to share general surplus of ELAS except German WP Policies. This includes some policies that currently only have Unit-Linked investments but have a contingent right to share general surplus of ELAS through a right to switch into a with-profits investment.
Criterion	Criterion Life Assurance Ltd
EIOPA	European Insurance and Occupational Pensions Authority
ELAS	The Equitable Life Assurance Society
Family Assurance	Family Assurance Friendly Society
FCA	Financial Conduct Authority
FCoG	Fair Customer Outcomes Governance Committee
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
HOFS	Hearts of Oak Friendly Society
IE	Independent Expert to the Transfer Scheme, Richard Baddon of Deloitte
Implementation Date	The date on which the Transfer Scheme will take effect, expected to be [31 December 2019]
Industrial Branch	Insurance business, either endowments or whole of life contracts, originally sold by door-to-door collectors
Non-Profit	Policies where benefit payments are not linked to performance of a with-profits fund
NPF	The non-profit fund of ULP
Ordinary Branch	Insurance business that is not Industrial Branch, including savings, pension, annuity, protection and whole of life contracts
Own Funds	The excess of assets over Technical Provisions under Solvency II. Where own funds are within a ring-fenced fund, amounts in excess of the notional SCR for that ring-fenced fund are ignored at a company level for solvency purposes
PPFM	Principles and Practices of Financial Management, regulations require a PPFM to be maintained in respect of With-Profits funds
PRA	Prudential Regulation Authority

Regulators	The PRA, FCA and equivalent regulators in other jurisdictions. Key regulators in other jurisdictions are the Jersey Financial Services Commission and the Guernsey Financial Services Commission who will consider the Channel Island Schemes
Ring-fenced	A set of assets and liabilities where there are restrictions over the use of the assets elsewhere in the business
RMIS	Reliance Mutual Insurance Society Limited or RMIS (RTW). The name was changed to RMIS (RTW) following the transfer to ULP
SCR	Solvency Capital Requirement under Solvency II regulations
Technical Provisions	Amounts to cover insurance liabilities under Solvency II. This includes the best estimate liabilities and risk margin
The Arrangement	This proposed Scheme of Arrangement under Part 26 of FSMA for the creditors of ELAS that must proceed for the Transfer Scheme to proceed and vice versa
The Board	The Board of Directors of Utmost Life and Pensions Limited
The Transfer	This proposed transfer of all the business of ELAS to Utmost Life Ltd
The Transfer Scheme	The legal document setting out the terms for the Transfer
Tier 2 Capital	As per Solvency II regulations minimum 50% of SCR should be covered by Tier 1 Capital. Tier 1 Own Fund is equity and Tier 2 Own Funds are composed of debt
Unit Linked	Policies where benefit payments are linked to performance of one or more underlying investment funds
Utmost Group of Companies	A specialist European life assurance group founded with the aim of acquiring and managing life insurance businesses across the UK and Europe.
Utmost Life or ULP	Utmost Life and Pensions Limited
With-Profits	Policies where benefit payments are increased by bonuses reflecting the underlying performance of a with-profits fund. Changes in bonus rates are often smoothed
WPA	With-Profits Actuary
WPC	With-Profits Committee
WPSF	With-Profits Sub-Fund