MILLIMAN CLIENT REPORT

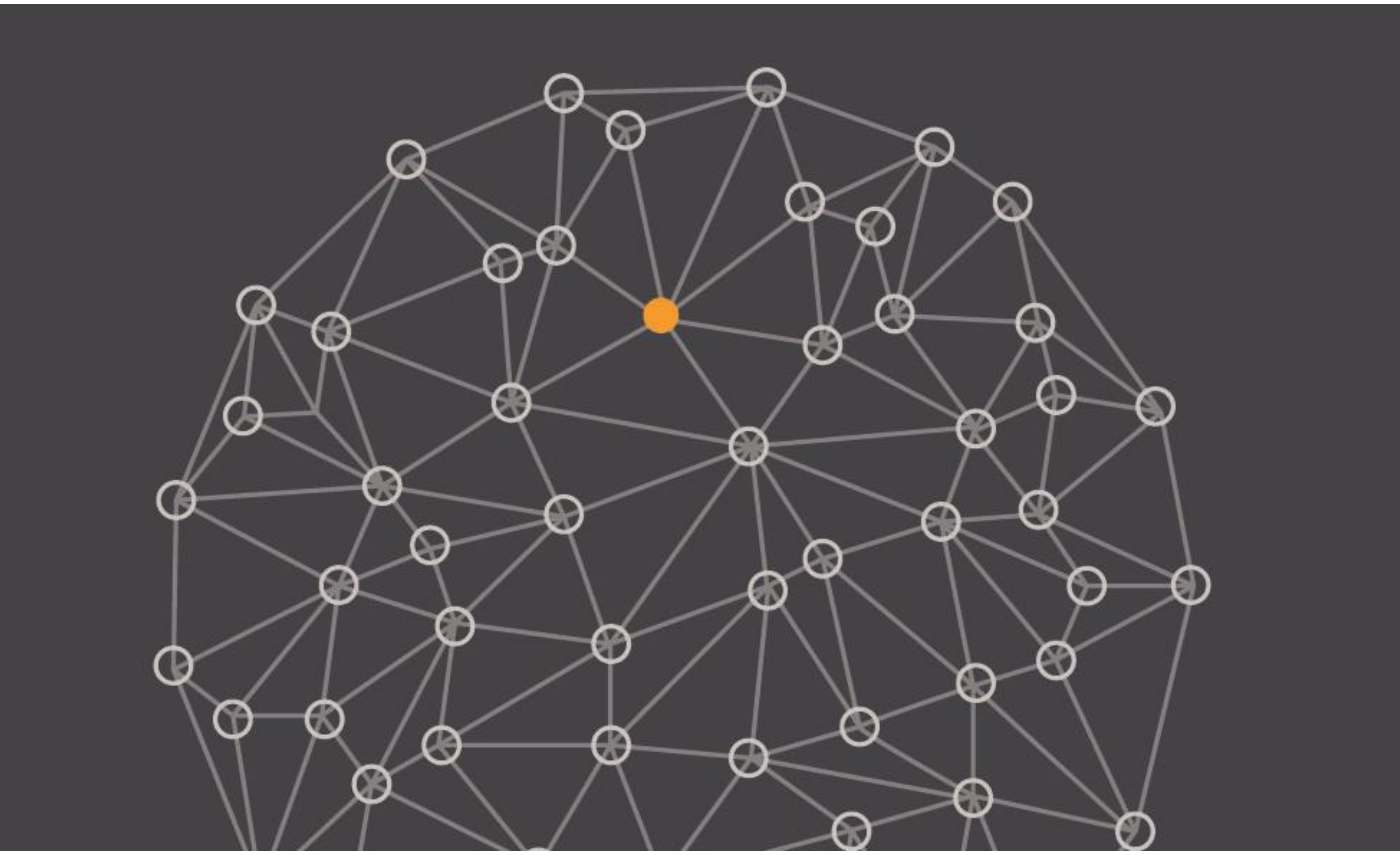
Utmost Limited

Supplementary Report of the Independent Actuary on the proposed transfer of insurance business from Utmost Limited to Utmost International Isle of Man Limited (formerly known as Quilter International Isle of Man Limited)

Final Version

2 November 2022

Philip Simpson, FIA



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1. INTRODUCTION

THE PROPOSED SCHEME

1.1 Utmost Limited ("Utmost") proposes to transfer its entire business to Utmost International Isle of Man Limited ("Utmost International"), formerly known as Quilter International Isle of Man Limited ("Quilter"), by an insurance business transfer scheme (the "Scheme"), pursuant to Section 21(1) of and Schedule 2 to the 2008 Insurance Act. Quilter International Isle of Man Limited changed its name to Utmost International Isle of Man Limited on 21 October 2022.

1.2 The Scheme forms part of Utmost Group's consolidation plans, and results in the Utmost Group having a single insurer in the Isle of Man ("IoM"). The proposed Scheme, if implemented, would transfer all of the long-term liabilities of Utmost (the "Transferring Business"), with the exception of any Residual Liabilities[1] and Excluded Liabilities[2], and all of the assets of Utmost, with the exception of the Residual Assets[3] and Excluded Assets[4], to Utmost International on the "Effective Date", the date on and from which the Scheme would become effective.

1.3 The Transferred Business consists of unit-linked business and includes:

- "With-Profit Fund Linked" business – these policies invest directly into two of Aviva Life and Pensions UK Limited's with-profits funds. No new With-Profit Fund Linked business is written, however top-ups are permitted;
- "Modified Co-Insurance" business – Utmost has modified co-insurance arrangements in place with AXA China Region Insurance Company (Bermuda) Ltd ("AXA China") and AXA Life Insurance Singapore Private Limited ("AXA Singapore"), the "Modified Co-Insurance Agreements". Under these arrangements, AXA China and AXA Singapore write the business directly but it is ceded to Utmost (the "Modified Co-Insurance business").; and
- "Other Unit-Linked" business – this is all the other business of Utmost that is not either With-Profit Fund Linked nor Modified Co-Insurance business.

1.4 It is a requirement of Section 21(1) of and Schedule 2 to the Insurance Act 2008 that an application to the High Court of Justice of the Isle of Man (Civil Division) (the "Court") for an order sanctioning an insurance business transfer must be accompanied by a report on the terms of the Scheme (the "Scheme Report") prepared by an independent actuary (the "Independent Actuary") having the skills necessary to make the report and who is approved by the Isle of Man Financial Services Authority ("FSA").

1.5 Utmost has nominated me, Philip Simpson, to act as the Independent Actuary to the Court. I prepared a report dated 24 August 2022 (the "Main Report") in which I considered the proposed Scheme in advance of the Directions Hearing[5] at the Court on 7 September 2022.

1.6 The purpose of this report (the "Supplementary Report") is to provide an updated assessment of the likely effects of the proposed Scheme ahead of the "Sanction Hearing", the hearing at which the Court hears the application to sanction a proposed transfer of insurance business. The Main Report together with this Supplementary Report, constitute the Scheme Report. As the Main Report was written prior to the date on which Quilter changed its name, i.e. prior to 21 October 2022, the Main Report refers to "Quilter" rather than "Utmost International".

1.7 If approved by the Court at the Sanction Hearing on 9 November 2022, the Scheme will become operative on the Effective Date of 30 November 2022, at which point the Transferring Business will transfer from Utmost to Utmost International. However, in addition to the approval of the Scheme:

[1] The Residual Liabilities are all the liabilities associated with policies that cannot be transferred to or vested in Utmost International under the Scheme at the Effective Time for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Utmost International.

[2] The Excluded Liabilities are all the liabilities associated with the Constructive Funds which are all the funds held by Utmost as constructive trustee, deriving from three long-term business policies that were unenforceable for illegality and were cashed and the UPE Agreement.

[3] The Residual Assets are all the assets associated with policies that cannot be transferred to or vested in Utmost International under the Scheme at the Effective Date for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Utmost International.

[4] The Excluded Assets are cash amount of £52.9m, which represents the surplus over and above unit linked and current liabilities, the UPE Agreement which is a management services agreement for the provision of services between Utmost PanEurope Designated Activity Company and Utmost and the Constructive Funds.

[5] A short hearing at which the Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.

- The transfer of the policies of the Transferring Business issued to policyholders resident in Guernsey (the "Guernsey Policies") will also be conditional upon the approval of the Royal Court of Guernsey (the "Guernsey Court") of a parallel Guernsey transfer scheme (the "Guernsey Scheme"). The application to sanction the Guernsey Scheme will be heard by the Guernsey Court on 11 November 2022; and
- Similarly, the transfer of the policies of the Transferring Business which are carried on by Utmost in or from Jersey (the "Jersey Policies") will also be conditional upon the approval of the Royal Court of Jersey (the "Jersey Court") of a parallel Jersey transfer scheme (the "Jersey Scheme"). The application to sanction the Jersey Scheme will be heard by the Jersey Court on 14 November 2022.

The planned effective dates of both the Guernsey Scheme and Jersey Scheme are the same as the Effective Date of the Scheme, i.e. 30 November 2022.

1.8 The Scheme permits the Effective Date to be deferred by up to three months. The effective dates of the Guernsey Scheme and Jersey Scheme are linked to the Effective Date of the Scheme and would therefore also be deferred if the Effective Date of the Scheme was deferred. Whilst the Guernsey Policies and Jersey Policies are subject to parallel transfer processes, they are, for all purposes of the Scheme, part of the Transferring Business.

1.9 I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. The Modified Co-Insurance Agreement with AXA China, two reinsurance agreements Utmost has in place with Aviva Life and Pensions UK Limited ("ALAP") and the associated floating charge have all been identified as not being governed by IoM law. Therefore, alongside the Scheme a separate process will be established to novate these contracts. I understand that other, non-insurance, contracts may also be novated.

MY ROLE AS INDEPENDENT ACTUARY

1.10 The FSA approved my appointment as Independent Actuary by letter dated 22 February 2022.

1.11 My role as Independent Actuary is set out in Section 3 of the Main Report and this Supplementary Report has been produced for the Court to assist in its deliberations in respect of the Scheme.

1.12 I have considered the terms of the Scheme only and have not considered whether any other scheme or schemes or alternative arrangement might provide a more efficient or effective outcome.

THE PURPOSE OF THE SUPPLEMENTARY REPORT

1.13 In Section 10 of the Main Report I set out my consideration as follows:

I confirm that I have considered the issues affecting the various categories of policyholders of Utmost and Utmost International separately, as set out in sections 6 to 9, and I do not consider further subdivisions (other than those in this Report) to be necessary.

I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the policies of the Transferring Business;
- The profile of risks to which the policies of the Transferring Business are exposed;
- The protection offered by the regulatory and legal regimes that apply to the policyholders of the Transferring Business; or
- The reasonable expectations of the policyholders of the Transferring Business in respect of their benefits, including the level and standards of administration and service that would apply to the policies of the Transferring Business.

In addition, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under existing policies of Utmost International (the "Existing Business");
- The profile of risks to which the policies of the Existing Business are exposed; or
- The reasonable expectations of the policyholders of the Existing Business in respect of their benefits, including the level and standards of administration and service that would apply to the policies of the Existing Business.

I am satisfied that the Scheme is equitable to all classes of Utmost and Utmost International policyholders.

1.14 The purpose of this Supplementary Report is to provide an updated assessment of the likely effects of the proposed transfer ahead of the Sanction Hearing on 9 November 2022 and to consider whether the conclusions reached in the Main Report remain valid in light of the updated financial information received, any other relevant significant events subsequent to the date of the finalisation of the Main Report, and any policyholder feedback or queries in relation to the Scheme.

1.15 This Supplementary Report should be read in conjunction with the Main Report. Defined terms used in the Main Report have the same meaning in this Supplementary Report and are set out in Appendix C.

1.16 The reliances and limitations set out in Section 1 of the Main Report apply equally to this Supplementary Report. In addition, reliance has been placed upon, but not limited to, the information set out in Appendix D, as well as upon the information set out in Appendix I of the Main Report. I have discussed the information set out in Appendix D with Utmost, Utmost International and Wraxall Capital Solutions Ltd (“WCS”), and have considered how it has changed from similar information provided in support of the Main Report. Utmost, Utmost International and WCS have each confirmed to me that, to the best of their knowledge and belief, all data and information they have provided to me is accurate and complete. They have also informed me that there have been no material developments since the latest information made available to me that are relevant to the Scheme.

1.17 Given the inherent uncertainty of the outcome of future events, it is not possible to be certain on the effect of the proposed Scheme on the affected policies and, in order to acknowledge this inherent uncertainty, the conclusions of the Independent Actuary in relation to transfers of long-term insurance business are usually framed using a materiality threshold. The framework in which I undertake my consideration of the proposed Scheme in both this Supplementary Report and the Main Report is set out in Section 3 of the Main Report.

REGULATORY AND PROFESSIONAL GUIDANCE

1.18 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the Institute and Faculty of Actuaries (“IFoA”), including TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. I have complied with such standards, subject to the principles of proportionality and materiality.

1.19 In accordance with Actuarial Profession Standard X2, as issued by the IFoA, I have considered whether this Supplementary Report should be subject to review (“Work Review”). I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Supplementary Report or in the preparation of this Supplementary Report, but who would have had the appropriate experience and expertise to take responsibility for the work themself. In other words, I have decided that this Supplementary Report should be subject to Independent Peer Review. I confirm that this Report has been subject to Independent Peer Review prior to its publication.

1.20 There are no specific local actuarial standards in the IoM. In preparing this Supplementary Report I have given consideration to the terms of the guidance set out in the Statement of Policy entitled *The Prudential Regulation Authority's approach to insurance business transfers* (the “PRA Statement of Policy"), initially issued in April 2015 and updated in January 2022, and in Section 18 of the Financial Conduct Authority (“FCA”) Supervision Manual (“SUP18”) contained in the Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. I have also given consideration to the FCA’s guidance FG22/1 entitled *The FCA's approach to the review of Part VII insurance business transfers* (the “FCA Guidance”), initially issued in May 2018 and updated in February 2022.

2. THE CHANGES AND EVENTS SINCE THE MAIN REPORT THAT ARE RELEVANT TO THE SCHEME

THE UPDATED FINANCIAL INFORMATION AS AT 30 JUNE 2022 FOR UTMOST AND UTMOST INTERNATIONAL

2.1 The conclusions in the Main Report were based on financial information in respect of Utmost and Utmost International as at 31 December 2021.

2.2 The updated pro-forma financial results as at 30 June 2022 were finalised in September 2022 and I include the updated financial information in Appendix A and Appendix B of this Supplementary Report. The pro-forma financial results as at 30 June 2022 have been checked and approved by the Appointed Actuary of both Utmost and Utmost International.

2.3 Under the Scheme £52.9m is retained by Utmost, rather than being transferred to Utmost International, this amount is retained within Utmost as it relates to a planned dividend, the amount of which is unchanged by the Scheme. The pro-forma post-Scheme Utmost International results (see Appendix B) show the position assuming that the retained £52.9m was transferred to Utmost International on the Effective Date. The reason for showing the results in this way is that the dividend is not as a result of the Scheme, but rather a planned, business as usual matter. If instead the pro-forma post-Scheme Utmost International financial results excluded the £52.9m, the solvency cover ratio would be 182%, rather than 191%, and therefore remain above the amount required by the Utmost International Capital Management Policy.

2.4 I have reconsidered the conclusions set out in the Main Report in light of this updated financial information in Sections 3 and 4 of this Supplementary Report.

Updated ORSA

2.5 I have been provided with the 2022 Own Risk and Solvency Assessment ("ORSA") report which considers the risks to which Utmost and Utmost International are exposed on a combined basis. The ORSA is based on outputs from the 2021 business planning process, and includes projections for the period 2022 to 2026.

Exposure to inflation and interest rate changes

2.6 In general, countries around the world, including the IoM, are experiencing a period of high inflation which is predicted to remain for at least the short-term. An inflation stress is considered within the ORSA, the specific stress considered is a 2% additional increase to the inflation rate curve. Under this stress, the solvency cover ratio reduces, this is due to an increase in the expense element of the Solvency Capital Requirement ("SCR") and an increase in the risk margin[6].

2.7 The level of certain charges applied to policies by both Utmost and Utmost International are not fixed and therefore there is an element of discretion in setting the level of these charges. Such charges are usually increased in line with inflation. Given this, increases in expenses due to rising inflation are somewhat offset by both Utmost's and Utmost International's ability to increase charges inline with inflation.

2.8 We are also in a period of rising interest rates, the ORSA also contains an interest rate up stress which demonstrates that rising interest rates lead to an increase in the solvency cover ratio for Utmost and Utmost International pre-Scheme and Utmost International post-Scheme.

Alignment of Utmost and Utmost International model and assumptions

2.9 As set out in paragraphs 4.28 and 4.63 of the Main Report, over the course of 2022, it is intended that the assumptions and models used by Utmost and Utmost International will be aligned. The majority of these alignments are scheduled to take place during the second half of 2022.

2.10 There has been no change to the anticipated alignments since the Main Report has been finalised, however I have been provided with an updated estimate of the impact of these changes. Had these changes been implemented as at 30 June 2022:

- Utmost would have had a SCR of £151.2m and excess capital over its SCR of £98.1m, resulting in a solvency cover ratio of 165%; and

[6] The risk margin is an estimation of the opportunity cost resulting from an insurer having to establish and hold eligible own-funds equal to its SCR, over the lifetime of the insurance obligations.

- Utmost International would have had an SCR of £340.9m and excess capital over its SCR of £343.1, resulting in a solvency cover ratio of 201%.

These results are set out in Appendix A, labelled "Post-Alignment".

UPDATED TRANSFERRING BUSINESS POLICY COUNTS

2.11 The table below summarises the Transferring Business as at 30 June 2022.

Policy Count	With-Profits Fund Linked business	Modified Co-Insurance business	Other Unit-Linked business	Total
Policy Count	715	3,182	25,035	28,932
Fund Value (£m)	212	407	9,843	10,463

Source: Provided by Utmost

THE POLICYHOLDER COMMUNICATIONS IN RELATION TO THE SCHEME

Court approvals

2.12 The following waivers were sought at the Directions Hearing on 7 September 2022:

- A waiver for Utmost International from the regulatory requirement to send written notice to the existing policyholders of Utmost International;
- A waiver for Utmost from the regulatory requirement that a statement is sent to each policyholder of the Transferring Business which includes the terms of the Scheme and a summary of the Main Report. Instead, Utmost requested to send a short letter to the policyholders of the Transferring Business (for whom it holds a valid name and address as at 7 September 2022 other than those policyholders referred to below) informing them of the Scheme and referring them to a dedicated webpage; and
- A waiver for Utmost from the regulatory requirement to write to policyholders of the Transferring Business who are gone-away (i.e. for which Utmost does not hold a valid address as at 7 September 2022) and deceased policyholders of the Transferring Business for which no personal representative is appointed.

2.13 The waivers were approved by the Court on 7 September 2022.

Formal communications

2.14 Utmost sent to each of the policyholders of the Transferring Business, excluding those for which a waiver was sought, a letter informing them of the Scheme and referring them to a dedicated webpage (https://utmostinternational.com/iom-scheme-transfer/) (the "Website Referral Letter"). A copy of the Website Referral Letter and a "Policyholder Circular", together the "Policyholder Pack", were made available on the dedicated webpage. The Policyholder Circular contained:

- A statement summarising the terms of the Scheme;
- A summary, produced by me, of the Main Report;
- A Questions & Answers section providing answers to the most common questions that a policyholder may have about the Scheme;
- A copy of the legal notice of the Scheme; and
- Details of how the policyholder can contact Utmost should they have any questions on the Scheme or should they wish to object to the Scheme.

Communications with counterparties to inwards reinsurance

2.15 Utmost has two inwards reinsurance contracts in place with AXA China and AXA Singapore, under which the Modified Co-Insurance business written by AXA China and AXA Singapore is reinsured to Utmost. Utmost did not send the Policyholder Pack to AXA China or AXA Singapore, but instead discussed the Scheme with them directly.

2.16 The discussions with AXA China have progressed well, and this reinsurance contract is on track to be novated, however the date on which this novation would take effect is not yet certain. Although I have no reason to believe that the novation will not take place at some point in the near future. The novation of this agreement is discussed further in paragraphs 2.22 and 2.24.

2.17 Utmost have discussed with AXA Singapore the transfer, under the Scheme, of the Modified Co-Insurance Agreement with AXA Singapore to Utmost International. There is a risk of a cost to the shareholders of Utmost or Utmost International from the transfer of the Modified Co-Insurance Agreement with AXA Singapore to Utmost International, I consider this further in paragraph 6.4.

Communications with counterparties to outwards reinsurance

2.18 Utmost has two outwards reinsurance contracts in place with ALAP under which it reinsures the With-Profit Fund Linked business to ALAP. Utmost did not send the Policyholder Pack to ALAP, but instead discussed the Scheme with them directly, and in particular the novation of these outwards reinsurance agreements and the associated floating charge. The novation of these agreements is discussed further in paragraphs 2.22 to 2.23 below.

Further publication of the Scheme

2.19 Utmost published notice in respect of the Scheme in the following publications:

- In the IoM – in two newspapers, the Isle of Man Examiner on 20 September 2022 and the Manx Independent on 22 September 2022; and
- Internationally – The Financial Times International Edition on 22 September 2022.

In addition, the notice in respect of the Guernsey Scheme was published in the La Gazette Officielle on both 21 September 2022 and 23 September 2022. The Guernsey Scheme will also be publicised in the Guernsey Gazette 10 days after the sanction hearing of the Guernsey Court. Notice of the Jersey Scheme was published online in the Jersey Gazette on 23 September 2022. Due to the number of Jersey Policies being relatively few in number it was deemed unnecessary to publish the Jersey Scheme in the Evening Post.

Policyholder responses

2.20 In Section 5 of this Supplementary Report I provide further detail on the responses received to the policyholder communications, including Utmost and Utmost International's approach to dealing with general enquiries or any objections or expressions of dissatisfaction received from policyholders regarding the Scheme.

THE PROPOSED SCHEME

2.21 There have been no changes to the proposed Scheme, other than the placeholders have now been replaced with final information, for example the cash amount, which represents the surplus over and above unit linked and current liabilities, has now been finalised and included within the Scheme. The replacement of these placeholders with final information does not alter the intended operation of the Scheme and therefore it remains as described in Section 5 of the Main Report.

NOVATIONS OUTSIDE THE SCHEME

2.22 As set out in paragraph 1.12 of the Main Report, it is not possible to transfer under the Scheme contracts which are not governed by IoM law. Therefore, as the Modified Co-Insurance Agreement with AXA China, the two reinsurance agreements with ALAP covering the With-Profit Fund Linked business and associated floating charge are not governed by IoM law they will be novated to Utmost International rather than transferred under the Scheme.

2.23 I understand that Utmost's internal legal team have written the agreement which effects the novation of the reinsurance agreements with ALAP, and have also written the new floating charge agreement that is to be put in place between Utmost International and ALAP, as I understand from Utmost that this approach has been agreed with ALAP (given the need to remove the existing charge and register the new charge at UK Companies House). I also understand from Utmost that they sought external legal input when drafting these agreements. The new floating charge agreement is intended to be almost identical in nature, except for some non-material changes agreed with ALAP, to that which is currently in place between Utmost and ALAP. I have reviewed the near final version of the agreement which novates the reinsurance agreement with ALAP, and the near final floating charge agreement between Utmost International and ALAP, and I understand that these are due to be signed in advance of the Sanction Hearing. Therefore, it remains the expectation that these novations will take effect on the same date as the Effective Date.

2.24 I set out in the Main Report that under the Modified Co-Insurance Agreement with AXA China, AXA China retains ownership of the assets related to the business reinsured under this agreement, and Utmost's liability is offset against the assets retained by AXA China. As a result no liability is retained by Utmost. Utmost is responsible for the administration of the Modified Co-Insurance business, for which it receives a fee. The discussions with AXA China in relation to the novation of this Modified Co-Insurance Agreement are progressing well, and it remains the expectation that the contract will be novated. There is a risk that the novation may take effect after the Effective Date, as set out in the Main Report, if this should occur then the Modified Co-Insurance Agreement with AXA China would be a Residual Policy, until the point at which it is novated. As a Residual Policy, any rights or benefits under the agreement would become Residual Assets held on trust by Utmost for the benefit of Utmost International and any liabilities under the arrangement would be Residual Liabilities and discharged by Utmost International on behalf of Utmost. While the Modified Co-Insurance Agreement with AXA China is a Residual Policy:

- The Modified Co-Insurance Agreement covers both the asset and liability side of the agreement, and as detailed above the assets held by AXA China exactly match the policyholder liabilities. Therefore, the only payment due from AXA China to Utmost is the fee for administration (the reinsurance commission), which will be held on trust by Utmost for the benefit of Utmost International;
- The responsibility for the administration of the AXA China Modified Co-Insurance business would not be transferred to Utmost International until the agreement is novated. Utmost would enter into an agreement with Utmost Administration Limited ("UAL"); and
- There would be no change from the perspective of AXA China, it would continue to retain ownership of the assets related to business reinsured under the Modified Co-Insurance Agreement it has with Utmost.

ADMINISTRATION AND SERVICING

2.25 As set out in the Main Report, the Utmost Group was undertaking a programme to integrate Utmost International and reduce the number of service companies within the group. As a result of this programme, and not as a result of the proposed Scheme, it was expected that the policies of Utmost International would be administered under the terms of a Master Services Agreement ("MSA") between Utmost International and UAL, rather than a MSA between Utmost International and Quilter Business Services Limited ("QBSL").

2.26 The MSA between Utmost International and UAL has now been signed, and the policies of Utmost International have been administered under the terms of this agreement since it came into effect on 1 October 2022. The MSA between Utmost International and UAL states that where the parties have not agreed specific service levels, UAL must use all reasonable endeavours to provide the services to Utmost International to the same quality and the same time frames as those that have been received by Utmost International over the 12 month period prior to the MSA being signed.

2.27 It remains, as stated in the Main Report, that the change detailed in paragraph 2.25 did not result in a change to the staff responsible for performing the administration, nor the administration platform used to administer the business. In addition, there will be no change to the information, including key performance indicators ("KPIs"), used by the Utmost International Board to assess the level of service being provided to policyholders.

TAX

2.28 As outlined in the Main Report, the Scheme is not expected to have any tax implications for any policyholder of the Transferring Business and the Board of Utmost International (the "Board" of an insurer is ultimately accountable and responsible for the affairs of the insurer) has approved to rectify any tax losses, should they occur.

2.29 As set out in the Main Report, Utmost International has a branch in Hong Kong which is taxed under local rules by reference to Utmost International's worldwide profits. Utmost International is still in the process of determining the impact of the proposed Scheme on the tax due in Hong Kong, however any such impacts would be borne by the shareholders, and not the policyholders.

OTHER INTERNAL CHANGES AND EVENTS

Previous statements made to policyholders

2.30 Since the Main Report, Utmost has carried out a review of the substantive statements made to customers. This review found no evidence of any statements to policyholders on which they could rely to argue that the Scheme is effecting a substantive change to their expectations.

Legal review of the Modified Co-Insurance Agreements

2.31 A legal review undertaken by Utmost of the terms of the Modified Co-Insurance Agreements has taken place since the Main Report was finalised. I understand that this review did not highlight any areas of material legal risk.

OTHER EXTERNAL CHANGES AND EVENTS

The COVID-19 pandemic

2.32 It remains the case that there are relatively few government enforced restrictions as a result of the COVID-19 pandemic, nor is it currently having a material impact on global markets. The quarterly valuations performed by Utmost and Utmost International allow for the prevailing economic conditions, which reflect market views on inflation and interest rates, and therefore any impact of COVID-19 on these would implicitly be considered. No explicit adjustments have been made to demographic assumptions in respect of the COVID-19 pandemic, however mortality risk is not a material risk for either Utmost or Utmost International.

Conflict between Russia and Ukraine

2.33 As set out in the Main Report, none of the Transferring Business is directly impacted by the sanctions imposed as a result of the Russian invasion of Ukraine. I understand from Utmost that some of the assets of external unit-linked funds held by Utmost for the benefit of policyholders are subject to sanctions, however these assets are not directly held by Utmost as they are within external funds.

3. THE IMPACT OF THE SCHEME ON TRANSFERRING POLICYHOLDERS

INTRODUCTION

3.1 If the proposed Scheme were to be approved by the Court, the Transferring Business would be transferred from Utmost to Utmost International. The policies within the Transferring Business are collectively referred to as "Transferring Policies", and the policyholders holding these policies are collectively referred to as "Transferring Policyholders".

THE EFFECT OF THE SCHEME ON THE SECURITY OF BENEFITS UNDER THE TRANSFERRING POLICIES

The effect on the security of benefits of a change in the applicable Capital Management Policy

3.2 As set out in Section 6 of the Main Report, both Utmost and Utmost International have adopted the Utmost Holdings Isle of Man Limited Risk Appetite Statement ("UHIOM RAS"), which is aligned to the Utmost Group risk appetite. The "Capital Management Policy", which sets out the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR, forms part of the UHIOM RAS, and therefore the Utmost Capital Management Policy and the Utmost International Capital Management Policy are aligned to the Utmost Group risk appetite.

3.3 There have been no material changes to the Utmost or Utmost International Capital Management Policies since the finalisation of the Main Report. As a result, I remain satisfied that there is no material adverse effect on the security of benefits from being subject to the Utmost International Capital Management Policy and risk appetite statement compared to the Utmost Capital Management Policy and risk appetite statement.

The effect on the security of Transferring Policy benefits due to being part of Utmost International after implementation of the Scheme compared to Utmost currently

The financial strength of Utmost International

3.4 The conclusions in the Main Report were based on financial information provided by Utmost and Utmost International as at 31 December 2021.

3.5 The financial results under the current regulatory solvency framework for insurers and reinsurers authorised in the Isle of Man carrying on long-term insurance business ("Insurance Solvency Regulations") for Utmost and Utmost International as at 30 June 2022 are included in Appendix A and Appendix B. I have reconsidered my conclusions in light of this updated financial information.

3.6 Figure 3.1 below sets out the Utmost solvency cover ratio pre-Scheme and the Utmost International solvency cover ratio after the proposed Scheme and post-alignment of assumptions (see paragraphs 2.9 and 2.10), as at 30 June 2022 under the Insurance Solvency Regulations.

FIGURE 3.1 REGULATORY SOLVENCY RATIOS AS AT 31 DECEMBER 2021 AND 30 JUNE 2022

SOLVENCY COVER RATIO	UTMOST PRE-ALIGNMENT PRE-SCHEME	UTMOST INTERNATIONAL POST-ALIGNMENT POST-SCHEME
31 December 2021	153%	187%
30 June 2022	166%	192%*

Source: Information provided by WCS

* As set out in paragraph 2.3, this includes the £52.9m that is retained by Utmost, rather than being transferred to Utmost International. If instead the pro-forma post-Scheme Utmost International financial results excluded the £52.9m, the solvency cover ratio would be 182%.

3.7 As can be seen, there has been no material change to the solvency cover ratio of either Utmost pre-Scheme or Utmost International post-Scheme between 31 December 2021 and 30 June 2022. If the proposed Scheme had been implemented as at 30 June 2022:

- The solvency cover ratio of Utmost would have been in excess of that required by the Insurance Solvency Regulations and by the Utmost Capital Management Policy; and

- The solvency cover ratio of Utmost International would have been in excess of that required by the Insurance Solvency Regulations and by the Utmost International Capital Management Policy.

3.8 I have been provided with information which enables me to estimate the impact of the alignment of assumptions (detailed in paragraphs 2.9 and 2.10) on the results shown in Figure 3.1. Based on my estimates, if the assumptions had not been aligned, the solvency cover ratio of Utmost International post-Scheme would have been reduced by c.2% to approximately 190%. Therefore, I am satisfied that had the assumptions not been aligned Utmost International would still have sufficient Own Funds (the excess of assets over liabilities as defined in the Insurance Solvency Regulations) to meet its Capital Management Policy. It should be noted that the alignment of assumptions is not linked to the proposed Scheme but is part of the integration of Utmost International into the Utmost Group.

3.9 Overall, I remain satisfied that reliance on the financial strength of Utmost International if the Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the Transferring Policies.

Impact of rising inflation and interest rates.

3.10 As outlined in paragraphs 2.6 and 2.7, countries around the world including the Isle of Man are currently experiencing a period of high inflation. I have reviewed the impact of the inflation stress within the ORSA, and I am satisfied that the impact of rising inflation is materially similar for both Utmost and Utmost International.

3.11 I set out in paragraph 2.8, the current rising interest rates increase the solvency cover ratio for both Utmost and Utmost International pre-Scheme and Utmost International post-Scheme.

3.12 Therefore, I am satisfied that the Transferring Policies are no more exposed to rising inflation and interest rates due to being part of Utmost International rather than Utmost.

The reinsurance arrangements of Utmost International after the implementation of the Scheme

3.13 As set out in the Main Report, the Scheme does not lead to any changes to the existing reinsurance arrangements in respect of the Transferring Business, that is the Modified Co-Insurance Agreements and the reinsurance agreements with ALAP (including the associated floating charge), other than the fact that they will be transferred under the Scheme or novated to Utmost International.

3.14 The Main Report sets out that the Modified Co-Insurance Agreement with AXA China and the reinsurance agreements with ALAP, and the associated floating charge, are to be novated to Utmost International rather than transferred under the Scheme. As set out in paragraph 2.23, I have reviewed the near final version of the agreement that would effect the novation of the reinsurance agreements with ALAP, as well as the new floating charge agreement, and I understand that these are expected to be signed in advance of the Sanctions Hearing and take effect on the Effective Date. As set out in paragraph 2.24, the discussions with AXA China in relation to the novation of the Modified Co-Insurance Agreement with AXA China are progressing well, however it is possible that the novation of this contract will take effect after the Effective Date. This would mean that the Modified Co-Insurance Agreement with AXA China would be a Residual Policy until it is novated, which I understand from Utmost is expected to occur in the near term. Whilst the agreement is a Residual Policy:

- The Modified Co-Insurance Agreement covers both the asset and liability side of the agreement, and as detailed above the assets held by AXA China exactly match the policyholder liabilities. Therefore, the only payment due from AXA China to Utmost is the fee for administration (the reinsurance commission), which will be held on trust by Utmost for the benefit of Utmost International;
- The responsibility for the administration of the AXA China Modified Co-Insurance business would not be transferred to Utmost International until the agreement is novated. Utmost would enter into an agreement with UAL; and
- There would be no change from the perspective of AXA China, it would continue to retain ownership of the assets related to business reinsured under the Modified Co-Insurance Agreement it has with Utmost.

3.15 Based on the above, I remain satisfied that the transfer and novation of the reinsurance contracts does not materially adversely affect the security of benefits for the Transferring Business.

Actuarial Funding

3.16 Utmost International applies Actuarial Funding to a small number of product types. However, as set out in the Main Report, I understand from Utmost International that it has no intention of applying Actuarial Funding to the Transferring Policies.

The support for Utmost International from Utmost Group Plc as the ultimate parent of Utmost International

3.17 Utmost and Utmost International are both part of the Utmost Group of companies, with Utmost Group Plc ("UGPlc") being the ultimate parent of both Utmost and Utmost International. The analysis in the Main Report around parental support from UGPlc remains valid and I remain satisfied that it is unlikely that the proposed Scheme would change UGPlc's willingness or ability to support the Transferring Business.

The effect on the security of benefits under the Transferring Policies due to losing protection conferred by funds of last resort in the IoM and the United Kingdom

3.18 As set out in the Main Report, currently:

- With-Profit Fund Linked Transferring Policies and Other Unit-Linked Transferring Policies benefit from the protection conferred by the Policyholder Compensation Scheme ("PCS") in the IoM;
- The policyholders of AXA China and AXA Singapore that are reinsured to Utmost under the Modified Co-Insurance Agreement do not directly benefit from the protection conferred by the PCS, however AXA China and AXA Singapore do;
- The Transferring Business sold under the permissions held by Utmost in the UK ("UK Transferring Business") benefits from the protection conferred by the Financial Services Compensation Scheme ("FSCS") in respect of any civil liabilities relating to sales, distribution and facilitation activities carried out in the United Kingdom ("UK").

3.19 The only change as a result of the Scheme is that FSCS protection for the UK Transferring Business would be lost. As there have been no changes to this position since the Main Report, I remain satisfied that this does not materially adversely affect the security of the Transferring Policyholders' benefits as:

- The policyholders of the UK Transferring Business will continue to benefit from the protection conferred by the PCS;
- I understand from Utmost that the current protection conferred by the FSCS only relates to a limited set of circumstances (i.e. the protection is only in respect of any civil liabilities relating to sales, distribution and facilitation activities carried out in the UK);
- I have been informed that Utmost and its associated service provider companies have not incurred any civil liability in respect of sales, distribution and facilitation activities carried out in the UK in the last 25 years; and
- At the Effective Date Utmost International will be adequately capitalised and will be required to comply with the Insurance Solvency Regulations; therefore I consider the likelihood of default or insolvency of Utmost International to be low.

Overall conclusion on the effect of the Scheme on the security of benefits under the Transferring Policies

3.20 In summary, I remain satisfied that, if the proposed Scheme were to be implemented:

- There would be no material adverse effect on the security of benefits under the Transferring Policies from being subject to the Utmost International Capital Management Policy rather than the Utmost Capital Management Policy;
- There will be no material adverse effect on the security of benefits under the Transferring Policies as a result of being part of Utmost International rather than Utmost; and
- The loss of FSCS protection for the UK Transferring Business would not lead to a material adverse effect on the security of benefits under the Transferring Policies.

3.21 Therefore, in conclusion, I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of benefits under the Transferring Policies.

THE EFFECT OF THE SCHEME ON THE PROFILE OF RISKS TO WHICH THE TRANSFERING POLICYHOLDERS ARE EXPOSED

3.22 Figure 3.2 below shows the undiversified risk profile under the Insurance Solvency Regulations as at 30 June 2022 of Utmost pre-Scheme and Utmost International immediately after the transfer in of the Transferring Business and includes the impact of the alignment of the assumptions (detailed in paragraphs 2.9 and 2.10).

FIGURE 3.2 UNDIVERSIFIED RISK PROFILE AS AT 31 DECEMBER 2021 AND 30 JUNE 2022

RISK EXPOSURE	31 DECEMBER 2021	30 JUNE 2022
Utmost pre-Scheme (pre-alignment)		
Life Underwriting Risk	51%	51%
Market Risk	42%	42%
Counterparty Default Risk	3%	3%
Operational Risk	4%	4%
Utmost International post-Scheme (post-alignment)		
Life Underwriting Risk	58%	57%
Market Risk	34%	35%
Counterparty Default Risk	1%	1%
Operational Risk	6%	7%

Source: Information provided by WCS

3.23 Whilst the implementation of the Scheme would result in a change to the risk exposures of the Transferring Policyholders, the risk profile of Utmost pre-Scheme and Utmost International post-Scheme remain as described in the Main Report and the analysis set out in the Main Report continues to apply. Therefore, I remain satisfied that any change in risk profile and risk management would not have a material adverse effect on the Transferring Policies.

THE EFFECT ON TRANSFERRING POLICYHOLDERS DUE TO THE PERMISSIONS HELD BY UTMOST INTERNATIONAL COMPARED TO THOSE HELD BY UTMOST

Prudential regulation

3.24 There is no change to the primary regulator responsible for prudential regulation, it will continue to be the FSA as both Utmost and Utmost International are authorised in the IoM.

Conduct of business regulation

3.25 As set out in the Main Report:

- Utmost and Utmost International are both subject to conduct regulations issued by the FSA;
- Utmost holds permissions in the UK, which I understand means it is also subject to conduct of business rules issued by the FCA in respect of business sold in the UK;
- Utmost International does not hold permissions in the UK, and therefore is not subject to conduct of business rules in the UK.

3.26 Given the above, following the proposed Scheme, conduct of business supervision will be solely provided by the FSA. This represents a change for all UK Transferring Business, as for this business conduct of business supervision is currently provided by both the FSA and FCA.

3.27 Given that this position is unchanged since the Main Report, I remain satisfied that, in terms of conduct of business regulations, the implementation of the proposed Scheme would not have a material adverse effect on the Transferring Policies.

Access of Transferring Policyholders to the services of an independent complaints service

3.28 In the Main Report I set out that the Transferring Policyholders currently have access to the Financial Services Ombudsman Scheme ("FSOS"), and additionally the UK Transferring Business also have access, in respect of regulated activities undertaken by Utmost in the UK, to the Financial Ombudsman Services ("FOS"). After the Scheme, Transferring Policyholders will continue to have access to the FSOS, but the policyholders of the UK Transferring Business will lose access to the FOS.

3.29 As there has been no change in this position since the Main Report, for the reasons set out in the Main Report, I remain satisfied that the implementation of the proposed Scheme does not have a material adverse effect on the rights of Transferring Policyholders in relation to their access to the services of an independent complaints service.

Overall conclusion on the effect on the Transferring Policyholders due to the permissions held by Utmost International compared to those held by Utmost

3.30 In summary, I remain satisfied that, if the proposed Scheme were to be implemented:

- In terms of prudential regulation and conduct of business regulation, there would be no material adverse effect on the Transferring Policies;
- There would be no material adverse effect on the rights of Transferring Policyholders in relation to their access to an independent complaints service; and
- As set out in paragraph 3.19, I am satisfied that the loss of FSCS protection would not lead to a material adverse effect on the rights of the Transferring Policyholders, especially given that the protection conferred by the FSCS only relates to a limited set of circumstances (i.e. the protection is only in respect of any civil liabilities relating to sales, distribution and facilitation activities carried out in the UK).

THE EFFECT OF THE SCHEME ON THE REASONABLE EXPECTATIONS OF THE TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS AND SERVICE STANDARDS

The benefit expectations of the Transferring Policyholders

3.31 In the Main Report I set out my considerations of the impact of the Scheme on the benefit expectations of the Transferring Policyholders. There have been no developments since the finalisation of the Main Report which would alter those conclusions.

3.32 Both Utmost and Utmost International have charges which are not fixed and therefore there is an element of discretion in setting the level of these charges. I set out the approach to discretion in the Main Report, and that ordinarily such charges are increased with inflation. As set out in paragraph 2.6, the IoM, as well as countries around the world, are experiencing a period of high inflation. Therefore, increases to these charges may be higher than they have been historically. However, I remain satisfied, as set out in the Main Report, that the Scheme does not alter the way in which discretion is applied in respect of these charges.

3.33 As set out in the Main Report, Utmost International has a branch in Hong Kong, which is taxed under local rules. Utmost International is still in the process of determining the impact of the proposed Scheme on tax due in Hong Kong, however any such impacts would be borne by the shareholders, and not the policyholders.

3.34 Overall, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the benefit expectations of the Transferring Policyholders.

The effect of the Scheme on the management, governance, administration and servicing of the Transferring Policies

Management and governance

3.35 There have been no changes to the management and governance framework of Utmost International, it remains as set out in the Main Report. Therefore, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the levels of management and governance that would apply to the Transferring Policies.

Administration and Servicing

3.36 As set out in the Main Report, the Transferring Business is currently administered by Utmost Services Ltd ("USL"), under the terms set out in a MSA between Utmost and USL. As a result of the proposed Scheme the Transferring Business is to be administered by UAL, under the terms of an MSA between Utmost International and UAL, however I understand from Utmost that there will be no change to the individuals performing the administration of the Transferring Business nor the platform on which it is administered.

3.37 Since the Main Report the MSA between Utmost International and UAL has been finalised and signed. The new MSA between Utmost International and UAL contains a clause which relates to service standards, this is a change from the current MSA which does not contain any such service standards. In addition, I understand that currently, the Board of Utmost is provided with information to assess the level of service being provided to the Transferring Business (including KPIs). After the Scheme, the same information will still be collated, including the same KPIs, and it will be provided to the Board of Utmost International, to allow them to perform this same assessment.

3.38 As set out in paragraph 2.4 it is possible that the novation of the Modified Co-Insurance Agreement with AXA China may not have been novated by the Effective Date, and therefore the responsibility for the administration of the AXA China Modified Co-Insurance business would remain with Utmost. If this were to occur, then I understand from Utmost that an agreement would be put in place between Utmost and UAL, although I have not seen any drafts of this agreement, I have been informed by Utmost that:

- There will be no change to the individuals performing the administration;
- There will be no change to the administration platform used to administer these policies; and
- The service standards provided to Utmost would be the same as those provided to Utmost International.

3.39 Therefore, I remain satisfied that there would be no material change to the administration and servicing of the Transferring Policies if the proposed Scheme were to be implemented, and I therefore remain satisfied that the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the Transferring Policies.

Overall conclusion on the effect of the Scheme on the reasonable expectations of the Transferring Policyholders in respect of their benefits and services

3.40 In conclusion, I remain satisfied that the proposed Scheme would not have a material adverse effect on the reasonable expectations of the Transferring Policyholders in respect of their benefits and standards of service.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON THE TRANFSERRING POLICYHOLDERS

3.41 I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The profile of risks to which the Transferring Policyholders are exposed;
- The protection offered by the regulatory and legal regimes that apply to the Transferring Policyholder; or
- The reasonable expectations of the Transferring Policyholders in respect of their benefits, including the standards of administration, service, management and governance that apply to the Transferring Policyholders.

4. THE IMPACT OF THE SCHEME ON EXISTING POLICYHOLDERS

INTRODUCTION

4.1 If the proposed Scheme were to be approved by the Court the Transferring Business would be transferred from Utmost to Utmost International . The Existing Business will remain with Utmost International, the policies within the Existing Business are collectively referred to as the "Existing Policies", and the policyholders holding these policies are collectively referred to as the "Existing Policyholders".

THE EFFECT OF THE SCHEME ON THE SECURITY OF BENEFITS UNDER THE EXISTING POLICIES

The security of benefits derived from the applicable capital management policy

4.2 There have been no changes to the Utmost International Capital Management Policy since the finalisation of the Main Report. As set out in the Main Report, the Scheme would have no effect on the Utmost International Capital Management Policy, and the Existing Policies would continue to be managed in accordance with this policy after the proposed Scheme.

The security of benefits derived from the financial strength of Utmost International

4.3 The conclusions in the Main Report were based on financial information provided by Utmost International as at 31 December 2021. The financial results for Utmost International as at 30 June 2022 are included in Appendix A and Appendix B. I have reconsidered my conclusions in light of this financial information.

4.4 Figure 4.1 below sets out the pre-Scheme and pro-forma post-Scheme solvency cover ratio as at 31 December 2021, as shown in the Main Report, and 30 June 2022 under the Insurance Solvency Regulations.

FIGURE 4.1 REGULATORY SOLVENCY RATIOS AS AT 31 DECEMBER 2021 AND 30 JUNE 2022

SOLVENCY COVER RATIO	UTMOST INTERNATIONAL PRE-ALIGNMENT PRE-SCHEME	UTMOST INTERNATIONAL POST-ALIGNMENT PRE-SCHEME	UTMOST INTERNATIONAL POST-ALIGNMENT POST-SCHEME
31 December 2021	193%	203%	187%
30 June 2022	198%	201%	192%*

Source: Information provided by WCS

As set out in paragraph 2.3, this includes the £52.9m that is retained by Utmost, rather than being transferred to Utmost International. If instead the pro-forma post-Scheme Utmost International financial results excluded the £52.9m, the solvency cover ratio would be 182%.

4.5 I have been provided with information which enables me to estimate the impact of the alignment of assumptions (see paragraphs 2.9 and 2.10) on the solvency cover ratio for Utmost International, assuming they were implemented as at 30 June 2022 and I am satisfied that had the assumptions not been aligned Utmost International would still have had sufficient Own Funds to meet its Capital Management Policy. It should be noted that the alignment of assumptions is not linked to the proposed Scheme but is part of the integration of Utmost International into the Utmost Group.

4.6 As can be seen, it continues to be the case that the implementation of the Scheme is expected to result in a small decrease of the solvency cover ratio of Utmost International. This is caused by a larger relative increase in the SCR than Own Funds. As the solvency cover ratio remains above the minimum required by the Utmost International Capital Management Policy I am satisfied that there is no material adverse effect on the financial strength Utmost International as a result of the Scheme.

Impact of rising inflation and interest rates

4.7 As outlined in paragraphs 2.6 and 2.7, countries around the world including the Isle of Man are currently experiencing a period of higher inflation. I have reviewed the impact of the inflation stress within the ORSA, and I am satisfied that the impact of rising inflation is materially similar for Utmost International both pre-Scheme and post-Scheme.

4.8 I set out in paragraph 2.8, the current rising interest rates increase the solvency cover ratio for both Utmost International pre-Scheme and Utmost International post-Scheme.

4.9 Therefore, I am satisfied that the implementation of the Scheme would not have a material effect on the exposure of the Existing Policies to rising inflation and interest rates.

The security of benefits derived from the reinsurance arrangements of Utmost International

4.10 As set out in the Main Report, the Scheme does not result in any change to:

- the inwards or outwards reinsurance arrangements used by Utmost International in respect of the Existing Business; and
- the inwards and outwards reinsurance arrangements in respect of the Transferring Business, other than that they are transferred or novated to Utmost International.

4.11 The Main Report sets out that the Modified Co-Insurance Agreement with AXA China and the reinsurance agreements with ALAP, and the associated floating charge, are to be novated to Utmost International rather than transferred under the Scheme. As set out in paragraph 2.23, I have reviewed the near final version of the agreement that would effect the novation of the reinsurance agreements with ALAP, as well as the new floating charge agreement, and I understand that these are expected to be signed in advance of the Sanctions Hearing and take effect on the Effective Date. As set out in paragraph 2.24, the discussions with AXA China in relation to the novation of the Modified Co-Insurance Agreement with AXA China are progressing well, however it is possible that the novation of this contract will take effect after the Effective Date. This would mean that the Modified Co-Insurance Agreement with AXA China would be a Residual Policy until it is novated, which I understand from Utmost is expected to occur in the near term. Whilst the agreement is a Residual Policy:

- The Modified Co-Insurance Agreement covers both the asset and liability side of the agreement, and as detailed above the assets held by AXA China exactly match the policyholder liabilities. Therefore, the only payment due from AXA China to Utmost is the fee for administration (the reinsurance commission), which will be held on trust by Utmost for the benefit of Utmost International;
- The responsibility for the administration of the AXA China Modified Co-Insurance business would not be transferred to Utmost International until the agreement is novated. Utmost would enter into an agreement with UAL; and
- There would be no change from the perspective of AXA China, it would continue to retain ownership of the assets related to business reinsured under the Modified Co-Insurance Agreement it has with Utmost

4.12 Therefore, I remain satisfied that the Scheme would not have a material adverse effect on Existing Policyholders benefit security in relation to these reinsurance arrangements.

Actuarial Funding

4.13 It remains the case that the Scheme would not result in any changes to the range of product types to which Utmost International applies Actuarial Funding, nor the method by which it is applied.

Overall conclusion on the effect of the Scheme on the security of benefits under the Existing Policies

4.14 Overall, it remains the case that if the proposed Scheme were to be implemented:

- There would be no change to the Utmost International Capital Management Policy;
- There would be no material adverse effect on the financial strength of Utmost International;
- There would be no changes to the inwards and outwards reinsurance arrangements used by Utmost International in respect of the Existing Business;
- There would be no change to the inwards and outwards reinsurance arrangements in respect of the Transferring Business, other than that they will be transferred or novated to Utmost International, or temporarily be a Residual Policy; and
- There would be no change to the application of Actuarial Funding within Utmost International.

4.15 Therefore, I remain satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the Existing Policies.

THE EFFECT OF THE SCHEME ON THE PROFILE OF RISKS TO WHICH THE EXISTING POLICYHOLDERS ARE EXPOSED

4.16 Figure 4.2 below sets out the pre-scheme and pro-forma post-Scheme post-alignment of assumptions breakdown of Utmost International's pre-diversification SCR under the Insurance Solvency Regulations as at 31 December 2021 and 30 June 2022. (Details of the anticipated alignments are referred to in paragraphs 2.9 and 2.10).

FIGURE 4.2 UNDIVERSIFIED RISK PROFILE AS AT 31 DECEMBER 2021 AND 30 JUNE 2022

RISK EXPOSURE	31 DECEMBER 2021		30 JUNE 2022	
	PRE-ALIGNMENT PRE-SCHEME	POST-ALIGNMENT POST-SCHEME	PRE-ALIGNMENT PRE-SCHEME	POST-ALIGNMENT POST-SCHEME
Life Underwriting Risk	65%	58%	65%	57%
Market Risk	27%	34%	27%	35%
Counterparty Default Risk	1%	1%	0%	1%
Operational Risk	7%	6%	8%	7%
Total	**100%**	**100%**	**100%**	**100%**

Source: Information provided by WCS

4.17 As can be seen above, it continues to be the case that following the implementation of the Scheme the risk profile of Utmost International is not materially altered. Therefore the analysis and conclusions set out in the Main Report remain valid and I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the profile of risks to which the Existing Policies are exposed.

THE EFFECT OF THE SCHEME ON THE REASONABLE EXPECTATIONS OF THE EXISTING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS AND SERVICE STANDARDS

4.18 In the Main Report I set out my considerations of the impact of the Scheme on the reasonable expectations of the Existing Policyholders in respect of their benefits and standards of service. The only development since the finalisation of the Main Report is that the MSA between Utmost International and UAL has now been finalised and signed. I have reviewed the signed MSA, and I am satisfied that the analysis and conclusions in the Main report continue to be valid. Therefore, I remain satisfied that the implementation of the Scheme would not have a material adverse effect on the reasonable expectations of the Existing Policyholders or the standards of administration, the management and governance that apply to Existing Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON THE EXISTING POLICYHOLDERS

4.19 Overall, I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Existing Policies;
- The profile of risks to which the Existing Policies are exposed; and
- The reasonable expectations of the Existing Policyholders in respect of their benefits, including the standards of administration, management and governance that apply to the Existing Policies.

5. CORRESPONDENCE AND OBJECTIONS RECEIVED FROM POLICYHOLDERS IN RELATION TO THE SCHEME

INTRODUCTION

5.1 Following the Directions Hearing on 7 September 2022 and in accordance with the Scheme communication proposal, subject to the specific waivers received, a Website Referral Letter was sent to the Transferring Policyholders for whom Utmost holds a valid name and address, other than deceased policyholders of the Transferring Business for which no personal representative had been appointed, as at 7 September 2022.

MANAGEMENT OF POLICYHOLDER CORRESPONDENCE

5.2 Utmost is maintaining a central record of all correspondence received from policyholders in relation to the Scheme, which sets out whether or not the correspondence is an objection. For any objections received, the central record provides details on the correspondence with the policyholder and the actions taken by Utmost. The central record keeps track of all correspondence received on a weekly basis and is being provided to me. Details of any objections are also shared with the FSA.

5.3 I have been provided with details on how Utmost is managing correspondence from policyholders that are not objections and I am satisfied that Utmost has appropriate processes in place to deal with these responses. I discuss the objections received in relation to the Scheme at the time of writing this Supplementary Report, and Utmost's approach to managing these objections, below.

5.4 Any objections regarding the Scheme raised by policyholders before the Sanction Hearing but after this Supplementary Report has been finalised will be provided to the FSA and myself, and will also be presented to the Court at the Sanction Hearing.

POLICYHOLDER OBJECTIONS

5.5 At the time of writing this Supplementary Report, there have been no formal policyholder objections to the Scheme.

CONCLUSION

5.6 I am satisfied that Utmost is dealing with enquiries regarding the Scheme in a reasonable way, and Utmost has adequate processes in place to deal with any objections or expressions of dissatisfaction that may arise regarding the Scheme prior to the Sanction Hearing.

6. OTHER CONSIDERATIONS IN RELATION TO THE SCHEME

THE FUTURE OPERATION OF THE SCHEME

6.1 As set out in paragraph 2.21, there have been no material changes to the Scheme since the Main Report was finalised. Therefore, I remain of the opinion that there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court and as set out and described in the Main Report.

THE IMPACT OF THE SCHEME UPON REINSURERS OF THE TRANSFERING BUSINESS

6.2 As set out in the Main Report, if the proposed Scheme were to be implemented there would be no changes to the two reinsurance treaties that Utmost has in place with ALAP in respect of the With-Profit Fund Linked business, other than that they would be novated to Utmost International. As set out in paragraph 2.23, I have reviewed the near final version of the agreement that has been drafted in order to effect the novation of the reinsurance agreements with ALAP, as well as the new floating charge agreement, and I understand that these are expected to be signed in advance of the Sanctions Hearing. As set out in paragraph 2.24, the discussions with AXA China in relation to the novation of the Modified Co-Insurance Agreement with AXA China are progressing well, however it is possible that the novation of this contract will take effect after the Effective Date. This would mean that the Modified Co-Insurance Agreement with AXA China would be a Residual Policy until it is novated, which I understand from Utmost is expected to occur in the near term. Whilst the agreement is a Residual Policy:

- The Modified Co-Insurance Agreement covers both the asset and liability side of the agreement, and as detailed above the assets held by AXA China exactly match the policyholder liabilities. Therefore, the only payment due from AXA China to Utmost is the fee for administration (the reinsurance commission), which will be held on trust by Utmost for the benefit of Utmost International;
- The responsibility for the administration of the AXA China Modified Co-Insurance business would not be transferred to Utmost International until the agreement is novated. Utmost would enter into an agreement with UAL; and
- There would be no change from the perspective of AXA China, it would continue to retain ownership of the assets related to business reinsured under the Modified Co-Insurance Agreement it has with Utmost.

6.3 Given the above, I remain satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurer.

THE MODIFIED CO-INSURANCE AGREEMENT WITH AXA SINGAPORE

6.4 The Scheme transfers the Modified Co-Insurance with AXA Singapore to Utmost International. There is a risk of a cost to the shareholders of Utmost or Utmost International from the transfer of the Modified Co-Insurance Agreement with AXA Singapore to Utmost International, however having discussed this in detail with Utmost and Utmost International, and having considered their reasoning and representation that risk associated with this is not material, I am satisfied that this does not alter any of the conclusions in the Main Report or this Supplementary Report.

THE IMPACT OF THE LEGAL REVIEW OF THE MODIFIED CO-INSURANCE AGREEMENTS

6.5 As set out in paragraph 2.31, a legal review of the Modified Co-Insurance Agreements has been undertaken by Utmost. I understand that this review did not highlight any areas of material legal risk, and therefore this review did not alter any of the conclusions in the Main Report or this Supplementary Report.

THE IMPACT OF RELEVANT EXTERNAL EVENTS ON THE SCHEME

The COVID-19 pandemic

6.6 As set out in paragraph 2.32:

- Currently COVID-19 is not having a material impact on global markets, and any such impacts would be reflected in the quarterly valuations performed by both Utmost and Utmost International; and
- Mortality risk is not a material risk for Utmost nor Utmost International.

6.7 Given the above, I am satisfied that the COVID-19 pandemic does not provide any reason to change my conclusions regarding the Scheme, and I am satisfied that the Transferring Policyholders and Existing Policyholders will be no more exposed to the impacts of the COVID-19 pandemic as a result of the Scheme.

Conflict between Russia and Ukraine

6.8 As set out in paragraph 2.33, none of the Transferring Business is directly impacted by the sanctions and Utmost does not directly hold any assets subject to sanctions. Therefore, I do not believe that these sanctions alter any of the conclusions in this Supplementary Report, nor the Main Report.

7. CONCLUSIONS ON THE SCHEME

7.1 In the Main Report dated 24 August 2022 I considered the proposed Scheme based on information available at that time. The purpose of this Supplementary Report is to provide an updated assessment of the likely effects of the proposed Scheme ahead of the Sanction Hearing on 9 November 2022.

7.2 I have considered whether anything has happened since the finalisation of the Main Report, including the updated financial information as at 30 June 2022 and the pro-forma figures showing the financial information of Utmost International if the Scheme had been implemented on that date, that would cause me to change the conclusions in my Main Report.

7.3 In summary, the financial information as at 30 June 2022 and the developments since the Main Report do not change the conclusions set out in the Main Report in relation to the Existing Policyholders of Utmost International and those that transfer to Utmost International under the Scheme.

7.4 I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The profile of risks to which the Transferring Policies are exposed;
- The protection offered by the regulatory and legal regimes that apply to the Transferring Policyholders; or
- The reasonable expectations of the Transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Transferring Policies.

7.5 In addition, I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Existing Policies;
- The profile of risks to which the Existing Policies are exposed; or
- The reasonable expectations of the Existing Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Existing Policies.

7.6 I am satisfied that the Scheme is equitable to all classes of Utmost and Utmost International policyholders.

P H Simpson

Philip Simpson

2 November 2022

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix A Selected financial information before the implementation of the Scheme

REGULATORY FINANCIAL INFORMATION AS AT 30 JUNE 2022

A.1 The results in Figure A.1 below show the financial information of Utmost and Utmost International pre-Scheme and pre-alignment of the assumptions (detailed in paragraphs 2.9 and 2.10).

FIGURE A.1 REGULATORY PRE-SCHEME FINANCIAL INFORMATION AS AT 30 JUNE 2022, PRE-ALIGNMENT

£M	UTMOST PRE-ALIGNMENT PRE-SCHEME	UTMOST INTERNATIONAL PRE-ALIGNMENT PRE-SCHEME
Total assets	10,545.0	18,401.7
Total liabilities	10,289.8	17,729.8
Own Funds	255.2	671.9
SCR	153.8	339.4
MCR (Minimum Capital Requirement)	53.8	118.8
Excess Own Funds	101.5	332.5
Solvency coverage ratio	166%	198%

Source: Information provided by WCS

A.2 The results in Figure A.2 below show the financial information of Utmost and Utmost International pre-Scheme but post-alignment of the assumptions (detailed in paragraphs 2.9 and 2.10).

FIGURE A.2 REGULATORY PRE-SCHEME FINANCIAL INFORMATION AS AT 30 JUNE 2022, POST-ALIGNMENT

£M	UTMOST POST-ALIGNMENT PRE-SCHEME	UTMOST INTERNATIONAL POST-ALIGNMENT PRE-SCHEME
Total assets	10,545.0	18,401.7
Total liabilities	10,295.7	17,717.8
Own Funds	249.3	683.9
SCR	151.2	340.9
MCR (Minimum Capital Requirement)	52.9	119.3
Excess Own Funds	98.1	343.1
Solvency cover ratio	165%	201%

Source: Information provided by WCS

Appendix B Selected financial information after the implementation of the Scheme

FIGURE A.2 REGULATORY POST ALIGNMENT POST-SCHEME PRO-FORMA FINANCIAL INFORMATION AS AT 30 JUNE 2022

£M	UTMOST INTERNATIONAL POST-ALIGNMENT POST-SCHEME
Total assets	28,946.7
Total liabilities	28,013.6
Own Funds	933.1
SCR	484.8
MCR (Minimum Capital Requirement)	169.7
Excess Own Funds	448.3
Solvency cover ratio	192%

Source: Information provided by WCS

B.1 The above post-alignment post-Scheme position includes the £52.9m that is retained by Utmost, rather than being transferred to Utmost International. If instead the post-Scheme Utmost International financial results excluded the £52.9m, the solvency cover ratio would be 182%.

B.2 As the proposed Scheme transfers all the policyholders of Utmost (the Transferring Business), and their associated liabilities to Utmost International, it is not expected that there will be any policyholder liabilities in Utmost post-Scheme and therefore we do not show a pro-forma post-Scheme balance sheet for Utmost.

Appendix C Definitions

TERM	DEFINITION
Actuarial Funding	There are different approaches to Actuarial Funding, in general it means that a company holds fewer units than the face value of units purchased by the policyholder.
ALAP	Aviva Life and Pensions UK Limited.
AXA China	AXA China Region Insurance Company (Bermuda) Ltd.
AXA Singapore	AXA Life Insurance Singapore Private Limited.
Board	The Board of an insurer is ultimately accountable and responsible for the affairs of the insurer.
Capital Management Policy	The Capital Management Policy of a company sets out the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR.
The Court	High Court of Justice of the Isle of Man (Civil Division)
Directions Hearing	A short hearing at which the Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.
Effective Date	The date on and from which the Scheme shall become effective, which is expected to be 30 November 2022.
Existing Business	All the business of Utmost International.
Existing Policies	The insurance contracts underlying the Existing Business.
Existing Policyholders	The policyholders of the Existing Business.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FCA Guidance	The FCA's guidance FG22/1 entitled "*The FCA's approach to the review of Part VII insurance business transfers*", initially issued in May 2018 and updated in February 2022.
FOS	The Financial Ombudsman Service ("FOS") is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders.
FSA	Financial Services Authority in the IoM which is the authority possible for conduct and prudential regulation of financial service firms in the IoM. It was established by the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.
FSCS	The Financial Services Compensation Scheme ("FSCS") is a statutory "fund of last resort" in the UK, which compensates retail customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the Prudential Regulation Authority or FCA.
FSOS	The Financial Services Ombudsman Scheme in the IoM. It is an independent dispute resolution service for customers with a complaint against an IoM financial firm, such as an insurance company, which the firm has been unable to resolve.
Guernsey Court	The Royal Court of Guernsey. Approval of the Royal Court of Guernsey will be sought in respect of the Guernsey Scheme.

Guernsey Policies	The policies of the Transferring Business which were issued to policyholders resident in Guernsey.
Guernsey Scheme	The parallel transfer of the Guernsey Policies from Utmost to Utmost International. The transfer of the Guernsey Policies is conditional on the approval of the Guernsey Scheme by the Guernsey Court, as well as the approval of the Scheme by the Court.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
Independent Actuary	The Independent Actuary prepares the Independent Actuary's Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Actuary.
Insurance Solvency Regulations	The *Insurance (Long-Term Business Valuation and Solvency) Regulations 2021* which set out how insurers authorised in the IoM should calculate their solvency capital requirements.
IoM	Isle of Man.
Jersey Court	The Royal Court in Jersey. Approval of the Royal Court in Jersey will be sought in respect of the Jersey Scheme.
Jersey Policies	The policies of the Transferring Business carried on by Utmost in or from Jersey.
Jersey Scheme	The parallel transfer of the Jersey Policies from Utmost to Utmost International. The transfer of the Jersey Policies is conditional on the approval of the Jersey Scheme by the Jersey Court, as well as the approval of the Scheme by the Court.
KPIs	Key performance indicators.
MCR	The Minimum Capital Requirement ("MCR") under the Insurance Solvency Regulations, which is usually lower than the SCR, and defines the point of intensive regulatory intervention.
Milliman	Milliman LLP, a member of the Milliman Group.
Modified Co-Insurance Agreements	The two agreements Utmost have in place with AXA China and AXA Singapore, under which the Modified Co-Insurance business is ceded back to Utmost.
Modified Co-Insurance business	The Transferring Business sold by AXA China and AXA Singapore which is ceded to Utmost.
MSA	Master Services Agreement
Other Unit-Linked business	The Transferring Business which is neither With-Profit Fund Linked nor Modified Co-Insurance.
ORSA	The Own Risk and Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II and the UK Prudential Regulation Regime constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	The excess of assets over liabilities, plus any subordinated liabilities and Ancillary Own Funds, defined under the Insurance Solvency Regulations.
PCS	The Policyholder Compensation Scheme.

Policyholder Compensation Scheme	The Policyholder Compensation Scheme – Life Assurance in the IoM. The purpose of this compensation scheme is to protect policyholders of authorised insurers writing long-term business.
PRA Statement of Policy	The Statement of Policy entitled "The Prudential Regulation Authority's approach to insurance business transfers", initially issued in April 2015 and updated in January 2022.
Quilter	Quilter International Isle of Man Limited.
Regulated activities undertaken by Utmost in the UK	Utmost holds the following FCA permissions in the UK: • Arranging safeguarding and administration of assets; • Dealing in investments as agent; • Dealing in investments as principal; • Making arrangements with a view to transactions in investments; • Making investments; • Safeguarding and administration of assets (without arranging); and • Agreeing to carry on regulated activity. The above carry the following limitation "The firm may only carry on listed activities in respect of the investments specified for the purposes of its long term insurance business".
Sanction Hearing	A hearing at which the Court hears the application to sanction a proposed transfer of insurance business.
Scheme	In the context of this Report, the proposal that the transferring business of Utmost be transferred to Utmost International under the provisions of Section 21(1) of Schedule 2 to the 2008 Insurance Act.
Scheme Report	The Scheme Report consists of this report (the "Report") and any subsequent supplementary reports.
Scheme document	The document that sets out the terms of the proposed transfer (the "Scheme document").
SCR	The Solvency Capital Requirement ("SCR") under Insurance Solvency Regulation is the amount of capital required to ensure continued solvency over a one year trading time frame with a likelihood of 99.5%.
SUP18	Section 18 of the FCA Supervision Manual.
Supplementary Report	Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (the "Supplementary Report") that will cover any relevant matters that might have arisen since the date of this Report.
Transferring Business	All of the liabilities associated with the long-term business of Utmost.
Transferring Policyholders	Policyholders of Utmost whose policies would be transferred to Utmost International under the Scheme.
UAL	Utmost Administration Limited.
UGPlc	Utmost Group Plc.
UHIOM RAS	The risk appetite statement adopted by the UHIOM Board.
UK	United Kingdom.
UK Transferring Business	Transferring Business sold under the permissions held by Utmost in the UK, in respect of which Utmost is regulated by the FCA.
USL	Utmost Services Ltd.
Utmost	Utmost Limited.

Utmost Capital Management Policy	The policy maintained by Utmost which sets out the minimum quantity of capital to be held in excess of the SCR.
Utmost International	Utmost International Isle of Man Limited (formerly known as Quilter International Isle of Man Limited).
Utmost International Capital Management Policy	The policy maintained by Utmost International which sets out the minimum quantity of capital to be held in excess of the SCR.
WCS	Wraxall Capital Solutions Ltd.
Website Referral Letter	A short letter Utmost has sent to the Transferring Policyholders informing them of the Scheme and referring them to a dedicated webpage.
With-Profit Fund Linked	The Transferring Business that invests into two of ALAP’s with-profits funds.

Appendix D Key Sources of Data

In writing this Supplementary Report, I relied upon the accuracy of certain documents provided by Utmost and Utmost International. These included, but were not limited to, the following:

DOCUMENT	DATE OF DOCUMENT
Scheme Document (final, unsigned)	27/10/2022
First Witness Statement of Joly Hemuss (near final draft)	31/10/2022
Combined ORSA	September 2022
Policyholder communications	N/A
Various additional underlying documentation	N/A