Report of the Independent Actuary on the proposed transfer of Quilter International Ireland dac to Utmost PanEurope dac

29 June 2022

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Section 1: Introduction

Background

1.1 The Utmost Group has been operating since 2013, previously as two separate groups: Utmost International Group Holdings and Utmost UK Group Holdings. In October 2020, the Group underwent a reorganisation which resulted in the Group's two businesses being brought together under a single UK holding company, Utmost Group Limited, which was reregistered as Utmost Group plc ("UG") in July 2021. UG, is a UK based financial services group operating in the UK and international life assurance sectors. It is a provider of insurance and savings products which also specialises in the acquisition and consolidation of books of life assurance business in the UK and internationally.

1.2 Quilter International Ireland dac ("QII") is a member of UG, and a direct subsidiary of Utmost PanEurope dac ("UPE"). UPE is a member of UG, and a direct subsidiary of Utmost Holdings Ireland Limited ("UHIL"). It is proposed that QII will transfer its insurance business to UPE via a scheme of transfer in Ireland (the "Irish Scheme") and in Guernsey (the "QII Guernsey Scheme"), that are currently planned to take effect at 30 September 2022 (the "Effective Time"). This transfer is a continuation of UG's consolidation strategy to simplify the business, produce operational and capital efficiencies and manage liquidity.

1.3 Utmost Worldwide Limited ("UWW") is also a member of UG, and a direct subsidiary of Utmost International Group Holdings Limited ("UIGH"). At the same time as the transfer of the QII insurance business, and through a separate scheme of transfer in Guernsey (the "UWW Guernsey Scheme"), UWW will transfer a small number of insurance policies to UPE. The transfer of these policies is as a result of the Dutch Authority for the Financial Markets ("The Dutch Regulator") requiring that all third country insurance companies operating within the Netherlands, including UWW, run-off their positions over a period of two years following the United Kingdom's exit from the European Union ("EU") on 31 January 2021.

1.4 Although the transfer of the QII business is sperate to the transfer of the UWW policies, the processes are being carried out in parallel and so I provide my opinion on the overall outcome for policyholders of UPE after the proposed transfer. My conclusions are based on the assumption that both the QII and UWW policies will transfer to UPE. If however either transfer does not go ahead as planned, I will consider the impact of this in my supplementary report which is described further in paragraph 1.27.

1.5 The acquisition of QII by Utmost Holdings Isle of Man Limited was completed on 30 November 2021 and as part of a subsequent business reorganisation, QII was acquired by UPE. The business of QII includes single premium Portfolio Bonds and a small amount of unit-linked business, collectively referred to as the "QII Transferring Business". QII is open to new business in respect of Portfolio Bond products only.

1.6 UWW is a life insurance company based in Guernsey which was acquired by UG in February 2019. The business of UWW includes unit-linked and Portfolio Bond products as well as group protection and retirement and savings business, sold to individual expatriates and multinational corporations globally. The only UWW policies that will transfer to UPE, collectively referred to as the "UWW Transferring Business", are those policies where at least one policyholder was a resident of the Netherlands at the time of the inception and where the policyholder is still recorded as resident or tax resident in the Netherlands. These policies cover a range of different products including unit-linked single and regular premium business and make up a small proportion of UWW's overall liabilities.

1.7 The QII Transferring Business and the UWW Transferring Business are collectively referred to as the "Transferring Business".

1.8 UPE, previously Generali PanEurope dac, was acquired by UG during 2018. In 2019, the business of two other group entities Harcourt Life Ireland dac ("HLI") and Utmost Ireland dac ("UI") transferred into UPE:

- UI: In July 2016, the UG acquired the Ireland based life insurance businesses of Aviva Life International Limited and subsequently renamed to Utmost Ireland dac ("UI"). At the end of June 2017, UI acquired the overseas business of AXA Life Europe dac.

- HLI: Until November 2017, HLI was named Scottish Mutual International dac and was made up of several entities that were acquired by UG over the period March 2015 to March 2017. These entities came together on 31 March 2018 when the businesses were transferred, via scheme of transfer, into HLI. The entities were:

  - Harcourt Life Assurance dac, acquired in March 2015,

  - Scottish Mutual International dac, acquired in December 2015,

  - Augura Life Ireland dac, acquired in November 2016,

  - Union Heritage Life Assurance Company dac, acquired in March 2017.

1.9 The in-force business of UPE includes unit-linked single and regular premium business, employee benefits business and a small portfolio of German variable annuity ("VA") business as well as with-profits business. UPE is open to new business in respect of a number of different unit-linked and group protection products.

1.10 It is proposed that all the policies in QII will be transferred to UPE at the Effective Time via the Irish Scheme, approved by the High Court of Ireland ("the Irish Court").

1.11 Included within the QII Transferring Business are policies that have been sold by QII to residents of Guernsey ("the QII Guernsey Policies"). To the extent that the QII Guernsey Policies fall within the scope of the Insurance Business (Bailiwick of Guernsey) Law 2002 ("Guernsey Insurance Law"), the QII Guernsey Policies will not transfer to UPE pursuant to the terms of the Irish Scheme but instead will transfer pursuant to the QII Guernsey Scheme under the Guernsey Insurance Law with the same planned effective date as the Effective Time of the Irish Scheme. Having reviewed the draft QII Guernsey Scheme, I am satisfied that the QII Guernsey Scheme incorporates and reflects the Irish Scheme. The QII Guernsey Scheme will be subject to the approval of the Royal Court of Guernsey ("the Guernsey Court"). My conclusions as set out in this report apply equally in respect of the QII Guernsey Policies comprised in the QII Transferring Business.

1.12 As UWW is a licensed insurer in Guernsey, the UWW Transferring Business will be transferred to UPE pursuant to the separate UWW Guernsey Scheme at the same time as the QII Guernsey Scheme. The Schemes in respect of the QII Transferring policies are not dependent on the transfer of the UWW policies. My conclusions as set out in this report apply equally in respect of the UWW Transferring Business.

1.13 The Irish Scheme, the QII Guernsey Scheme and the UWW Guernsey Scheme will be referred to collectively in this report as "the Schemes".

1.14 The structure of UG before the proposed Schemes is set out in Figure 1.1 below and the planned structure post the proposed Schemes is shown in Figure 1.2 below:

Figure 1.1 - UG structure before transfer

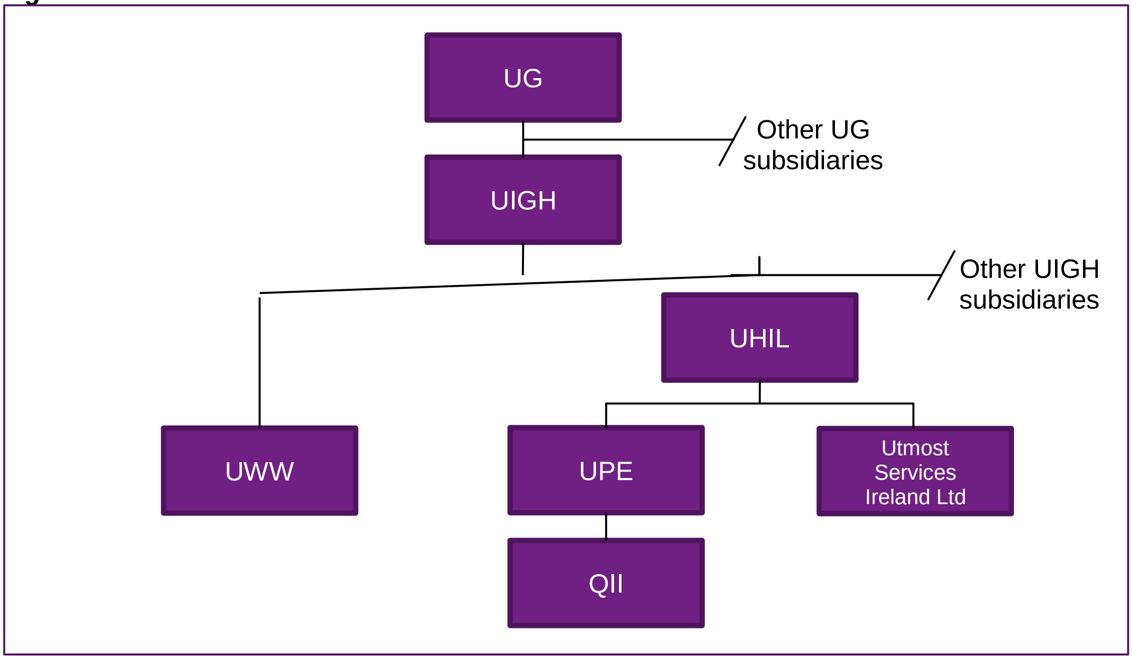
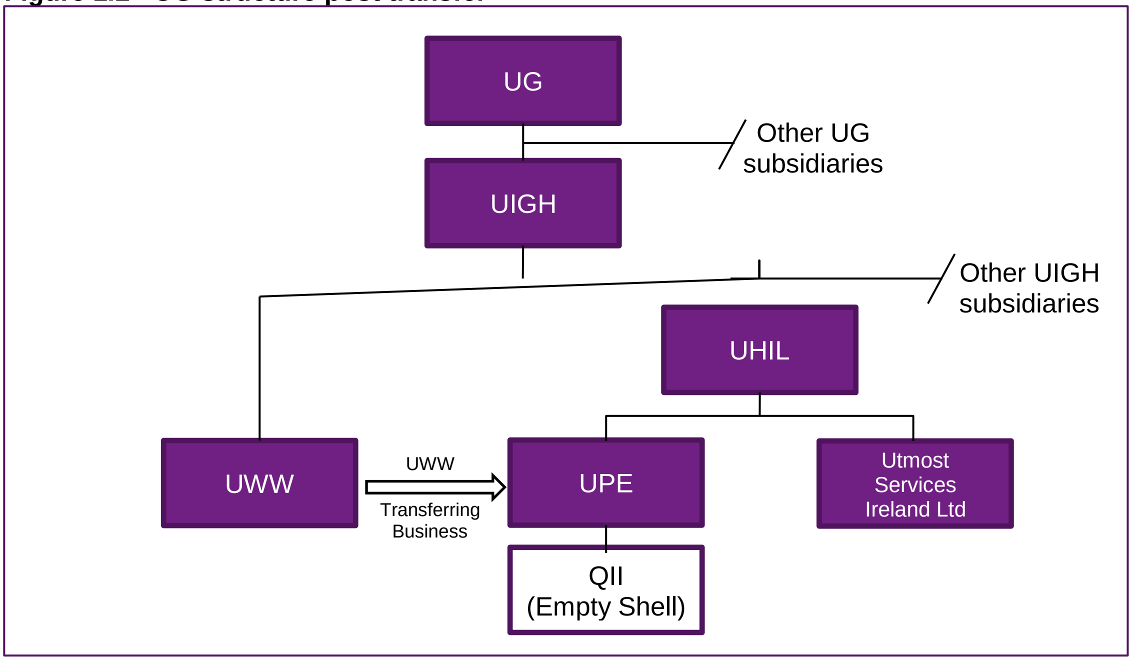


Figure 1.2 - UG structure post transfer



1.15 The respective Boards of Directors of QII, UWW and UPE have approved the draft Schemes, subject to the requirements of; the Central Bank of Ireland ("the CBI"); the Guernsey Financial Services Commission ("GFSC"); the sanction of the Irish Court in respect of the Irish Scheme; the sanction of the Guernsey Court in respect of the QII Guernsey Scheme and the UWW Guernsey Scheme.

The role of the Independent Actuary

1.16 Under Section 13 of the Assurance Companies Act 1909 ("the Act"), any scheme which provides for the whole or part of the life assurance business carried on by an insurance company to be transferred to another body, requires the prior sanction of the Irish Court.

1.17 The Irish Court will consider the Irish Scheme on the basis of a petition by one, or both, of the parties. The petition must be accompanied by a report on the terms of the scheme by an Independent Actuary.

1.18 For the purposes of Section 13 of the Act, and subject to the provisions of Section 36 of the Insurance Act 1989, Article 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (the "Solvency II Regulations") provides the following:

> *"An insurance undertaking whose head office is in the State may, after consultation with the Bank, transfer all or part of its portfolios of contracts, including those concluded either under the right of establishment or the freedom to provide services, to an accepting undertaking whose head office is in the State or another Member State.*
>
> *A transfer shall not be effected unless -*
>
> *(a) The supervisory authority of the home Member State of the accepting undertaking certifies that, after taking the transfer into account, the accepting undertaking possesses the necessary eligible own funds to cover the Solvency Capital Requirement referred to in Regulation 113, and*
>
> *(b) The supervisory authorities of every Member State where the contracts were concluded, either under the right of establishment or the freedom to provide services, and (in a case within paragraph (2)) the supervisory authority of the Member State in which the branch is situated, have consented."*

1.19 The Actuarial Standard of Practice LA-6 ("ASP LA-6"), "Transfer of long-term business of an authorised insurance company – role of the independent actuary", issued by the Society of Actuaries in Ireland, sets out the statutory and professional responsibilities of the Independent Actuary.

1.20 I have been appointed by UPE to act as the Independent Actuary in connection with the Irish Scheme pursuant to Section 13 of the Act and in connection with the Guernsey Schemes. My appointment is also made in fulfilment of the requirement of Section 45(2)(a)[1] of the Guernsey Insurance Law. The "Schemes" refer to the schemes of transfer which are the legal documents that set out the terms of the proposed transfer of business from QII and UWW to UPE.

1.21 I am a Fellow of the Society of Actuaries in Ireland. I am a Consulting Actuary at Willis Towers Watson (Ireland) Limited ("Willis Towers Watson") of Elm Park, Merrion Road Dublin 4, Ireland. I have no personal connection with QII, UWW or UPE. I previously acted as Independent Actuary in relation to the 2019 transfer of UHI and HLI to UPE. Previously, in a number of transfers of business for companies owned by UHIL, a colleague in Willis Towers Watson acted as Independent Actuary in relation to the 2017 and 2018 transfers (namely transferring a book of business from AXA to UI, a book of business from Athora to UI and a number of simultaneous transfers of business from three companies owned by Utmost Holdings Ireland Limited to HLI). Other consultants in Willis Towers Watson have worked for and carried out consultancy work for the UG in the UK, although that work was not related in any way to the proposed transfer discussed in this report.

Scope of my report

1.22 This report has been prepared in respect of the Schemes to be presented to the Irish Court and the Guernsey Court for the transfer of the Transferring Business from QII and UWW to UPE in compliance with the requirement for an independent actuary's report in Ireland and Guernsey respectively. As Independent Actuary, I am required to examine the consequences and potential consequences of the proposed transfer. In particular, I must consider the

[1] "The Royal Court shall not determine an application for an order under section 44 sanctioning a scheme unless the application is accompanied by a report on the terms of the scheme by an independent actuary"

implications of the Schemes on the security of policyholders' benefits and the impact on the benefits ultimately payable.

1.23 This report considers the consequences of the Schemes for the Transferring Policyholders and for the policyholders of the transferee company, UPE (or the "Transferee") and also for the non-transferring policyholders of UWW. Given the materiality of the UWW Transferring Business in the context of the remaining UWW policyholders, I have considered the impact of the transfer on the remaining UWW policyholders, by confirming that the impact on the balance sheet of the Schemes would not be material.

1.24 I have only considered the Schemes proposed and I have not considered any alternative schemes. This report compares the position of the life assurance policyholders of the three companies after implementation of the Schemes against the position if the Schemes were not to proceed.

1.25 This report applies equally to the life assurance business comprising of policies issued to residents of Guernsey and the Netherlands. It may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the QII Guernsey Scheme and the UWW Guernsey Scheme.

1.26 In particular, I have considered in this report:

- The likely effects of the Schemes on life assurance policyholders including, but not limited to, the security of their benefits and their reasonable expectations; and
- The adequacy of any safeguards in the Schemes to protect the interests of Transferring Policyholders in the transferee life company.

1.27 The conclusions I set out in this report are based on the information provided to me on or before the date of preparation of this report. After this date, I will also prepare a supplementary report to confirm whether my view on the transfer remains unchanged given the emergence or resolution of any issues of which I am made aware after this date.

Terms of reference

1.28 Terms of reference for my review of the Schemes and my performance of the role of Independent Actuary have been agreed with QII, UWW and UPE and have been discussed with the CBI. These terms are set out above under the headings "The role of the Independent Actuary" and "Scope of my report".

1.29 In preparing this report I have taken account of the professional standards of practice set out in ASL LA-6 issued by the Society of Actuaries in Ireland.

1.30 This report should be read in conjunction with the following documents:

- The Irish Scheme;
- The QII Guernsey Scheme;
- The UWW Guernsey Scheme;
- The report by the Head of Actuarial Function of QII on the Schemes;
- The report by the Head of Actuarial Function of UPE on the Schemes;
- The report by the Head of Actuarial Function of UWW on the Schemes and
- The Policyholder Circular (as defined in paragraph 4.42 of this report).

Reliances and limitations

1.31 This report is subject to the reliances and limitations as set out in Section 11 of this report.

Section 2: Information on which this report is based

2.1 In the course of preparing this report, I have been provided with a number of documents. These may be broken down into four different categories: those relating specifically to the Schemes, those relating to UPE, those relating to QII and those relating to UWW. Details of these documents are listed below.

2.2 In addition, my team and I have participated in a number of meetings involving the management of UPE, QII and UWW. These included meetings with the Heads of Actuarial Function of QII, UPE and UWW.

Schemes of Transfer

2.3 The following documents relating to the proposed Schemes have been considered:

- The proposed Irish Scheme document;
- The proposed QII Guernsey Scheme documents;
- The proposed UWW Guernsey Scheme documents;
- The report by the Head of Actuarial Function of QII on the Schemes;
- The report by the Head of Actuarial Function of UPE on the Schemes;
- The report by the Head of Actuarial Function of UWW on the Schemes;
- The Policyholder Circular;
- The report covering the previous Schemes which the entities have been involved in;
- The report on the tax implications for policyholders as a result of the Schemes;
- The report on the proposed servicing arrangements;
- The report on the litigation risk to UPE, QII and UWW;
- The report on the basis harmonisation;
- The report on the setting of charges; and
- The CBI notification document relating to the proposed transfer.

UPE

2.4 The key UPE documents I have considered in preparing this report are:

- Head of Actuarial Function Report on the proposed transfer dated March 2022;
- Actuarial Function Report as at 31 December 2021 prepared by the Head of Actuarial Function;
- Actuarial Opinion on Technical Provisions as at 31 December 2021;

- Actuarial Report on Technical Provisions as at 31 December 2020, prepared by the Head of Actuarial Function;
- Actuarial Opinion on Technical Provisions as at 31 December 2020;
- External Peer Review Report on Technical Provisions dated 9 March 2022 in compliance with the CBI's "Domestic Actuarial Regime and Related Governance Requirements under Solvency II";
- Own Risk and Solvency Assessment report ("ORSA") for financial year 2020
- Head of Actuarial Function Opinion on the 2020 ORSA report;
- Audited Directors' report and financial statements for the financial year ended 31 December 2020;
- Capital management policy dated 24 March 2022;
- Risk Appetite Statement dated 19 October 2021;
- The supporting report on the Italian Withholding Tax asset; and
- The annual returns of QII as at 31 December 2020 submitted to the CBI.

QII

2.5 The key QII documents I have considered in preparing this report are:

- Head of Actuarial Function Report on the proposed transfer dated March 2022;
- Actuary's Report as at 31 December 2020, including Actuarial Report on Technical Provisions and Actuarial Opinion on Technical Provisions, dated 6 March 2022;
- Actuarial Function Report and Actuarial Report on Technical Provisions as at 31 December 2020 dated April 2021;
- Actuarial Opinion on Technical Provisions as at 31 December 2020;
- Own Risk and Solvency Assessment report ("ORSA") for financial year 2020 (see Appendix A for a description of the ORSA) and Head of Actuarial Function Opinion on the 2020 ORSA report;
- Audited Directors' report and financial statements for the financial year ended 31 December 2020;
- Dividend distribution policy dated July 2020;
- Assumption and Methodology Report for year-end 2020 Solvency II Reporting; and
- The annual returns of QII as at 31 December 2020 submitted to the CBI.

UWW

2.6 The key UWW documents I have considered in preparing this report are:

- Head of Actuarial Function Report on the proposed transfer dated March 2022;

- Actuarial Function Report 2021 as at 31 December 2021, dated March 2022;
- Correspondence between UWW and GSFC on UWW's approach to calculate Own Funds and Capital requirements;
- Annual report and financial statements for the financial year ended 31 December 2020;
- Draft Business Transfer Agreement dated 28 April 2022;
- Summary of Policyholder Protection Measures for UW Dutch Scheme dated 31 May 2022; and
- Comparative Analysis of Policyholder Protection Regimes: Ireland And Guernsey dated 27 May 2022.

Reliances

2.7 In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form, by UPE, QII and UWW, particularly in relation to the financial information concerning the solvency position of each company, both before the proposed transfer and the projected solvency position after the proposed transfer, and also in respect of the legal and tax advice provided to me which I have reviewed and placed reliance on.

2.8 All information requested by me has been provided by the three companies.

Section 3: Background to QII, UWW and UPE

QII history

3.1 QII is a member of UG and is a direct subsidiary of UPE. QII is based in Dublin and offers life assurance investment solutions cross border, predominantly into EU countries utilising EU freedom of services regulations, plus selected non-EU markets. The principal activity of QII is the transaction of international unit-linked life assurance business and the company is authorised and regulated by the Central Bank of Ireland ("CBI").

3.2 QII has a larger sister company, Quilter International Isle of Man Limited ("QIIOM"), which serves non-EU and UK markets offering similar products. QII outsources extensively to group service companies.

3.3 The company has business in the majority of European Economic Area ("EEA") countries and a number of non-EEA countries, including Crown Dependencies for which schemes of transfer are expected to be required.

The business of QII

3.4 QII is authorised by the CBI to undertake life assurance business in the following classes:

- Class III: Life assurance contracts linked to investment funds (i.e. unit-linked business and Variable Annuity business); and
- Class VI: Capital redemption business.

3.5 QII currently has two distinctive product groupings, as set out below

- Portfolio bonds:

  These are single premium, open architecture products with a variety of charging structures, and make up the majority of the in-force book and all new business written by QII. The bonds are offered on a cross-border basis; and

- Unit-linked products:

  The business also has a very small book of unit-linked products utilising the company's internal fund offering. This book is entirely closed to new business and the internal fund offering continues to be rationalised as the book contracts.

Summary

3.6 A more detailed description of the product features is included in the QII Head of Actuarial Function report relating to the proposed transfer.

3.7 The QII business is administered by staff employed by Quilter International Business Services ("QIBS") in the Isle of Man which is a member of UG.

3.8 Table 3.1 below summarises the number of policies and funds under management ("FUM") of QII as at year-end 2021.

Table 3.1 – QII on 31 December 2021

	Number of policyholders	FUM € million
Portfolio Bonds	7,005	4,559
Unit-Linked	400	32
Total	**7,405**	**4,591**

UWW history

3.9 UWW is a life insurance company based in Guernsey and was acquired by Utmost on 28 February 2019. UWW is made up of an Amalgamation of Generali International Ltd ("GIL") and Generali Worldwide Insurance Company Limited ("GWICL"). The Amalgamation was akin to an Insurance Business Transfer, but under Guernsey law. The Amalgamation took place on 11 December 2015.

3.10 GIL wrote unit-linked savings contracts and portfolio bonds to individual expatriates globally. GWICL wrote group protection contracts and retirement and savings contracts to multinational corporations globally. UWW continues to write group protection, group savings, unit-linked savings and portfolio bonds, as well as accepting top-ups on existing contracts.

The business of UWW

3.11 UWW is authorised by the GFSC to undertake life assurance business in the following classes as defined in the 'The Insurance Business (Bailiwick of Guernsey) Law, 2002':

- Life business;
- General business;
- International business; and
- Domestic business.

3.12 UWW currently has a range of different product types as summarised in Table 3.2.

Table 3.2 – UWW on 31 December 2021 (FUM shown in GBP)

	Number of policyholders	FUM £ million
Vision	44,091	1,717
Focus	142	2
Legacy Unit-Linked	4,337	206
Portfolio Bonds	3,798	1,349
Group Life & Disability	1,255	
Group Retirement & Savings, Momentum and individual legacy	753	506
Annuities	1,565	

Total	**55,941**	**3,780**

3.13 However only a small subset of the UWW policies make up the UWW Transferring Business. This includes those policies where at least one policyholder was a resident of the Netherlands at the time of the inception and where the policyholder is still recorded as resident or tax resident in the Netherlands. A breakdown of the liabilities of the UWW Transferring Business is provided in Table 3.3 which shows that the transferring policies make up less than 1% of UWW business by both number of policies and FUM.

Table 3.3 - UWW Transferring Business on 31 December 2021 (FUM shown in GBP)

	Number of policyholders	FUM £ million
Vision	226	10.9
Focus		
Legacy Unit-Linked	8	0.5
Portfolio Bonds		
Group Life & Disability		
Group Retirement & Savings, Momentum and individual legacy		
Annuities		
Total	**234**	**11.4**

3.14 All of the UWW Transferring Business is unit-linked in nature:

- Vision is a regular premium unit-linked whole-of-life savings plan that permits premium increases, with a wide fund range. There are no significant investment guarantees or insurance benefits within this. Policies have death benefits at 101% of sum assured. The product variants included with the UWW Transferring Business are closed to new business and do not include any additional death benefits; and

- Legacy Unit-Linked business includes either single or regular premium unit-linked policies with varying charges and benefits. None of the policies have guaranteed minimum fund values, and all are closed to new business.

Summary

3.15 A more detailed description of the product features is included in the UWW Head of Actuarial Function report relating to the proposed transfer.

3.16 The UWW business is administered by UWW in Guernsey. The administration systems differ by line of business.

UPE history

3.17 UHIL acquired Generali PanEurope dac on 19th June 2018 and subsequently renamed it as Utmost PanEurope dac. UHIL in turn is part of UG. UG is a specialist vehicle operating in the UK and international life assurance sectors. It is a provider of insurance and savings products which also specialises in the acquisition and consolidation of books of life assurance business in the UK and internationally.

3.18 UPE was incorporated in October 1999 and began trading in October 2001, writing cross border life assurance contracts to pan-European jurisdictions. These products were unit-linked savings products, marketed at ultra-high-net worth individuals.

3.19 In 2006, UPE expanded its product range to include Employee Benefits, which are group risk style insurance products marketed to domestic Irish and multi-national corporations.

3.20 In 2019, the business of two other entities within UG, Harcourt Life Ireland dac (“HLI”) and Utmost Ireland dac (“UI”) transferred into UPE.

The business of UPE

3.21 UPE is authorised by the CBI to undertake life assurance business in the following classes:

- Class I: Life assurance and contracts to pay annuities on human life, but excluding Classes II and III;
- Class III: Life assurance contracts linked to investment funds (i.e. unit-linked business and VA business);
- Class IV: Permanent health insurance contracts;
- Class VI: Capital redemption business; and
- Class VII: Management of group pensions funds business.

3.22 UPE currently has three distinctive product groupings, as set out below:

- Heritage UPE products:
  - Wealth solutions business: unit-linked business investing in a range of stocks, shares and other funds, which can be sub-divided as follows:
    - Wealth Protection business;
    - Investment Planning Single Premium business; and
    - Investment Planning Regular Premium business (Vision).
  - Corporate Solution business: group risk style employee benefit business providing life cover, income protection and critical illness benefits to employees of domestic Irish and multi-national corporations.
  - Variable annuity (VA) business: unit-linked contracts offering a Guaranteed Minimum Accumulation Benefit (GMAB) to policyholders in the German market. This book is closed and is 100% reinsured.
- Ex-UI products:
  - Ex-Aviva Life International business;
  - Ex-AXA Life Europe business;

    - Ex-Athora Ireland business; and
    - UI business.

- Ex-HLI products:
    - Ex-Harcourt Life Assurance;
    - Ex-Scottish Mutual International;
    - Ex-Augura Life Ireland; and
    - Ex-Union Heritage Life Assurance Company.

Wealth Solutions business:

3.23 The Wealth Solutions business is unit-linked business whereby the performance of the contract is directly linked to the performance of the underlying funds that the policy has been invested in. The value at any point in time of the policy is by reference to the number of units allocated to the policy and the value of those units. The unit value is determined by direct reference to the value of the underlying investments of the unit-linked funds invested in. Charges are levied on policies principally via a percentage of funds charge (and so are exposed to falls in the markets).

3.24 There are three main product groups: Wealth Protection, Investment Planning SP and Vision.

- Wealth Protection business: unit-linked, single premium, whole of life savings bond marketed to high-net-worth individuals across Europe, mainly resident in Italy. The Wealth Protection business accounts for c. 60% of the company's technical provisions as at 31 December 2021;
- Investment Planning SP business: unit-linked, single premium, whole of life or term assurance savings bond marketed across Europe, catering for individuals for medium to long term financial planning. Investment planning SP business accounts for c. 1% of the company's policyholder funds as at 31 December 2021. Policyholders can select assets per the UPE PB Permissible Investments criteria; and
- Investment Planning RP business (Vision): unit-linked, regular premium whole of life savings plan, marketed across Europe mainly to residents in Finland. Vision accounts for c. 3% of the company's policyholder funds as at 31 December 2021. Policyholders have a range of funds to select (up to investing in a maximum of 20 at one time), and switching is allowed between funds.

3.25 The death benefits offered by UPE on unit-linked products are not significant. A small number of Wealth Protection policies offer additional life cover, and some have guaranteed minimum death benefits which are expressed as a percentage of the premium amount. For Investment Planning SP business, the death benefit is an additional 1% of the fund on the death of the last life insured under the policy. Vision also includes a death benefit of an additional 1% of the fund paid on death. UPE retains up to €100k exposure to the death benefit on any one life, with any excess reinsured with SCOR.

3.26 A reinsurance arrangement with Utmost Worldwide allows Vision and Portfolio Bond policies to invest into internal linked funds within Utmost Worldwide.

Corporate Solutions

3.27 The Corporate Solutions business writes a range of group risk insurance products to both domestic Irish and multi-national corporations. The Corporate Solutions business is written under the Generali Employee Benefits (“GEB”) agreement for multi-nationals.

3.28 The insurance products offered to groups by Corporate Solutions are as follows:

- Life cover (including accidental death and dismemberment and dependent annuities);
- Income protection; and
- Critical illness.

The bases on which the benefits are written can differ between groups, for example with different levels of escalation.

3.29 The liability in respect of the Corporate Solution business can vary with the following factors:

- Policyholder mortality, for those products where the benefit payment is paid on death of the policyholder;
- Policyholder longevity, for those products where the policyholder is in receipt of income payments e.g. spouse’s benefits or disability claims in payment;
- Policyholder morbidity, for those products where the benefit payment is triggered by illness or injury to the policyholder; e.g. critical illness or long term disability cover; or
- A combination thereof.

3.30 UPE have a number of reinsurance treaties in place for the Corporate Solution business:

- 100% of the GEB business is reinsured to Assicurazioni Generali S.p.A.
- Domestic Ireland Group Risk business is reinsured with SCOR, where UPE:
  - Retains a maximum exposure to any one life of 75% of the sum assured on the group life, group dependant’s annuity, group critical illness and group accidental death benefits;
  - Retains a maximum exposure to any one life of €100k annual benefit on the group income protection benefit.
- 50% of the Sweden Group Risk business sold via the insurance agent NordEuropa to Sweden Re.

3.31 The premium rates are guaranteed for three years, however UPE reserves the right to review the premium and terms offered or cancel the policy in respect of all members in the event of a change of risk as defined within product terms.

Variable Annuities (“VA”)

3.32 The liability of the company in respect of the VA business can vary with the following factors:

- Market movements, such as interest rate risk, market volatility and equity market risk;
- Policyholder optionality, where the rate at which policyholders surrender their policies may vary (lapse risk);

- Policyholder longevity, for those products where the benefit is in the form of annuity or income payments (longevity risk); or

- A combination thereof.

3.33 However, the VA business is 100% reinsured to Generali Personenversicherungen, meaning that UPE is only exposed to the counterparty risk associated with the reinsurance deal.

Ex-Aviva Life International

3.34 The ex-Aviva business consists of a range of unit-linked bonds, open architecture portfolio bonds and unit-linked bonds that are ‘linked’ via a reinsurance arrangement, to the performance of separate Aviva UK Life and Pensions with-profits funds, denominated in Sterling, Euro and US dollars.

3.35 The unitised with-profits business is 100% reinsured to Aviva Life and Pensions UK Limited (“ALAP”). Death, withdrawal and maturity claims are reimbursed by ALAP via the reinsurance arrangement and reinsurer meets any cost of guarantees.

Ex-AXA Life Europe business

3.36 The ex-AXA Life Europe business consists of non-guaranteed unit-linked investment bond business which is predominantly written in the United Kingdom but with some policies written in Ireland.

Ex-Athora Ireland business

3.37 The Ex-Athora Ireland business consists of non-guaranteed unit-linked investment bond business which is predominantly written in the United Kingdom but with some policies concluded in the Jersey and Guernsey.

Ex-UI business

3.38 The Ex-UI business consists of non-guaranteed unit-linked single premium business sold through the Isle of Man.

Ex-Harcourt Life Assurance

3.39 The ex-Harcourt Life Assurance business consists of unit-linked investment and pensions products which is predominantly personal and collective portfolio bond products.

Ex-Scottish Mutual International

3.40 The ex-Scottish Mutual International business consists of unit-linked and with-profits policies including term assurance, pensions and savings products.

3.41 A reinsurance arrangement with Phoenix Life Ltd allows ex-Scottish Mutual policies to invest into internal unit-linked and unitised with-profits funds within Phoenix Life Ltd.

Ex-Augura Life Ireland

3.42 The ex-Augura Life Ireland business consists of non-profit whole-of-life assurance, unit-linked life and unit-linked pensions business sold to customers in Ireland.

Ex-Union Heritage Life Assurance

3.43 The ex-Union Heritage Life Assurance business consistent of whole-of-life and term protection business.

Summary

3.44 A more detailed description of the product features is included in the UPE Head of Actuarial Function report relating to the proposed transfer.

3.45 A significant feature of the UPE business is that it prepays tax to the Italian tax authority and then reclaims amounts from tax due to be paid by Italian policyholders when they withdraw funds and have had investment gains. The company has received tax advice that it can also recover the prepayment tax from tax amounts due to be paid to the Italian tax authority. The nature of the prepayment tax means that a significant tax asset has built up within the company. The amount of the prepayment Italian tax asset was €129 million as at year-end 2021.

3.46 UPE's business is managed by staff employed by Utmost Services Ireland Limited ("USIL"), a services company which is part of UG. The administration systems differ by line of business.

3.47 Table 3.4 below summarises the number of policies and funds under management ("FUM") of UPE as at year-end 2021.

Table 3.4 - UPE on 31 December 2021

	Number of policyholders	FUM € million
Wealth Protection	2,814	12,619
Investment Planning Bond	960	237
Vision	23,970	521
Employee Benefits	967	-
Non-Profit	324	-
Unit-Linked	15,181	7,115
Total	**44,216**	**20,492**

Section 4: Main features of the Schemes

4.1 The purpose of the Schemes is to provide for the transfer to UPE of the QII and UWW Transferring Business so that from the effective date of the Schemes the QII and UWW Transferring Business will become part of the life assurance business of UPE.

4.2 As described in paragraphs 1.10 to 1.13, the QII Transferring Business will transfer to UPE via the Irish Scheme and the QII Guernsey Scheme, and the UWW Transferring Business will transfer to UPE via the UWW Guernsey Scheme. I have been provided with a draft of the proposed Irish Scheme and the principal features of this Scheme are set out in the following paragraphs. I have been informed that the Guernsey Scheme will incorporate and reflect the Irish Scheme.

Scope of transfer

The Schemes (excluding the UWW Guernsey Scheme)

4.3 Under the Irish Scheme and the QII Guernsey Scheme, the life assurance business liabilities of the Transferors[1] will be transferred to UPE at the Effective Time (the time and date when the Schemes will become operative). The assets that will transfer under the Schemes at the Effective Time will be the assets of the Transferors in connection with the Transferring Business held by the Transferor on the Effective Time, but excluding the Excluded Assets.

4.4 The excluded assets are defined in the Schemes as follows:

- QII: Cash deposits with a value of €3.8 million.

4.5 The CBI is obliged to notify the relevant supervisory authority of the Irish Scheme in EEA Member States where the Transferring Policies were concluded. The relevant supervisory authority then has a period of 3 months from the date of notification to either agree to the transfer or object. In the absence of a response within the 3-month period from the relevant supervisory authority its agreement to the transfer shall be deemed to have been given.

4.6 The QII Transferring Policies are those life assurance policies written by the transferors up to and including the Effective Time.

UWW Guernsey Scheme

4.7 Under the UWW Guernsey Scheme, the life assurance business liabilities of UWW will be transferred to UPE at the Effective Time (the time and date when the UWW Guernsey Scheme will become operative). A book of specific policies (the “UWW Transferring Policies”) will transfer to UPE from UWW under the UWW Guernsey Scheme.

4.8 The excluded assets are defined in the UWW Guernsey Scheme as any and all assets of UWW, other than assets relating to the UWW Transfer Policies.

4.9 The excluded policies are defined in the UWW Guernsey Scheme as all policies other than the UWW Transferring Policies, which are comprised of 234 transferring policies which had been concluded with, and currently held by, persons resident in the Netherlands.

[1] QII and UWW are each a Transferor. QII and UWW are together the Transferors.

Business transfer agreement between UWW and UPE

4.10 A Busines Transfer Agreement will be put in place between UPE and UWW. This agreement states that:

- The UWW Guernsey Scheme is not dependent on any other schemes;
- The transfer of the UWW Transferring Business is conditional on the reinsurance arrangement that will be put in place between UWW and UPE in respect of the UWW Transferring Business; and
- UWW will retain exposure for any legal risks relating to the UWW Transferring Business.

Effective Time

4.11 It is proposed that the Schemes will take effect at 23.59 on 30 September 2022 (“the Effective Time”) or such other date as the Transferors and Transferee may agree and to which the Irish Court consents.

4.12 It is proposed that the UWW Guernsey Scheme will take effect at the effective time or such other date as UWW and Transferee may agree and to which the Guernsey Court consents.

Conditions for Schemes to become operative

4.13 The Irish Scheme will not take effect on the Effective Time unless:

- The CBI has given its consent or indicated it has no objection to the Schemes;
- The Relevant Regulators[1] have given their consent to the Transfer, or the Relevant Regulators have failed to object to the Schemes within three months of having been notified by the Central Bank of the Schemes (as the case may be) pursuant to the terms of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) (“2015 Regulations”);
- the Irish Court approves the Scheme pursuant to the 1909 Act, the 1989 Act and the 2015 Regulations; and
- In the event that the Irish Court imposes a modification of or addition to the Schemes or any further conditions or provisions affecting same before the Effective Time, the Transferors and the Transferee consent to such modification, addition or condition before the Effective Time.

4.14 The QII Guernsey Scheme will not take effect on the Effective Time unless:

- The Irish Scheme has been approved by Irish Court; and
- In the event that the Guernsey Court imposes a modification of or addition to the Schemes or any further conditions or provisions affecting same before the Effective Time, the Transferors and the Transferee consent to such modification, addition or condition before the Effective Time.

4.15 The UWW Guernsey Scheme will not take effect on the Effective Time unless:

- The Guernsey Court approves the Scheme pursuant to The Guernsey Insurance Law;

[1] Defined in the Schemes as “The supervisory authorities of every relevant EU / EEA Member State where the Transferring Policies were concluded as listed in Schedule 2 (Relevant Regulators)”

- The GFSC has given its consent or indicated that it has no objection to the Scheme;
- The Guernsey Revenue Service has confirmed that the implementation of the Scheme does not appear to create any adverse Guernsey income tax consequences for the Policyholders;
- The CBI has given its consent or indicated it has no objection to the Schemes; and
- In the event that the Guernsey Court imposes a modification of or addition to this Scheme or any further conditions or provisions affecting same before the Effective Time, the Transferor and the Transferee consent to such modification, addition or condition before the Effective Time.

Contractual rights

4.16 Following the transfer, UPE will assume all the obligations to the policyholders of the Transferors. The rights under transferring contracts written by QII and UWW will not be changed as a result of the transfer. There will be no change to the policy terms and conditions for policyholders of the Transferor and UWW as a result of the proposed Schemes and the UWW Guernsey Schemes.

4.17 All premiums and other amounts owing to QII and UWW in respect of the QII and UWW Transferring Business shall be payable to UPE after the Effective Time. Any further premiums or sums attributable to the Transferors after the Effective Time will be payable to UPE when they are due.

4.18 All claims, counterclaims and legal defences which would have been available to QII and UWW in respect of the Transferring Policies will also be available to UPE after the effective time.

4.19 Currently some of the contract terms of the Transferring Policies permit policyholders the option of making additional ad-hoc incremental contributions to their policies. The proposed Schemes state that any rights that policyholders have under their contracts are transferred to UPE under the Schemes and the UWW Guernsey Schemes. As such the Schemes and the UWW Guernsey Schemes make no changes to this aspect of policyholder’s contract terms.

4.20 Once the relevant assets of the Transferors have been transferred, UPE will assume responsibility for the liability to discharge all claims, maturities, death benefits and other amounts arising from the liabilities transferred (including administering and managing the Transferring Policies and the associated costs thereof).

4.21 No additional payments will be made to policyholders as a result of implementing the Schemes and the UWW Guernsey Schemes.

4.22 All references in any transferring Contracts of the Transferors, Boards of Directors and all other agents of the Transferors will be read as references to UPE, the Board of UPE and agents of UPE after the Effective Time. Where appropriate, agents of the Transferors will be referenced to agents of UPE to which administration has been delegated.

4.23 For QII Transferring Business, all references in any guarantees, letters of credit or similar security to the Transferors defaulting in the payment of sums due in respect of Transferring policies will be referenced to UPE after the Effective Time.

Unit-linked funds

4.24 The assets backing the transferring unit-linked UWW policies will remain within UWW with unit pricing continuing to be carried out by the same staff using the same tools and methods as current. UPE will enter into a fund linked reinsurance arrangement with UWW so that the transferring policyholder's investment returns will continue to be linked to the performance of the same unit-linked funds of UWW as current.

4.25 UPE will establish new internal linked investment funds for the QII Transferring Policies which are unit-linked. These new internal linked investment funds will correspond to the internal linked investment funds which the Transferring Policies are currently invested in, including the same rules and procedures for the calculation of unit prices and fund-related charges. The legal and beneficial ownership of the assets relating to each fund will change from the Transferors to UPE.

4.26 Transferring policyholders will receive an identical number of units of equal value in the new "host" internal linked funds in UPE to those funds from which they have transferred.

4.27 There will be no change to the underlying assets, investment strategy, approach to unit pricing, policy charges or to the investment criteria as a result of the transfer.

4.28 For Transferring Policies which have externally managed portfolios, at the Effective Time, UPE shall establish records corresponding to all of the records maintained, on an individual policy-by-policy basis, by the Transferors immediately prior to the Effective Time for such policies.

4.29 At the Effective Time, UPE shall record which externally managed portfolios are designated in favour of each transferring policy and shall ensure that such designations are identical to those that were held in the records of the Transferring Polices immediately prior to the Effective Time.

4.30 There will be no change to the underlying assets, the investment strategy or policy charges as a result of the transfer of externally managed portfolios.

4.31 In summary, this means that:

- The nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer;
- The value of transferring policyholders' funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place; and
- The underlying unit-linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.

4.32 As all contractual terms remain unchanged under the Schemes, any powers contained within the transferring contracts for funds to be merged, closed or sub-divided, or for the approach to unit pricing to be changed, will be preserved under the Schemes with such powers being transferred to UPE post transfer. Nothing within the Schemes prevent any such changes on such terms and conditions as is approved by the Board of UPE, having taken account of policyholders' reasonable expectations and the advice of the Head of Actuarial Function ("HoAF") in relation to the interpretation of policyholders' reasonable expectations.

4.33 Subject to the above, the Schemes do not prevent UPE from establishing, closing or amalgamating Sub Funds; changing the name of Sub Funds or changing the charges where such changes would be in line with the policy terms and conditions. Any such changes would be made by UPE on such terms as recommended by the HoAF having regard to the reasonable expectations of the policyholders and having been approved by the UPE Board.

Unit-linked charges

4.34 As all contractual terms remain unchanged under the Schemes any powers contained within the transferring contracts for changes to be made to unit-linked charges will be preserved under the Schemes with such powers being transferred to UPE post transfer. Nothing within the Schemes prevent any such changes on such terms and conditions as is approved by the Board of UPE, having taken account of policyholders' reasonable expectations and the advice of the HoAF in relation to the interpretation of policyholders' reasonable expectations.

Tax

4.35 The Schemes state that any tax liabilities which crystallise as a result of the transfer of policyholders' assets will not be borne by the policyholders.

New products

4.36 The Schemes do not prevent UPE from writing new product lines.

Continuity of proceedings

4.37 Any judicial, quasi-judicial, arbitration proceedings or any complaint to the ombudsman or other proceedings for the resolution of a dispute or claim which are pending by or against QII in respect of the transferring business shall be continued by or against UPE.

4.38 Any litigation involving QII in respect of the transferring business shall at the effective time be continued by or against UPE.

4.39 All actual and potential proceedings by or against QII in respect of the transferring business in connection with the assets and liabilities not being transferred shall be continued by or against UPE.

4.40 In respect of the UWW Transferring Business, the business transfer agreement referred to in paragraph 4.10 will mean that UWW retains exposure for any legal risks relating to the UWW Transferring Business post-Schemes.

Costs of the Schemes

4.41 All costs and expenses relating to the preparation of the Schemes and application for the sanctions of the Schemes, including the costs of the Independent Actuary, counsel representing the parties in each of the Schemes and complying with the orders made by the Irish Court and the Guernsey Court arising from the directions hearing or the substantive hearing in which the Irish Court and the Guernsey Court are respectively petitioned to sanction the Schemes, shall be borne by UPE. No costs will be directly borne by policyholders.

Policyholder communications

4.42 Section 13 of the Act requires that, unless the Court otherwise directs, certain materials must be transmitted to each policyholder of UPE, QII and UWW (the "Policyholder Circular"). The Policyholder Circular should include a statement summarising the proposed Schemes together with a summary of the Independent Actuary's Report.

4.43 It is proposed that, subject to relevant court approvals, a letter will be sent to each Transferring Policyholder which will provide outline details of the proposed Scheme and information on how to access full details of the policyholder circular. At the request of a Transferring Policyholder, a hard copy of the policyholder circular will be provided.

4.44 It is further proposed that subject to relevant court approvals the policyholder circular will also be made available on request to UPE policyholders.

4.45 Financial advisors will be notified ahead of policyholders. For policies written under trust, the notification will be sent to the lead Trustee's correspondence address. My conclusions on the suitability of these arrangements are set out in Section 9 of this report.

4.46 Confirmation of the date of the sanctions hearings will be placed in the following publications:

- Relating to the Irish Scheme:
  - Ireland: A notice will be placed in Iris Oifigiuil, Irish Independent and Irish Examiner;
  - United Kingdom: A notice will be placed in the following newspapers - London, Edinburgh and Belfast Gazettes and in two national newspapers in the United Kingdom; and
  - Gibraltar: In line with customary advertising requirements.
- Relating to the QII Guernsey Scheme: A notice will be placed in La Gazette Officielle, the Alderney Gazette and in the Sark Notice Box on at least two occasions;
- International: A notice will be placed in the international edition of The Financial Times; and
- Relating to the UWW Guernsey Scheme: A notice will be placed in La Gazette Officielle, the Alderney Gazette and in the Sark Notice Box on at least two occasions and a notice will be placed in legal notices section of the Dutch Government Gazette and one national newspaper in The Netherlands.

4.47 In addition, the following information will be available to any relevant parties from the offices of UPE, QII and UWW and will also be made available on a dedicated website relating to this transfer and at the offices of UPE in Navan, as well as the offices of Matheson in Dublin and to the extent required by the Guernsey Insurance Law, the offices of Carey Olsen in Guernsey:

- The Petition to the Courts including the Schemes;
- The full Report of the Independent Actuary;
- The Policyholder Circular;
- The QII Guernsey Scheme Application;
- The UWW Guernsey Scheme Application;
- The Report of UPE's Head of Actuarial Function;
- The Report of QII's Head of Actuarial Function; and
- The Report of UWW's Head of Actuarial Function .

Section 5: Pre-Schemes Solvency Positions

Introduction

5.1 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that their contractual benefit entitlements will be met).

5.2 My analysis of the impact of the Schemes on policyholder security depends heavily on the level of capital available to the participating companies, and their ability to satisfy their respective solvency requirements now and in the future.

5.3 The companies involved in the transfer are subject to two different regulatory regimes. UPE and QII are regulated in Ireland by the CBI whereas UWW is regulated by the GFSC in Guernsey. I consider these regulatory regimes separately below.

Insurance Regulation in Ireland

5.4 Companies regulated by the CBI are required to determine their capital requirements under the European Union (Insurance and Reinsurance) Regulations 2015 (usually referred to as the Solvency II regulations). Under these regulations companies are required to hold sufficient assets to be able to cover the technical provisions associated with a portfolio of insurance contracts, where the technical provisions are the sum of the following two items:

1. The Best Estimate Liability ("BEL")[1] which is the sum of the following:

   - The policyholder unit liabilities (for unit-linked and UWP business); and

   - The best estimate view of the value of future costs less income (from the company's perspective) associated with the insurance policies in question (which may have a negative value);

2. The Risk Margin[1].

5.5 Under Irish insurance legislation (which is derived from European Directives) each life assurance company must then hold further additional assets at least equal to the Solvency Capital Requirement ("SCR") associated with its life assurance business. The SCR is the amount of capital that insurance undertakings are required to hold to ensure that they can meet their obligations to policyholders over the following 12 months with a 99.5% probability. Appendix A contains a further description of the approach used to calculate the SCR.

5.6 Under Irish insurance legislation, if the SCR is no longer complied with or where there is a risk of non-compliance in the following 3 months, companies are obligated to inform the CBI with immediate effect. Companies must then submit, within 2 months of the observation of non-compliance, a recovery plan for approval by the CBI such that the SCR is covered within 6 months of the observation of the non-compliance.

5.7 Irish insurance legislation also defines the Minimum Capital requirement ("MCR") which is a simple factor-based linear formula which is targeted at a Value at Risk measure over one year with 85% confidence. The MCR has a floor of 25% and a cap of 45% of the SCR. The MCR is subject to a floor of €3.7m for life insurance companies. The MCR is generally less than the

[1] Defined in Appendix A

SCR except in the circumstances whereby the absolute minimum capital floor of €3.7 million bites. Where this minimum capital floor bites companies tend to focus primarily on the MCR when reporting solvency coverage.

5.8 If the MCR is no longer complied with or where there is a risk of non-compliance in the following 3 months, companies are obligated under Irish insurance legislation to inform the CBI with immediate effect. Companies must then submit, within 1 month of the observation of non-compliance, a short-term realistic finance scheme for approval by the CBI such that the MCR is covered within 3 months of the observation of non-compliance. Therefore, under Irish insurance legislation (which is derived from the EU Solvency Directive) a breach of the MCR requires more immediate action than that of the SCR.

5.9 For UPE (both pre- and post-transfer) and QII pre-transfer, the SCR exceeds the MCR and therefore in assessing the solvency position of these entities the principal solvency coverage ratio is that based on the SCR. Given this, I do not comment further on the MCR.

Insurance Regulation in Guernsey

5.10 Companies regulated by the GFSC determine their capital requirements under the Guernsey Insurance Law, and The Insurance Business (Solvency) Rules and Guidance, 2021 ("Guernsey Solvency Rules"). Under the Guernsey Solvency Rules, companies must at all times hold Regulatory Capital Resources (“RCR”) greater than or equal to the Prescribed Capital Requirement (“PCR”).

5.11 For this purpose, the RCR should be calculated in accordance with recognised accounting standards. However, I have been informed that UWW has received approval from the GFSC to determine their RCR in line with the Solvency II Eligible Own Funds applicable to UK firms.

5.12 Companies can either calculate their PCR using the Guernsey Standard Formula or using a Recognised Standard Formula. The Standard Formula applicable to UK regulated firms is a Recognised Standard Formula under the Guernsey Solvency Rules and I understand that UWW follows the UK approach to set its PCR. At the time of writing, the Standard Formula approach applicable to UK regulated firms is the same as the Standard Formula approach applicable to Irish (and other EU) regulated firms.

5.13 Given the above, the regulatory capital resources, PCR and solvency coverage ratio for UWW are directly comparable to the Own Funds, SCR and solvency coverage ratio of UPE and QII.

5.14 In the event of regulatory capital resources falling below 105% of PCR, the GFSC would apply a supervisory ladder of interventions requiring a company to take a series of remedial actions. These interventions vary in severity depending on the solvency of the company.

5.15 Under Guernsey Solvency Rules, firms must also at all times hold regulatory capital resources greater than or equal to the MCR. The MCR under Guernsey Solvency Rules is calculated differently than under Solvency II. However, for UWW the PCR exceeds the MCR and therefore I do not comment further on the MCR for UWW.

Capital policy

5.16 The target solvency for each participating company will be determined according to the company’s capital policy and risk appetite in the context of the risk profile of the company. This could be in the form of a minimum target percentage of the SCR/PCR (or MCR in situations where the SCR/PCR is less than the MCR) that the firm will not want to fall below expressed as a percentage of SCR/PCR (or MCR if appropriate). Furthermore, the capital policy may determine a different target ratio (i.e. higher) in deciding whether dividends can be paid e.g. such that any dividends paid would not result in the participating company having a solvency capital ratio of less than Y% of SCR/PCR where Y is greater than the equivalent coverage derived from the risk appetite. Liquidity risk may also be specifically considered by companies within their capital policy, and different metrics may be used by companies to address liquidity concerns e.g. liquid assets of at least X% of SCR should be held if a material illiquid asset is excluded from the company's assets.

5.17 Each Irish insurance company is required by the CBI to set out within its risk management framework what additional assets it intends to hold over and above the SCR (or the MCR if greater). This additional capital is frequently expressed as a percentage of the SCR (or MCR if greater). The purpose of this additional capital, sometimes referred to as "buffer capital", is to provide additional security to policyholder benefits consistent with the company's own view of the volatility of its balance sheet (including the appropriateness of the SCR Standard Formula) and its risk appetite.

5.18 UWW also holds capital in excess of its PCR and I understand that the GFSC requires that UWW must at all times hold RCR greater than or equal to 135% of PCR.

Opening Solvency Position

5.19 This Section of the Report sets out a summary of the solvency position of each of the participant companies as at 31 December 2021. The numbers presented are the results that we have been informed each company submitted to the CBI (for UPE and QII) and GFCR (for UWW) in respect of its solvency position for their year-end 2021 returns.

5.20 The solvency position of the participating companies is an important indicator in assessing whether sufficient assets have been set aside to fulfil the current and future obligations to the policyholders in respect of their insurance contracts. The principal measure used to assess the solvency of each company is the ratio of adjusted own funds/RCR to the SCR/PCR. Adjusted Own Funds is the sum of the Own Funds (the assets held by an insurance company over and above all liabilities including Technical Provisions - see Appendix A for further details) and adjustments permitted under Solvency II. UPE has an adjustment related to a loan that is subordinate to policyholders (described in paragraph 7.10). Adjustments within QII relate to basis harmonisation and have a relatively minor impact to Own Funds. These ratios are also referred to as Solvency Coverage Ratios.

UPE – Pre-Transfer Solvency Position

5.21 The reported solvency position of UPE pre-transfer is shown in the table below:

Table 5.1 – UPE solvency position as at 31 December 2021

€ million	Reported
Total Assets*	21,389.6
Best Estimate Liability – unit liability	20,736.0
Best Estimate Liability – non-unit liability	(136.2)
Risk Margin	122.6
Other Liabilities	143.4
Deferred Tax Liability	36.0
Total Liabilities	20,901.8
Own Funds (Asset less Liabilities)	487.8
Subordinated Debt	23.8
Adjusted Own Funds	**511.6**
Solvency Capital Requirement	275.3
Excess Assets	236.2
Solvency Coverage Ratio	**186%**
Adjusted Own Funds excluding Italian Withholding Tax asset	382.2
Solvency Capital Requirement excluding Italian Withholding Tax asset	267.6
Excess Assets excluding Italian Withholding Tax asset	114.6
Solvency Coverage Ratio excluding Italian Withholding Tax asset	**143%**

UPE SCR

5.22 The table below shows the SCR for UPE pre-transfer:

Table 5.2 – UPE SCR as at 31 December 2021

SCR Component - € million	UPE
Market Risk	
Interest rates	4.7
Equity	94.0
Property	0.7
Credit Spread	19.9
Concentration	-
Currency	102.1
Less diversification	(52.0)
Total Market Risk	**169.4**
Life Insurance Risk	
Mortality	8.1
Longevity	1.4
Disability	-
Life Expense	37.2
Revision	-
Lapse	146.3
Life Catastrophe	5.6
Less diversification	(27.9)
Total Life Insurance Risk	**170.7**
Counterparty Default Risk	**40.5**
Health Insurance Risk	**13.6**
Total Before Diversification	**394.1**
Less Diversification	(105.0)
Total Basic SCR	289.0
Operational Risk	15.8
Total SCR	**304.8**
Loss Absorbing Capacity of Deferred Taxes (LACDT)	(29.5)
Total SCR post LADT	**275.3**

5.23 The key components of UPE's adjusted SCR (before allowing for diversification) are described below.

- Equity risk:

  UPE's business consists primarily of unitised policies where the income to UPE is represented by percentage charges made on the value of the unit funds. This means that UPE's income is exposed to the movements in the value of these funds. Therefore, UPE is exposed to equity risk to the extent that if there is a fall in the value of the equity component of these funds this will lead to a reduction in future income for UPE;

- Currency risk:

  A proportion of UPE's business is written in the UK. As a result, any income from this business is in pounds sterling. In addition, a proportion of the underlying assets in the unit funds is denominated in currencies other than Euros. UPE is an Irish company situated within the Eurozone, with a material portion of its expenses in addition to its capital requirements denominated in Euros. There is therefore a risk that the income falls relative to expenses and capital requirements due to currency movements. This currency risk accounts for a material proportion of the market risk capital component;

- Spread risk:

  This is the risk of losses arising from changes in the value of market securities driven by changes in the credit standing of counterparties, UPE is exposed to spread risk through policyholder unit funds which are invested in a diverse range of assets including bonds, as well through direct holdings in sovereign and corporate bonds;

- Expense risk:

  UPE incurs expenses in administering the policies through to claim. Its costs are made up of direct costs and costs related to outsourced activities. Policy administration is currently carried out by USIL. UPE is exposed to risk that future expenses will be greater than expected;

- Lapse risk:

  The lapse risk captures the risk that there is an unexpected change (higher or lower) in the rate of run-off of the business. For UPE, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse;

- Counterparty default risk:

  The counterparty default risk for UPE arises from the risk of a failure of a counterparty (such as a bank or reinsurer) resulting in the loss of funds to the company. The key drivers of this risk for UPE are the exposures to reinsurers, the exposure in respect of the Italian Withholding Tax ("IWT") asset, cash balances held by the shareholder in bank accounts and "aged debtors" (debts owed to UPE in respect of outstanding asset fees). As the IWT asset may be recovered from policyholders in certain circumstances it could be argued that it is not necessary to include it the counterparty default risk calculations. Excluding it would reduce the SCR to €267.6 which is equal to the SCR excluding IWT assets, shown in Table 5.1. However, it would not change the UPE solvency cover (excluding the IWT asset). Therefore, continuing to include the IWT asset in the counterparty default risk calculation does not negatively impact my conclusions in this report; and

- Operational risk:

  UPE is exposed to operational risks and losses which can arise from inadequate or failed processes, systems or from external events.

QII – Pre Transfer Solvency Position

5.24 The reported and adjusted solvency position of QII pre-transfer is shown in the table below.

Table 5.3 – QII solvency position as at 31 December 2021

€ million	Reported
Total Assets	4,605.3
Best Estimate Liability – unit liability	4,591.5
Best Estimate Liability – non-unit liability	(103.5)
Risk Margin	19.4
Other Liabilities	24.9
Deferred Tax Liability	-
Total Liabilities	4,532.3
Own Funds (Asset less Liabilities)	73.0
Subordinated Debt	-
Adjusted Own Funds	**73.0**
Solvency Capital Requirement	38.9
Excess Assets	34.1
Solvency Coverage Ratio	**187%**

QII SCR

5.25 The table below shows a breakdown of QII's SCR.

Table 5.4 – QII SCR as at 31 December 2021

SCR Component - € million	QII
Market Risk	
Interest rates	3.0
Equity	4.6
Property	0
Credit Spread	0.3
Concentration	0
Currency	11.8
Less diversification	(4.5)
Total Market Risk	**15.3**
Life Insurance Risk	
Mortality	0.9
Longevity	0
Disability	0
Life Expense	17.8
Revision	0
Lapse	17.0
Life Catastrophe	0.1
Less diversification	(5.5)
Total Life Insurance Risk	**30.3**
Counterparty Default Risk	**0.7**
Health Insurance Risk	**0**
Total Before Diversification	**46.3**
Less Diversification	(8.9)
Total Basic SCR	**37.4**
Operational Risk	1.5
Total SCR	**38.9**
Loss Absorbing Capacity of Deferred Taxes (LACDT)	0.0
Total SCR post LADT	**38.9**

5.26 The key components of QII's adjusted SCR (before allowing for diversification) are described below:

- Currency risk:

  Currency risk is significant for QII since a large proportion of business is written in foreign currency (predominantly in GBP);
- Expense risk:

  QII incurs operational and other expenses in administering the contracts through to claim, including the expenses incurred with third party outsourcers. Policy administration is currently carried out by QIBS. QII is exposed to risk that future expenses will be greater than expected; and
- Lapse risk:

  The lapse risk captures the risk that there is a higher or lower rate of lapses in the rate of run-off of the business. For QII, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse.

UWW – Pre-Transfer Solvency Position

5.27 The reported solvency position of UWW pre-transfer is shown in the table below. Figures are shown as reported in GBP.

Table 5.5 - UWW solvency position as at 31 December 2021 (figures shown in GBP)

£ million	Reported
Total Assets	4,372.6
Best Estimate Liability – unit liability	3,461.3
Best Estimate Liability – non-unit liability	389.4
Risk Margin	42.7
Other Liabilities	129.9
Deferred Tax Liability	3.4
Total Liabilities	4,026.7
Own Funds (Asset less Liabilities)	345.9
Restriction to Own Funds due to ring-fenced funds	(12.0)
Adjusted Own Funds	**333.9**
Solvency Capital Requirement	189.5
Excess Assets	144.4
Solvency Coverage Ratio	**176%**

UWW SCR

5.28 The table below shows a breakdown of UWW's SCR. Figures are shown as reported in GBP.

Table 5.6 - UWW SCR as at 31 December 2021 (figures shown in GBP)

SCR Component - £ million	UWW
Market Risk	
Interest rates	0.0
Equity	96.1
Property	0.7
Credit Spread	14.0
Concentration	-
Currency	36.6
Less diversification	(25.2)
Total Market Risk	**122.2**
Life Insurance Risk	
Mortality	0.8
Longevity	9.8
Disability	0.0
Life Expense	28.5
Revision	0.0
Lapse	61.1
Life Catastrophe	1.9
Less diversification	(19.0)
Total Life Insurance Risk	**83.2**
Counterparty Default Risk	**5.0**
Health Insurance Risk	**14.0**
Non-life Insurance Risk	**16.8**
Total Before Diversification	**241.2**
Less Diversification	(66.4)
Total Basic SCR	**174.7**
Operational Risk	9.1
Total SCR	**183.8**
Loss Absorbing Capacity of Deferred Taxes (LACDT)	(3.1)
SCR for ring-fenced funds	**8.7**
Total SCR	**189.5**

5.29 The key components of UWW's adjusted SCR (before allowing for diversification) are described below:

- Equity risk:

  UWW business includes unitised policies where the some of the income to UWW is based on percentage charges made on the value of the unit funds. This means that UWW's income is exposed to the movements in the value of these funds and therefore, UWW is exposed to equity risk to the extent that if there is a fall in the value of the equity component of these funds this will lead to a reduction in future income for UWW;

- Lapse risk:

  Lapse risk captures the risk that there is an unexpected change (higher or lower) in the rate of run-off of the business. For UWW, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse;

- Currency risk:

  The majority of the currency capital charge relates to unit-linked business and represents the mismatch of future income (denominated in a wide range of global currencies, but notably US Dollars) compared to future expenses which are incurred mainly in GBP and EURO; and

- Expense risk:

  UWW incurs expenses in administering the policies through to claim including costs related to outsourced activities. UWW is exposed to the risk that future expenses will be greater than expected.

Section 6: Effects of the Schemes on UPE Policyholders

General Considerations

6.1 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that contractual benefit entitlements will be met), for the level of benefits payable to policyholders (including the impact of variable charges on such benefits) and for the reasonable expectations of all policyholders in UPE, QII and UWW. In particular, I need to consider whether any changes to discretionary charges or entitlements are consistent with policyholders' reasonable expectations. Separate consideration is required for each group of policyholders affected by the Schemes.

6.2 The factors I must consider for each company in assessing the implications of the transfer for the security of policyholder benefits include:

- The current solvency position;
- The risk profile of the participant companies;
- The capital targets as set out in each company's Risk Management Framework; and
- The expected future solvency position of each company, both before and after the transfer.

6.3 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders include:

- Contractual obligations to policyholders;
- Investment criteria for the corresponding unit-linked and UWP funds in the transferee company;
- The pricing basis for the new equivalent unit-linked and UWP funds in the transferee company;
- The level of charges to be deducted from the new equivalent unit-linked funds in the transferee company;
- Any changes, caused by the transfer, to the taxation of policyholder benefits;
- Application of discretion by UPE;
- The levels of customer service to policyholders following the transfer; and
- Current strategic plans for UPE.

6.4 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.

6.5 In this section I consider the likely impact of the Schemes on the policyholders of UPE. These are policyholders with policies held in UPE prior to the transfer.

Security of UPE policyholders' benefits

i) Opening Solvency position

6.6 In order to assist me in forming my judgement regarding the security of policyholder benefits, I have considered the solvency position of UPE, both before and after the proposed transfer.

6.7 Table 6.1 summarises the solvency position UPE before and after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021.

Table 6.1 - UPE solvency position pre- and post-transfer as at 31 December 2021

€ million	Pre-Transfer		Post Transfer	
	UPE	QII	Diversification and aggregation*	**UPE (Post)****
Assets	21,389.6	4,605.3	(76.2)	25,918.6
	-	-	-	
BEL - unit-linked/UWP	20,736.0	4,591.5	-	25,327.5
BEL - non-linked	(136.2)	(103.5)	(5.1)	(244.8)
RM	122.6	19.4	0.9	143.0
Other liabilities	143.4	24.9	-	168.2
DTL	36.0	-	10.2	46.2
Total liabilities	20,901.8	4,532.3	6.0	25,440.1
			-	
Own Funds	487.8	73.0	(82.2)	478.6
Subordinated debt	23.8	-	-	23.8
Adjusted Own Funds	511.6	73.0	(82.2)	502.3
SCR post LACDT	275.3	38.9	(20.8)	293.5
Solvency*** Coverage Ratio	186%	187%		171%
Adjusted Own Funds (excl IWT asset)	382.2	73.0	(82.3)	373.0
SCR post LACDT (excluding IWT asset)	267.6	38.9	(20.7)	285.9
Solvency Coverage Ratio (excl IWT asset)****	143%	187%		130%

*This column represents the impacts of combining the transferring business from QII and UWW in UPE. The own funds of QII are already included in UPE's assets, so an adjustment is made to strip these out to avoid double counting.
** Includes the UWW transferring business
*** Represents the coverage if the IWT asset is included in the own funds and stressed in the SCR of UPE.
**** Represents the coverage if the IWT asset is not included in the own funds or stressed in the SCR of UPE

6.8 Table 6.1 shows a reduction in assets of €76.2 million in the 'diversification and aggregation' column when moving from the individual entities to the combined post-Schemes entity. This is because UPE's holdings in QII as a subsidiary are already included in UPE's assets. Post-Schemes, the assets of QII will be held directly by UPE (with the exception of €3.8 million in cash retained). The ultimate goal will be to wind up QII, at which point the remaining assets will pass to UPE.

6.9 A small reduction in liabilities is also expected as a result of the estimated impact of QII adopting UPE’s methodology, including some minor cost savings expected post-transfer.

6.10 For UPE, results are shown both including and excluding the IWT asset. This is an illiquid asset that is not realisable at the company’s option i.e. the company cannot in the normal course of business convert this asset into cash but rather must wait to recover amounts from the policyholders liability to pay tax in the future when they withdraw funds, and provided that investment performance is sufficiently positive that sufficient tax is payable by the policyholder on investment gains. This has liquidity implications for the company and is the reason why UPE monitor liquidity and solvency cover excluding the IWT asset.

6.11 Under the Italian withholding tax regime UPE is required to pay an amount each year to the Italian revenue which it may then effectively recover from policyholders once they encash funds and become liable to pay a gains tax. If recoveries cannot be made from policyholders, UPE has received legal advice that any remaining balance could be recovered directly from Italian tax authorities after the last Italian policyholder has exited, which may be a long time in the future. This means that UPE is exposed to the risk that when investment markets fall policyholder gains will reduce which makes it more difficult for UPE to convert this IWT illiquid asset into a liquid asset (i.e. cash). This is because the amount of tax on investment gains payable by policyholders would reduce. However, in this situation UPE has informed us that it would still deduct stamp duty from policyholders (again at the time policyholders withdraw funds), and to the extent it was not recovering the IWT asset it could reduce the amount of stamp duty paid to the Italian tax authorities. This reduces the risk that UPE would not recover the IWT asset (until after the last policyholders leave when an application to the Italian tax authorities could be made). There remains a liquidity risk because recovering part of the IWT asset from stamp duty can happen only as and when policyholders withdraw funds.

6.12 I have been provided with information which shows that at year-end 2021, the capital gains tax (“CGT”) that would be due on the aggregate gain for UPE policyholders (if they were all to encash their policies) has been estimated to be in excess of €400 million. The total IWT asset at year-end 2021 was €129.6 million. This implies that UPE would have been able to recover the IWT asset from the CGT paid by these policyholders in this particular scenario. In the event of a 40% fall in asset values as at year end 2021 the amount of CGT due from policyholders would have reduced to €90 million while the accrued stamp duty is €79 million. Having considered these figures, I believe it is reasonable to take the IWT asset into account when considering the solvency position of UPE.

6.13 UPE’s capital policy (pre-transfer) is to always maintain sufficient assets to cover at least 135% of its SCR. The company also aims to maintain sufficient assets excluding the IWT asset so that they are able to cover its SCR. Furthermore, the Directors adopted a dividend policy such that any dividends paid would not result in UPE having a solvency coverage ratio of less than 150% (or 110% excluding the IWT asset). The capital policy for UPE will not change as a result of the Schemes.

6.14 As shown in Table 6.1, the solvency coverage ratio of UPE pre-transfer is 186% (or 143% excluding the IWT asset). This means that UPE could, in line with their dividend policy described in paragraph 6.13, pay a dividend to their parent so that the coverage would fall to 150% or 110% excluding the IWT asset (whichever is the higher threshold).

6.15 As shown in Table 6.1, the solvency coverage ratio of UPE post-transfer is 171% (or 130% excluding the IWT asset). These coverage amounts are lower than the pre-transfer figures of 186% and 143% respectively as a result of including the QII risks directly onto the UPE balance sheet, rather than treating QII as a subsidiary.

6.16 The post-transfer solvency ratios are still in excess of the targets set out in the capital policy, of 150% (or 110% excluding the IWT asset), below which a dividend would not be paid. This means that UPE post-transfer would still be in a position to pay a dividend to their parent. Therefore, despite the solvency coverage decreasing as a result of the transfer, UPE would still retain a buffer over the coverage amounts outlined in their dividend policy, and therefore I do not believe that the implementation of the Schemes would have a material adverse effect on the security of policyholder benefits from a coverage perspective.

ii) Risk Profile

6.17 In assessing the impact of the Schemes on the risk profile of UPE it is necessary to consider the risk profile of each of the participant companies, and in particular the points of difference, in order to understand the additional risks (if any) to which each participant group of policyholders becomes exposed as a result of the Schemes. The key features of each of the participant businesses are described below.

6.18 The SCR is a key consideration when considering risk profile. It is a risk-based calculation that takes account of a predefined list of risks to which a life assurance company may be exposed. The component parts of the SCR calculation are defined within the Solvency II Regulations. The SCR consists of market risk, life insurance risk, health insurance risk, counterparty default risk and operational risk. The market risk component reflects the exposure of a company to changes in the values of financial market instruments as a result of changes in, inter alia, interest rates, equity markets, credit spreads and exchange rates. The life insurance risk component reflects the exposure to changes in mortality, longevity, expenses and the rate at which policyholders surrender or lapse their policies. The health insurance risk component reflects the exposure to changes in morbidity, potential catastrophes, and expenses.

6.19 In considering the risk profiles of the various companies, I have considered the SCR for each participant company, including its component parts, the business profile of each company, its investment strategy and current holdings of shareholder assets.

6.20 UPE's Technical Provisions at 31 December 2021 (pre-transfer) are €20,722 million. Its business consists mostly of unit-linked business. It also sells group risk employee benefit business, which is heavily reinsured (100% for multinational business and 80% for domestic Irish business), and has a small amount of legacy variable annuity ("VA") business which is 100% reinsured. More information on UPE's business is available in Section 3 of this report.

6.21 Post-Schemes UPE will be a somewhat bigger business. The total BEL pre-transfer is €20,600 million and post transfer is €25,083 million. The vast majority of the increase in BEL is as a result of the addition of unitised business from QII (€4,488 million), and also a smaller amount of unitised business from UWW (£11 million). Post-Schemes, the UWW Transferring Business will be fully reinsured back to UWW and I understand that UPE will retain a small fee for administering the reinsurance arrangement.

6.22 The nature of business and risk profile of the transferring policies being transferred into UPE from QII and UWW is broadly consistent with the current UPE unit-linked business.

6.23 Both QII and the transferring policies in UWW remain exposed to litigation risk and, upon transfer, this risk will transfer to UPE. However, I understand that there is currently no ongoing litigation in relation to QII where QII is the defendant and nor is there any litigation in process or anticipated that affects the UWW Transferring Business.

6.24 Litigation risk is not explicitly considered as part of the SCR calculation. However, post-Schemes the operational risk capital charge within the SCR increases to €17.4 million from €15.8 million. Overall, the SCR increases from €275.3 million pre-Schemes to €293.5 million post-Schemes. In addition, UPE post transfer will also hold a capital buffer of over and above the SCR. UPE's capital policy states that it will hold own funds of 135% of its SCR (or 100% excluding the IWT asset), and will not pay a dividend if that dividend would cause coverage to fall below 150% of the SCR (or 110% excluding the IWT asset). It is not possible for me to estimate the possible financial impact of litigation risk.

6.25 UPE post transfer will continue to rely on a variety of outsourced partners. The implementation of the Schemes does not give rise to any changes to these arrangements.

SCR Comparison

6.26 In assessing the impact on the risk profile of UPE, the table below compares the SCR for UPE pre-transfer with the UPE post transfer SCR.

Table 6.2 - Comparison of UPE SCRs pre- and post-transfer

SCR component € million	UPE (Pre-Schemes)	UPE (Post-Schemes)
Market Risk		
Interest rates	4.7	7.7
Equity	94.0	83.7
Property	0.7	0.7
Credit Spread	19.9	20.2
Concentration	-	-
Currency	102.1	117.4
Less diversification	(52.0)	(55.1)
Total Market Risk	**169.4**	**174.6**
Life Insurance Risk		
Mortality	8.1	9.0
Longevity	1.4	1.4
Disability	-	-
Life expense	37.2	55.7
Revision	-	-
Lapse	146.3	162.0
Life catastrophe	5.6	5.6
Less diversification	(27.9)	(35.0)
Total Life Insurance Risk	**170.7**	**198.9**
Counterparty Default Risk	**40.5**	**41.1**
Health Insurance Risk	**13.6**	**13.6**
Total Before Diversification	**394.1**	**428.2**
Less diversification	(105.0)	(112.3)
Total Basic SCR	**289.0**	**315.9**
Operational Risk	15.8	17.4
Total SCR	**304.8**	**333.3**
Loss Absorbing Capacity of Deferred Taxes (LACDT)	(29.5)	(39.7)

Total SCR post LADT	**275.3**	**293.5**
Technical Provisions	**20,722.4**	**25,225.6**
Total Liabilities	**20,901.8**	**25,440.1**
SCR/Technical Provisions	**1.33%**	**1.16%**
Own Funds	**511.6**	**502.3**
Solvency Coverage Ratio	**186%**	**171%**
Own Funds (excl IWTA)	**382.2**	**373.0**
SCR (excl IWTA)	**267.6**	**285.9**
Solvency Coverage Ratio (excl IWTA)	**143%**	**130%**

6.27 As can be seen from the table above the overall SCR as a percentage of the Technical Provision is not materially different although does reduce by a small amount.

6.28 Most of the SCR components have grown broadly in proportion to the increase in the size of the business and there is no material change in risk profile. The only exception being equity risk which shows a reduction post-transfer which mainly relates to the removal of the capital charge in respect of UPE’s holdings in QII as a subsidiary company. By combining QII directly with UPE, the risks and benefits of owning QII are taken directly by UPE and can be diversified against UPE’s own risks.

6.29 I have also considered risks that may not necessarily be captured by the SCR. Such risks could include legal risk, government bond risk, tax risk, political risk, reputational and strategic risk.

6.30 One such risk relates to litigations. While I understand that there are ongoing litigations in respect of UPE, as described in paragraph 6.23, I have been informed there is no relevant ongoing litigations in relation to QII or the UWW Transferring Business. As such the situation remains unchanged within UPE post-Schemes.

6.31 I have been provided with the pre-Schemes Own Risk and Solvency Assessment (“ORSA” - see Appendix A for further details) for 2021 which include projections and scenario tests for QII and UPE. These scenarios do not consider every feasible scenario but rather the scenarios help to indicate the sensitivity of the solvency position of the business to the factors considered. The pre-Schemes results show that UPE’s capital position is most exposed to higher expenses, lower lapse rates and counterparty downgrade scenarios. None of the scenarios investigated resulted in the Solvency Coverage Ratio of UPE post-Schemes falling below UPE’s “hard target” solvency ratio of 135% (except for a reverse stress test which considers what scenario would result in a breach of the solvency ratio target). There were no scenarios which resulted in the solvency ratio excluding IWT asset falling below 100%.

6.32 I have also been provided with a Stress and Scenario Testing Supporting Report which shows the impact of a number of stress scenario tests on UPE’s solvency cover after QII and the transferring policies in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing, albeit that this is consistent with the pre-Schemes ORSA scenarios.

6.33 In addition, UPE has considered a combined scenario stress test on the post-Schemes position. The circumstances UPE investigated were a combination of adverse events including a 50% mass lapse with 10% increase in expenses. This scenario led to a reduction in solvency coverage to 124%.

6.34 However, all the participant companies are exposed to a combination of risks occurring at the same time whether or not the Schemes proceed; albeit that the impacts of such events would differ before and after the proposed Schemes given the change in the risk exposure due to the greater size of the business.

6.35 The UPE pre-Schemes ORSA and the Stress and Scenario Testing Supporting Report both identify the exposure to the IWT asset as being a material risk exposure. UPE has addressed this risk through its capital policy whereby it has set capital targets excluding the IWT asset as well as capital targets including the IWT asset.

6.36 Given the illiquid nature of the IWT asset, UPE has also assessed the liquidity position of the company post-Schemes. As at 31 December 2021, the combined entity, after repayment of the liquidity financing arrangement to QIIOM, would have €190 million in liquid assets, which would be predominately invested in cash (€13 million), government bonds (€71 million), corporate bonds (€46m) and investment funds (€61 million). These assets would be readily available if the company need to make substantial payments e.g. in the event of an operational event. The Stress and Scenario Testing Supporting Report shows that over time, the available liquid assets of the combined entity increase (allowing for expected dividend payments), as the company continues to generate cash. The liquidity position is also helped by the mechanics of the IWT asset which includes a limit on the size of the total asset.

iii) Projected Solvency position

6.37 As described in paragraph 5.17, each company regulated by the CBI is required to set out within its risk management framework what additional capital resources it intends to allocate over and above its SCR in order to provide additional security to policyholder benefits.

6.38 The capital policy for UPE, as set out in paragraph 6.13, will not change as a result of the Schemes.

6.39 I have also considered the projected solvency position of UPE pre- and post-Schemes. The figures in the table below show the projected solvency position assuming that the Schemes came into effect on 31 December 2021. The projections assume that dividends are paid to UHIL throughout the period.

Table 6.3 – UPE projected solvency position pre- and post-transfer as at 31 December

€ million	2021	2022	2023	2024	2025	2026
Pre-Schemes						
Own Funds	511.6	510.8	552.4	575.8	603.2	630.7
SCR	275.3	286.4	303.8	323.0	344.5	367.8
Solvency Coverage Ratio	186%	178%	182%	178%	175%	171%
Own Funds (excl IWTA)	382.2	389.5	437.2	453.3	493.0	537.3
SCR (excl IWTA)	267.6	279.3	297.3	316.1	338.5	363.0
Solvency Coverage Ratio (excl IWTA)	143%	139%	147%	143%	146%	148%
Post-Schemes						
Own Funds	502.3	506.3	543.1	561.9	582.8	608.3
SCR	293.5	314.8	333.9	352.9	370.9	395.0
Solvency Coverage Ratio	171%	161%	163%	159%	157%	154%
Own Funds (excl IWTA)	373.0	385.1	427.9	439.4	472.6	514.9
SCR (excl IWTA)	285.9	307.8	327.4	346.0	364.9	390.1
Solvency Coverage Ratio (excl IWTA)	130%	125%	131%	127%	130%	132%

6.40 The table above shows that the solvency coverage ratio is expected to reduce both pre-Schemes and post-Schemes as UPE has assumed that dividends of €40 million per annum would be paid throughout the projection pre-Schemes and €50 million per annum would be paid post-Schemes. If the IWT asset is excluded, the solvency coverage ratio is expected to reduce initially but then improve over time in both the pre-Schemes and post-Schemes projection.

6.41 The solvency coverage in the post-Schemes scenario remains above both the legislative requirement and also the targets of 135% (or 100% excluding the IWT asset) as set out in the capital policy. Whilst the projected solvency ratio pre-Schemes is higher, under the dividend policy any excess above the targets of 150% (or 110% excluding the IWT asset) can be paid as a dividend. As the post-Schemes solvency ratio remains above these targets in each year of the projection, I do not believe that the projected solvency position is materially adversely impacted as a result of the Schemes.

6.42 In consolidating QII into UPE the structure of UHIL will be simplified. A simplified group structure would be expected to be more cost efficient and also more capital efficient from a group perspective. This in turn should place UHIL in a stronger position to support its various businesses. This should be positive from the perspective of UPE policyholders.

Summary - Security

6.43 Based on the information provided to me and having considered the various points set out above in relation to the solvency positions, the relative risk profiles, as well as the projected solvency coverage (all pre- and post-Schemes), it is my opinion that the UPE policyholders are not materially adversely impacted as a result of the proposed Schemes.

Reasonable Expectations of UPE policyholders

6.44 The Schemes do not affect the contractual obligations to the policyholders of UPE.

6.45 The Schemes have no impact on the rights and obligations of UPE policyholders. All policyholders will be entitled to the same rights as were available to them before the Schemes.

i) Funds

6.46 There will be no changes to the unit-linked funds as a result of the proposed Schemes.

6.47 The Schemes do not prevent UPE from establishing, closing, amalgamating Sub-Funds; changing the name of Sub-Funds or changing the charges where such changes would be in line with the policy terms and conditions. Any such changes would be made by UPE on such terms as recommended by the HoAF having regard to the reasonable benefit expectations of the policyholders and having been approved by the UPE Board.

ii) Reinsurance arrangements

6.48 UPE currently has a number of reinsurance arrangements in place. These include the reinsurance arrangement with Generali Switzerland in respect of the variable annuity business, reinsurance on the domestic Irish and multi-national employee benefit business, reinsurance on mortality benefits attached to the unit funds and the catastrophe reinsurance treaty. These arrangements will be unaffected by the Schemes.

6.49 QII currently has reinsurance arrangements in place which will be transferred to UPE as part of the Scheme. These arrangements will have no impact on UPE policyholders.

6.50 I understand that immediately following the schemes, UPE will reinsure the entirety of the UWW Transferring Business back to UWW. UPE are expected to retain a small annual fee for administering this reinsurance arrangement. This arrangement will not have a material impact on UPE policyholders.

iii) Pricing basis for unit-linked funds

6.51 The Schemes state that there will be no change to the approach to unit pricing as a result of the proposed transfer. There will also be no change to the unit pricing procedures affecting policies belonging to the existing UPE customers as a result of the proposed transfer, although the Schemes allow UPE to change the approach to pricing in future.

iv) Charges

6.52 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company or as a result of certain events, such as changes in legislation. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.

6.53 The terms and conditions of each product sold by UPE list all the charges that apply to a policy. The charges on the UPE policies mainly consist of percentage charges made on the value of the unit funds.

6.54 The contractual terms of UPE policyholders do not change as a result of the Schemes.

v) Service

6.55 The supporting documentation I have been provided with states that Schemes will have no material effect on the servicing arrangements for UPE policyholders. Consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

6.56 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such, UPE policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

6.57 The supporting documentation I have been provided with states that the Schemes will not result in changes to the terms and conditions of any existing UPE policies. As such, there are not expected to be any tax implications to existing UPE policyholders.

Conclusion

6.58 Subject to the points in paragraph 10.1, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for the UPE pre-Schemes policyholders, the proposed transfers do not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

6.59 Furthermore, the Head of Actuarial Function of UPE has prepared a report in relation to the transfer. In that report the HoAF has concluded that:

- *The Schemes will have no material adverse impact on the security of the benefits of UPE dac policyholders;*
- *The fair treatment and reasonable benefit expectations of UPE dac policyholders will not be materially adversely affected by the Schemes; and*
- *The Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.*

Section 7: Effects of the Schemes on QII Policyholders

Introduction

7.1 In this Section of the report, I consider the likely impact of the Schemes on the QII policyholders in terms of the impact on security of policyholder benefits and on policyholders' reasonable expectations and service levels.

7.2 As with the other participant companies, the factors I must consider in assessing the implications of the transfer for the security of policyholder benefits include:

- The current solvency position;
- The risk profile of the participant companies;
- The capital targets as set out in each company's Risk Management Framework; and
- The expected future solvency position of each company, both before and after the transfer.

7.3 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders are set out in paragraph 6.3.

7.4 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.

Security of QII policyholders' benefits

i) Solvency position

7.5 In order to assist me in forming my judgement regarding the security of policyholder benefits I have considered the solvency position of QII before the proposed transfer and that of UPE post transfer.

7.6 Table 7.1 summarises the solvency position of QII before and after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021. The pre-transfer numbers are those reported at 31 December 2021 and the post-Schemes UPE position is as described in Section 6 of this report.

Table 7.1 – QII solvency position pre- and post-transfer as at 31 December 2021

€ million	QII	UPE (Post)
Assets	4,605.3	25,918.6
BEL - unit-linked/UWP	4,591.5	25,327.5
BEL - non-linked	(103.5)	(244.8)
RM	19.4	143.0
Other liabilities	24.9	168.2
DTL	-	46.2
Total Liabilities	4,532.3	25,440.1
	-	-
Own Funds	73.0	478.5
Subordinated debt	-	23.8
Adjusted Own Funds	73.0	502.3
SCR	38.9	293.5
Solvency Coverage Ratio	**187%**	**171%**
Adjusted Own Funds (excl IWT asset)	73.0	373.0
SCR (excl IWT asset)	38.9	285.9
Solvency Coverage Ratio (excl IWT asset)	**187%**	**130%**

7.7 The table above shows that had the proposed transfer taken place as at 31 December 2021, then QII policyholders would be within a larger company whose solvency coverage exceeded the Solvency II regulatory requirements but which had a lower solvency coverage ratio than pre-Schemes There are also other differences between the companies including in particular the IWT asset and the subordinated loan that are described in the following paragraphs.

7.8 If the IWT asset is excluded, the solvency coverage ratio of the combined entity would be 130%, which is lower than QII's current solvency coverage of 187%. While considering solvency coverage excluding the ITA is an onerous test, even on this basis the company has sufficient liquid capital to meet capital requirements. Also, despite the lower solvency coverage ratio post-Schemes compared to QII pre-Schemes, a large proportion of QII's Own Funds are made up of expected future profits which are largely illiquid, whereas a lower proportion of UPE's Own Funds will be made up of illiquid non-linked reserves post-Schemes. QII has a financial reinsurance arrangement in place to manage this liquidity risk. As such QII policyholders will not be exposed to materially different levels of liquidity risk post-Schemes compared to pre-Schemes.

7.9 QII's solvency target is for Solvency Coverage Ratio to be greater than 155% and no less than 130%. While this is an onerous test, I note that the solvency level post-schemes excluding the IWT of 130% is above the legislative requirement and is within the current solvency target range. In addition, the absolute level of this buffer (i.e. Adjusted Own Funds minus SCR), is much higher post-Schemes than it is for QII pre-Schemes (€87.1 million versus €34.1 million respectively). This means that post-Schemes, the entity would be better able to withstand a one-off hit in absolute terms (such as an operational event), than QII would be able to withstand pre-Schemes.

7.10 Under Solvency II Own Funds items are classified in accordance with quality criteria into three tiers. The three tiers are based on the quality of the Own Funds items and their ability to absorb losses, with Tier 1 being the highest quality and Tier 3 being the lowest quality. QII's Own Funds are all Tier 1. UPE's Own Funds are all classified as Tier 1 with the exception of a loan which is classified as Tier 2. UPE has a loan of £20m from Utmost Limited, which is due to be repaid in 2029. Repayment of the loan is subordinate to policyholders (with specific details set out in the loan agreement) and having assessed the Solvency II requirements, UPE classified the loan as Tier 2. Consequently, UPE is able to disregard the loan for the purpose of covering the SCR. If the loan was not disregarded, then the coverage in the above table would fall to 163% (or 122% excluding the IWT asset). Given the size of the loan, the relatively minor benefit on the capital cover from allowing for this loan and the size of the capital cover, I do not believe that the security of QII policyholder's benefits is materially adversely impacted by the loan.

7.11 Based on the above information, it is my opinion that the QII policyholders are not materially adversely impacted from a solvency perspective if the Schemes had been implemented at year-end 2021.

ii) Risk Profile

7.12 QII has 7,405 policies in force as at 31 December 2021 and funds under management of €4,591 million at the same date. The policies are unit-linked investment policies with no material investment guarantees.

7.13 The key risks to which QII is exposed are expense risk, lapse risk and currency risk:

- Expense risk, relating to future expenses being greater than expected;
- Lapse risk, relating to a mass lapse event resulting in the loss of future revenue; and
- Currency risk, reflecting the potential loss of future revenue resulting from adverse movement in currency markets which reduce the Euro value of future revenues and in particular to the depreciation of Sterling against Euro due a large proportion of business being denominated in GBP.

7.14 I have been provided with the QII pre-Schemes ORSA for 2021, which shows the impact of a number of stress scenarios on QII's solvency cover. The list of scenarios does not consider every feasible scenario but rather the scenarios considered indicate the sensitivity of the solvency position of the business to the factors considered. The risks that had the most material negative impact on solvency cover were expenses, currency and investment market falls. However, none of the scenarios investigated resulted in solvency coverage falling below 100%.

7.15 Post transfer, QII's policyholders will be part of a much bigger company with a broader range of risk exposures. The predominant nature of the QII's business, (i.e. unit-linked), is also the predominant business within UPE post-Schemes. Post transfer, QII policyholders will continue to be exposed to various market risks via the shareholder asset holdings as well as via the shareholder's exposure to variations in its expected income from unit-linked charges as a result of market movements, albeit to a greater scale. They will also be exposed to greater expense, lapse, counterparty and operational risks where the size of those risk exposures is greater, driven by the much greater scale of UPE post transfer, relative to the size of QII. They will also become exposed to health insurance risks in UPE post transfer, which are risks to which they are not currently exposed.

7.16 The Stress and Scenario Testing Supporting Report shows the impact of a number of stress scenario tests on UPE's solvency cover after QII and the transferring policies in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing. The Stress and

Scenario Testing Supporting Report also identifies the exposure to the IWT asset (which is covered in paragraphs 6.10 to 6.12 above).

7.17 However, UPE does have in place a risk management framework to manage and mitigate the various risks within UPE. In addition, post transfer, the SCR of the combined businesses is materially greater than the SCR of QII in isolation. This materially increased SCR is reflective of the risks within the bigger combined businesses post transfer. Furthermore, the UPE capital policy is such that the company states that it will hold sufficient capital to cover 135% of the SCR (or 100% of the SCR if the IWT asset is excluded) and will not pay a dividend if such dividend would reduce the SCR capital coverage below 150% (or 110% if the IWT asset is excluded).

7.18 In moving to the larger entity, QII policyholders do benefit from being able to spread direct expense costs over a much larger book of policyholders which could be expected to reduce their exposure to expense risk. UPE is also an open book of business, meaning that fixed costs will continue to be spread over an increasing number of policies. In addition, the ultimate objective of the Schemes is to simplify UHIL's structure. A simplified group structure would be expected to be more cost efficient and may also be more capital efficient from a group perspective. This in turn places the UHIL in a stronger position to support its various businesses. This should be positive from the perspective of QII policyholders.

iii) Projected Solvency position

7.19 QII's capital policy (pre-transfer) is to maintain sufficient assets to cover at least 155% of its SCR and a minimum of 130% of SCR. The Capital policy of UPE post-Schemes will be to maintain sufficient assets to cover at least 135% of its SCR (or 100% of its SCR excluding the IWT asset). Furthermore, the Directors adopted a policy such that any dividends paid would not result in UPE having a solvency capital ratio of less than 150% (or 110% excluding the IWT asset).

7.20 I have also considered the projected solvency position of QII pre-Schemes, and the projected solvency position of the combined UPE entity post-Schemes. The figures in the table below show the projected solvency position assuming that the Schemes came into effect on 31 December 2021.

Table 7.2 – QII projected solvency position pre-transfer and UPE post-transfer as at 31 December

€ million	2021	2022	2023	2024	2025	2026
Pre-Schemes						
Own Funds	73.0	74.5	90.0	99.5	106.8	115.3
SCR	38.9	41.5	47.4	51.8	55.0	58.1
Solvency Coverage Ratio	187%	180%	190%	192%	194%	198%
Own Funds (excl IWTA)	73.0	74.5	90.0	99.5	106.8	115.3
SCR (excl IWTA)	38.9	41.5	47.4	51.8	55.0	58.1
Solvency Coverage Ratio (excl IWTA)	187%	180%	190%	192%	194%	198%
Post-Schemes						
Own Funds	502.3	506.3	543.1	561.9	582.8	608.3
SCR	293.5	314.8	333.9	352.9	370.9	395.0
Solvency Coverage Ratio	171%	161%	163%	159%	157%	154%
Own Funds (excl IWTA)	373.0	385.1	427.9	439.4	472.6	514.9
SCR (excl IWTA)	285.9	307.8	327.4	346.0	364.9	390.1
Solvency Coverage Ratio (excl IWTA)	130%	125%	131%	127%	130%	132%

7.21 I understand that the pre-Scheme projections make allowance for projected expenses savings and assume QII will pay dividends of €10 million from 2022. The post-Schemes projections assume that dividends of €50 million would be paid each year based on the expected dividend distributions of UPE.

7.22 The projections show that in the pre-transfer scenario for QII the solvency coverage is 187% initially and rises to 198% by 2026.

7.23 In the post-Schemes projection, the coverage is 171% initially, and steadily reduces over the course of the projection to 154% by 2026. This reduction is largely due the expected dividend payments over the period. If the IWT asset is excluded, the coverage is 130% initially, and remains broadly unchanged throughout the projection period.

7.24 Under the UPE capital policy any excess capital above the 150% target and the 110% target excluding the IWT asset may be paid out as a dividend which is reflected in these projections. Throughout the projection, the capital buffer remains above these levels under both bases, which provides some comfort around the security of policyholder benefits.

Summary - Security

7.25 Having considered the various points set out above in relation to the solvency position of QII and UPE post-Schemes, the relative risk profiles of QII and UPE post-Schemes as well as the projected solvency coverage of both companies, it is my opinion that the QII policyholders are not materially adversely impacted as a result of the proposed Schemes.

Reasonable Expectations of QII policyholders

7.26 The Schemes do not affect the contractual obligations to the policyholders of QII.

7.27 The Schemes have no impact on the rights and obligations of QII policyholders. All policyholders will be entitled to the same rights as were available to them before the Schemes.

i) Funds

7.28 The QII Transferring Policies are all unit-linked contracts. The Schemes state that UPE will establish new internal linked funds for the Transferring Policies which will correspond to the current QII internal linked funds and that the new funds will be subject to the same rules and procedures for the calculation of unit prices and fund-related charges as was the case with the corresponding QII funds.

7.29 For QII Transferring Policies with investments in internal managed funds the transferring policyholders will receive an identical number of units of equal value in the new “host” internal linked funds in UPE compared to their position in the corresponding QII fund.

7.30 Therefore, the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer. The value of transferring policyholders’ funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place. The underlying unit-linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.

7.31 The investment criteria of the QII internal linked funds and the fund management arrangements will also transfer to the new “host” internal linked funds in UPE. The external and discretionary fund managers are not parties to the Schemes and consequently the investment criteria of externally managed funds are unaffected by the Schemes.

7.32 Any powers contained within the transferring contracts for funds to be merged, closed or sub-divided will be preserved under the Schemes with such powers being transferred to UPE post transfer.

ii) Reinsurance arrangements

7.33 QII has a number of reinsurance arrangements in place to mitigate the risk of excessive claims where the insurance element of its policies becomes a material risk to the Company. These arrangements will transfer with the Schemes.

7.34 In 2012 QII acquired, as a result of a Scheme of Transfer in Ireland (“2012 Scheme”), a small book of unit-linked business from a related Irish group company in a group consolidation exercise (“the 2012 Irish Policies”). The entire risk and reward of this book was at the time reinsured to Old Mutual International Guernsey Ltd (“OMIG”) and retroceded to Old Mutual International Isle of Man Ltd, which is now QIIOM. As part of a wider group project, this arrangement was altered in 2017 to remove OMIG from the arrangement so that the reinsurance is now direct with QIIOM and is therefore now an intra-group arrangement. The 2012 Scheme included provisions to maintain benefit security for the transferring 2012 Irish Policies. The arrangements put in place in 2012 were modified and simplified in 2017 as part of the wider group project. UPE and QIIOM will replicate the 2017 arrangements so that following the Schemes the transferring 2012 Irish Policies will continue to enjoy the same protection as afforded by the 2012 Scheme.

7.35 QII also has a financial reinsurance treaty in place to provide cash liquidity in order to make commission payments on relevant sales to distributors. The arrangement has limited risk transfer and is accounted for as loan financing within QII’s financial statements. This arrangement will transfer with the Schemes but is expected to be collapsed by UPE thereafter.

iii) Pricing basis for unit-linked funds

7.36 The Schemes state that there will be no change to the approach to unit pricing as a result of the proposed transfer. There will also be no change to the unit pricing procedures affecting policies belonging to the existing QII customers as a result of the proposed transfer.

iv) Charges

7.37 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.

7.38 The terms and conditions of each product sold by QII list all the charges that apply to a policy.

7.39 As all contractual terms remain unchanged under the Schemes, any powers contained within the QII contracts for changes to be made to charges will be preserved under the Schemes with such powers being transferred to UPE post transfer.

v) Service

7.40 QII outsources many of its requirements for operational services to several different entities within the wider UG. None of these arrangements will change as a result of the Schemes. Consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

7.41 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such QII policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

7.42 The Schemes will not alter policies and does not result in the cancelation or the issue of new policies to policyholders. It is not expected that the Schemes will give rise to tax consequences for policyholders and the Schemes state that any tax implications which crystallise as a result of the Schemes will not be borne by policyholders. The tax authorities in Ireland will be notified of the intention to carry out the proposed transfer under the Schemes.

viii) Liquidity

7.43 QII does not have an IWT asset but does rely on a financial reinsurance arrangement in order to provide liquidity to make commission payments on relevant sales to distributors. It is expected that this reinsurance will be collapsed post-Scheme. However, QII will continue to be exposed to liquidity risk post-Schemes through exposure to the IWT asset which is not readily available to make payments e.g. in the event of an operational event. However, the Stress and Scenario Testing Report shows that, post-Scheme UPE will have €223 million of liquid assets, which in absolute terms is a larger amount of liquid assets than QII currently holds. In addition, Stress and Scenario Testing Report also includes a forecast of the expected future liquid assets. While this shows a reduction in liquid assets over time, the main driver of this is the expected levels of future dividend payment. As a result, I do not believe that QII policyholders are materially worse off from a liquidity point of view as a result of the Schemes.

Conclusion

7.44 Subject to the points in paragraph 10.1 of Section 10, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for the QII Transferring Policyholders, the proposed transfer does not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

7.45 Furthermore, the HoAF of QII has prepared a report in relation to this transfer. In that report the HoAF has concluded that:

- *The Schemes will have no material adverse impact on the security of the benefits for QII policyholders;*
- *The fair treatment and reasonable benefit expectations of QII policyholders will not be materially adversely affected by the Schemes; and*
- *The Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.*

Section 8: Effects of the Schemes on UWW Policyholders

Introduction

8.1 In this Section of the report, I consider the likely impact of the Schemes on both the transferring and non-transferring UWW policyholders in terms of the impact on security of policyholder benefits, on policyholders' reasonable expectations and service levels.

8.2 Given the materiality of the transferring policies in the context of the remaining UWW policyholders, I have considered the impact of the transfer on the remaining UWW policyholders, by confirming that the impact on the balance sheet would not be material, which is illustrated in paragraph 3.13 which describes that the UWW Transferring Policies make up less than 1% of the overall UWW funds under management.

8.3 As with the other participant companies, the factors I must consider in assessing the implications of the transfer for the security of policyholder benefits include:

- The current solvency position;
- The risk profile of the participant companies;
- The capital targets as set out in each company's Risk Management Framework; and
- The expected future solvency position of each company, both before and after the transfer;.

8.4 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders are set out below.

8.5 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.

Security of UWW policyholders' benefits

i) Solvency position

8.6 In order to assist me in forming my judgement regarding the security of policyholder benefits I have considered the solvency position of UWW before the proposed transfer and that of UPE post transfer.

8.7 Table 8.1 summarises the solvency position of UWW before the proposed transfer and UPE after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021 and that only the UWW Transferring Business transfers to UPE. For comparison purposes, figures are shown in GBP.

Table 8.1 – Solvency position of UWW pre-Schemes compared to UPE post-Schemes as at 31 December 2021 (figures shown in GBP)

£ million	UWW	UPE (Post)
Adjusted Own Funds	333.9	422.5
SCR	189.5	246.9
Solvency Coverage Ratio	**176%**	**171%**
		-
Adjusted Own Funds (excl IWT asset)	333.9	313.7
SCR (excl IWT asset)	189.5	240.5
Solvency Coverage Ratio (excl IWT asset)	**176%**	**130%**

8.8 The table above shows that had the proposed transfer taken place as at 31 December 2021, then the UWW Transferring policyholders would be within a larger company whose solvency coverage exceeded the Solvency II regulatory requirements and which is slightly lower but not materially different from the pre-Schemes solvency coverage. There are also other differences between the companies including in particular the IWT asset and the subordinated loan that are described in the following paragraphs.

8.9 Both UWW and UPE have a minimum Solvency Coverage Ratio target of 135%. Further, the Solvency coverage ratio for both UWW and UPE must remain above 150% immediately after a dividend payment. Including the IWT asset, the Solvency Coverage Ratio of UPE post-Schemes is not materially different to the Solvency Coverage Ratio of UWW. While this is an onerous test, if the IWT asset is excluded, the Solvency Coverage Ratio of the combined entity would be 130%, which is lower than UWW's current solvency coverage of 176%. However, the absolute amount of Own Funds for UPE post-Schemes and excluding the IWT assets is not materially different from the UWW Own Funds pre-Schemes.

8.10 Under Solvency II, Own Funds items are classified in accordance with quality criteria into three tiers. As described in paragraph 7.10, UPE's own funds are all classified as Tier 1 with the exception of a £20 million loan which is classified as Tier 2. Given the size of the loan, the relatively minor benefit on the capital cover from allowing for this loan and the size of the capital cover, I do not believe that the security of UWW policyholder's benefits is materially adversely impacted by the loan.

8.11 Based on the above information, it is my opinion that the transferring UWW policyholders are not materially adversely impacted from a solvency perspective if the Schemes had been implemented at year-end 2021. Further, given that the UWW Transferring Business makes up a very small proportion of the overall UWW business and also given that the UWW will be reinsured back to UWW post-Schemes, the remaining UWW policyholders would also not have been materially impacted from a solvency perspective if the Schemes had been implemented at year-end 2021.

ii) Risk Profile

8.12 UWW has 55,941 policies in force as at 31 December 2021 and funds under management of €3,780 million at the same date. The policies are unit-linked savings and portfolio bonds, group protection and group savings policies.

8.13 The key risks to which UWW is exposed are equity risk, expense risk, lapse risk and currency risk:

- Equity risk, relating to future revenue being lower than expected on unit-linked business following a reduction in unit-linked asset values;
- Lapse risk, relating to a mass lapse event resulting in the loss of future revenue;

- Currency risk, reflecting the potential loss of future revenue resulting from adverse movement in currency markets which reduce the GBP value of future revenues; and

- Expense risk, relating to future expenses being greater than expected.

8.14 I have been provided with the UWW pre-Schemes Actuarial Function Report for 2021, which show the impact of a number of sensitivities on UWW's Own Funds. The list of sensitivities does not consider every feasible scenario but rather the scenarios considered indicate the sensitivity of the solvency position of the business to the factors considered. The risks that had the most material negative impact related to lapses, however none of the sensitivities showed Own Funds falling below the level of the SCR.

8.15 The mix of risks that UWW is exposed to is broadly similar to the mix of risks that the UWW Transferring policies will be exposed to in UPE post-Schemes.

- UWW transferring policyholders will continue to be exposed to various market risks via the shareholder asset holdings as well as via shareholder's exposure to variations in its expected income from unit-linked charges as a result of market movements;

- UWW reports in GBP whereas UPE reports in EURO, however UPE's cashflows are less diversified across different currencies compared to UWW's cashflows which means that UPE post-Schemes has proportionately higher currency risk;

- UWW is more exposed to mass lapse and expense risk;

- UPE does not write non-life business so holds no capital in respect of non-life insurance risks. This is not the case for UWW; and

- UPE has higher counterparty default risk capital requirement which is partly as a result of the exposure to IWT asset as well as in respect of reinsurance treaties held.

8.16 The Stress and Scenario Testing Supporting Report shows the impact of a number of stress scenario tests on UPE's solvency cover after QII and the Transferring Business in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing. The Stress and Scenario Testing Supporting Report also identifies the exposure to the IWT asset (which is covered in paragraphs 6.10 to 6.12 above).

8.17 However, UPE does have in place a risk management framework to manage and mitigate the various risks within UPE. In addition, post transfer, the SCR of the combined businesses is greater than the SCR of UWW in isolation. This materially increased SCR is reflective of the risks within the bigger combined businesses post transfer. Furthermore, the UPE capital policy is such that the company states that it will hold sufficient capital to cover 135% of the SCR (or 100% of the SCR if the IWT asset is excluded) and will not pay a dividend if such dividend would reduce the SCR capital coverage below 150% (or 110% if the IWT asset is excluded).

iv) Projected Solvency position

8.18 UWW's capital policy (pre-transfer) is to maintain sufficient assets to cover at least 135% of its SCR. The Capital policy of UPE post-Schemes will be to maintain sufficient assets to cover at least 135% of its SCR (or 100% of its SCR excluding the IWT asset). Furthermore, the Directors adopted a policy such that any dividends paid would not result in UPE having a solvency capital ratio of less than 150% (or 110% excluding the IWT asset).

8.19 I have also considered the projected solvency position of UWW pre-Schemes, and the projected solvency position of the combined UPE entity post-Schemes. The figures in the table below show the projected solvency position assuming that the Schemes came into effect on 31 December 2021. All figures are shown in GBP for comparison purposes.

Table 8.2 - UWW projected solvency position pre-transfer and UPE post-transfer as at 31 December (figures shown in GBP)

£ million	2021	2022	2023	2024	2025	2026
UWW Pre-Schemes						
Own Funds	333.9	293.4	275.8	258.0	239.4	219.6
SCR	189.5	170.9	154.7	143.3	133.7	123.8
Solvency Coverage Ratio	176%	172%	178%	180%	179%	177%
Own Funds (excl IWTA)	333.9	293.4	275.8	258.0	239.4	219.6
SCR (excl IWTA)	189.5	170.9	154.7	143.3	133.7	123.8
Solvency Coverage Ratio (excl IWTA)	176%	172%	178%	180%	179%	177%
UPE Post-Schemes						
Own Funds	422.5	425.9	456.8	472.6	490.2	511.7
SCR	246.9	264.8	280.9	296.8	312.0	332.3
Solvency Coverage Ratio	171%	161%	163%	159%	157%	154%
Own Funds (excl IWTA)	313.7	323.9	360.0	369.6	397.6	433.1
SCR (excl IWTA)	240.5	258.9	275.4	291.1	306.9	328.2
Solvency Coverage Ratio (excl IWTA)	130%	125%	131%	127%	130%	132%

8.20 I understand that the post-Schemes projections assume that dividends of €50 million would be paid each year based on the expected dividend distributions of UPE.

8.21 The projections show that in the pre-transfer scenario for UWW the solvency coverage is 176% initially and remains broadly level over the period to 2026. It is not expected that the UWW projection will be materially impacted by the Schemes due to the small number of transferring policies.

8.22 In the post-Schemes projection, the coverage is 171% initially, and steadily reduces over the course of the projection to 154% by 2026. This reduction is largely due to the expected dividend payments over the period. If the IWT asset is excluded, the coverage is 130% initially, and remains broadly unchanged throughout the projection period.

8.23 Under the UPE capital policy any excess capital above the 150% target and the 110% target excluding the IWT asset may be paid out as a dividend which is reflected in these projections. Throughout the projection, the capital buffer remains above these levels under both bases, which provides some comfort around the security of policyholder benefits.

Summary - Security

8.24 As the UWW Guernsey Scheme involve the UWW Transferring policyholders moving from an entity regulated in Guernsey to an entity regulated in Ireland, these policyholders will be subject to a different policyholder protection regime post-Schemes. To assess the impact of this, I have been provided with a comparative analysis and legal review of the policyholder protections regimes in Ireland and Guernsey, which also considers policyholder protections in the event of the insolvency of an insurer. This analysis concludes that the Irish regulatory regime is broadly comparable to the Guernsey regime in respect of protections to policyholders. Based on this information, it is my understanding that UWW Transferring policyholders would receive similar protections in Ireland post-Schemes compared to what they currently receive in Guernsey.

8.25 The UWW Guernsey Scheme will be dependent on the reinsurance arrangement in respect of the UWW Transferring policyholders which will be entirely reinsured from UPE back to UWW at the same time as the Scheme comes into force. I have been provided with a report which describes the policyholder protection measures that will be included within the UWW Guernsey Scheme. This report describes the proposed terms of the reinsurance treaty which have been designed to maintain the current level of policyholder protections for UWW Transferring policyholders post-Schemes. These terms would require UWW to hold policyholder assets under trust directly for the benefit of underlying policyholders such that in the event of insolvency of either UPE or UWW, neither company (or their administrators) would have a claim on those assets. I understand that the specific terms of the reinsurance treaty have yet to be finalised, however the intention is that the treaty will maintain the current level of policyholder protections for UWW Transferring policyholders post-Schemes.

8.26 Having considered the various points set out above in relation to the solvency position and policyholder protections of UWW and UPE post-Schemes, the relative risk profiles of UWW and UPE post-Schemes as well as the projected solvency coverage of both companies, it is my opinion that both the UWW Transferring and non-transferring policyholders are not materially adversely impacted as a result of the proposed Schemes. This conclusion is based on the assumption that the final terms of the reinsurance treaty between UWW and UPE described paragraph 8.25 will not materially worsen the protections that policyholders currently enjoy. If however the terms of the reinsurance treaty does affect policyholder protections, I will consider the impact of this in my supplementary report.

Reasonable Expectations of UWW policyholders

8.27 The Schemes do not affect the contractual obligations to the policyholders of UWW and the Schemes have no impact on the rights and obligations of UWW policyholders.

i) Funds

8.28 The UWW Transferring Policies will be entirely reinsured back to UWW post-Schemes. All existing investment options will be available to the policyholders, which will remain under the governance of UWW, including in respect of pricing and purchase/sale of units.

8.29 Therefore, the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer. The value of transferring policyholders' funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place. The underlying unit-linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.

ii) Reinsurance arrangements

8.30 There are no reinsurance treaties currently in-force in respect of the UWW Transferring Business. However, immediately following the Schemes it is intended that UPE will reinsure the entirety of the UWW Transferring Business back to UWW.

iii) Pricing basis for unit-linked funds

8.31 There will be no changes to the approach to unit pricing for the UWW Transferring Business as a result of the proposed transfer.

iv) Charges

8.32 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.

8.33 The terms and conditions of each product sold by UWW list all the charges that apply to a policy. Policy charges on the UWW Transferring Business will continue to be set by the UWW (by way of recommendation to the UPE Board) and will equate to charges on equivalent non-transferring UWW policies.

v) Service

8.34 None of the administration arrangements for the transferred policies will change as a result of the Schemes. The policies will continue to be administered by UWW on the current administration platforms and consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

8.35 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such UWW policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

8.36 The Schemes will not alter policies and does not result in the cancelation or the issue of new policies to policyholders. It is not expected that the Schemes will give rise to tax consequences for policyholders. The tax authorities in Ireland and Guernsey will be notified of the intention to carry out the proposed transfer under the Schemes.

viii) Liquidity

8.37 UWW does not have an IWT asset and so the UWW Transferring Business will be exposed to greater liquidity risk as a result of the schemes. However, Table 8.1 shows that Own Funds for UPE post-Schemes excluding the IWT asset are not materially different to the UWW Own Funds. As a result, I do not believe that UWW transferring policyholders are materially worse off from a liquidity point of view as a result of the Schemes.

Conclusion

8.38 Subject to the points in paragraph 10.1 of Section 10, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for both the transferring and non-transferring UWW policyholders, the proposed transfer does not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

8.39 Furthermore, the HoAF of UWW has prepared a report in relation to this transfer. In that report the HoAF has concluded that:

- *The Schemes will have no material adverse impact on the security of the benefits for UWW policyholders;*
- *The fair treatment and reasonable benefit expectations of UWW policyholders will not be materially adversely affected by the Schemes; and*

- *The Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.*

Section 9: Policyholder Communications

Policyholder Communication regarding the proposed transfer

9.1 The communication plan is to issue a letter to all policyholders of QII and the Transferring Policyholders in UWW notifying them of the proposed Schemes. The letter will outline details of the proposed scheme and information on how to access full details of the Policyholder Circular, which will be made available on dedicated websites relating to the transfer.

9.2 The Policyholder Circular will include a summary of my report. I have reviewed the contents of the communications that will be made available to the transferring policyholders in relation to the proposed Schemes and in my opinion they are satisfactory.

9.3 UPE will seek a dispensation from the Irish High Court of the requirement under s. 13(3)(b) of the Assurance Companies Act 1909 to transmit the Policyholder Circular to the non-transferring policyholders i.e. the current policyholders of UPE. UWW, will seek a similar dispensation for the Guernsey Scheme. I have reviewed the proposed basis for these applications for dispensation as set out in the Communications Plan document of 8 March 2022 prepared by UPE and UWW and have been informed that Senior Counsel is comfortable with this approach. Based on this, and also on the basis that I ultimately conclude that the UPE and non-transferring UWW policyholders are not materially negatively impacted by the Schemes, I have no objection to the proposed approach. Identical dispensations will be sought from the Guernsey Financial Services Commission in respect of the proposed QII Guernsey Scheme and the UWW Guernsey Scheme.

9.4 Relevant documents related to the proposed Schemes will be made available for inspection at the offices of UPE, QII, UWW and Matheson, Dublin office and Carey Olsen Guernsey offices. In addition, such documents will be available on dedicated websites and also upon request. Notices will also be placed in various publications as listed in paragraph 4.46.

9.5 In my opinion, the proposed policyholder communication plan is appropriate.

Section 10: Summary and overall conclusions

10.1 In this report I have considered the effects of the proposed transfer on the current policyholders of UPE and the transferring policyholders of QII and UWW. My conclusion is subject to the following:

- That there are no changes to my opinion as a result of any activities within the wider UG between now and the date of implementation of the Schemes;
- That the final terms of the reinsurance treaty between UWW and UPE described paragraph 8.25 will not materially worsen the protections that policyholders currently enjoy; and
- The Reliances and Limitations as set out in Section 11.

10.2 Subject to 10.1, my conclusions may be summarised by the following statements:

- The proposal provides appropriate protection for the interests of QII and UWW Transferring Policyholders. I do not consider it necessary to put in place any additional protections in addition to those in the Schemes;
- There will be no material adverse impact on the security of benefits (which includes claims payments) for any group of policyholders (including the holders of QII Guernsey Policies and the UWW transferring policies) as a result of the proposed Schemes;
- No group of policyholders (including the holders of the QII Guernsey Policies and the UWW transferring policies) will suffer any reduction in reasonable benefit expectations or service levels as a result of the proposed Schemes; and
- There will be no material adverse effect on the level of services provided to any group of policyholders (including the holders of the QII Guernsey Policies and the UWW transferring policies) as a result of the proposed Schemes.

Fergal O’Shea FSAI
Senior Director
Willis Towers Watson (Ireland) Limited

29 June 2022

Willis Towers Watson (Ireland) Limited
Elm Park
Merrion Road
Dublin 4

Section 11: Reliances and Limitations

Reliances

The purpose of the report is to set out my assessment of the likely effects of the proposed Schemes on the long-term policyholders of Utmost PanEurope dac, Quilter International Ireland DAC and Utmost Worldwide Limited and it should not be used for any other purpose or in any other context.

In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form, by UPE, QII and UWW. In particular, I have relied upon the accuracy and completeness of the contents of the documents, data and information set out in Section 2 of this report, including all related calculations provided.

Limitations

This report has been produced for use by the various parties involved with this proposed Transfer which include:

- The Court having jurisdiction over the proposed transfer;
- The Royal Court of Guernsey;
- The Directors and the Head of Actuarial Function of UPE;
- The Directors and the Head of Actuarial Function of QII;
- The Directors and the Appointed Actuary of UWW;
- Policyholders of UPE, QII & UWW;
- The Central Bank of Ireland;
- The Guernsey Financial Services Commission; and
- Professional advisors appointed by any of the above in connection with the proposed transfer.

No part of this report is to be disclosed to, or relied on, by any third party without the prior written consent of Willis Towers Watson, with the exception of making the report available for inspection by or circulation to policyholders as required by legislation or in order to meet any other specified legal requirements.

This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this report must not be relied upon by any person for any purpose. No reliance should be placed on any advice not given in writing. If reliance is placed contrary to the guidelines set out above, Willis Towers Watson disclaim any and all liability which may arise.

I have not attempted to assess the suitability or quality of UPE's assets or QII's assets or UWW's assets. I have also not investigated, or made allowance for, any claims against UPE, QII or UWW other than those made by policyholders under the normal terms of life insurance business. In particular, no account has been taken of liabilities in respect of leases and breaches of legislation, regulatory rules or guidance.

Assumptions are made about future experience, including economic and investment experience, tax, expenses, discontinuance rates, mortality, reinsurance and legislation. These assumptions have been set by UPE, QII and UWW. However, actual future experience is likely to differ from these assumptions, due to random fluctuations, changes in the operating environment and other factors. Such variations in experience could have a significant effect on the results and conclusions of this report. No warranty is given by Willis Towers Watson that the assumptions made in this report will be reflected in actual future experience.

My review is based on the documentation provided by UPE, QII and UWW and is from the viewpoint of actuarial advisers. In particular we are not providing you with legal, audit, accountancy or tax advice, which are outside the normal scope of our services. Where, in the course of providing our services, we need to interpret a document, deed, accounts or relevant taxation provision in order to advise you, we do so with the reasonable skill and care to be expected of us in our professional capacity but you acknowledge that we are neither lawyers nor tax advisers nor accountants and accordingly should you want definitive advice for example, as to the proper interpretation of a document, deed, accounts or relevant taxation provision you should consult your lawyers, accountants or tax advisers for that advice.

The report does not consider possible financial implications arising from the introduction of new regulatory reporting requirements which may, for example, increase the level of capital support required to sustain the business or constrain the way in which the assets are invested.

This report was not specifically intended to, and may not therefore, address the particular needs, concerns or objectives of any individual policyholder.

This report was based on data available to Willis Towers Watson, or prior to, 29 June 2022, and takes no account of developments after that date. Willis Towers Watson is under no obligation to update or correct inaccuracies which may become apparent in the report.

This report is subject to the terms and limitations, including limitation of liability, set out in our Statement of Work document dated 8 November 2021. The total liability of Willis Towers Watson arising out of or in connection with the services provided in contract tort or otherwise (in each case including, but not limited to, negligence) shall be limited to a maximum of €2 million divided equally between UPE and QII.

Willis Towers Watson shall not be liable in contract tort or otherwise for any loss of revenue, business, contracts, anticipated savings or profits or for any other indirect or consequential loss whatsoever.

Any limitation of liability shall be construed to the fullest extent permitted by law.

Legal jurisdiction

This Report will be governed by and construed in accordance with Irish law and the parties submit to the exclusive jurisdiction of the Irish courts in connection with all disputes and differences arising out of, under or in connection with this Report. If any part of a provision of this Report is held invalid, illegal or unenforceable then the remainder of such provision shall remain valid and enforceable to the fullest extent permitted by law.

Appendix A: Definitions

Best Estimate Liability ("BEL"): The BEL is the expected value of the present value of future cashflows of a contract including cashflows related to future premium flows, insurance benefit payouts and the expenses of administering the contracts. These cashflows are projected over the contract's run-off period taking into account all up-to-date financial market and actuarial information.

Risk Margin ("RM"): The RM is the cost of providing an amount of capital equal to the Solvency Capital Requirement necessary to support the insurer's policyholder obligations over the lifetime of the in-force contracts.

Technical Provisions ("TP"): TP are equal to the sum of the BEL and the RM.

Standard Formula approach to the calculation of the Solvency Capital Requirement ("SCR"): The Standard Formula Approach is a standardised calculation method which uses parameters prescribed by European insurance regulators, including the CBI. It is not tailored to the individual risk profile of a specific insurance company and aims to capture the material quantifiable risks that most companies are exposed to including but not limited to underwriting risk, market risk and counterparty default risk. Each company is required by its supervisory authority to perform an assessment of its risk profile in order to ascertain the extent to which its risk profile deviates from the assumptions underlying the Standard Formula Approach SCR calculation. If there is a significant deviation the insurance company is required to consider the possible consequences of such a deviation and how it intends to address these. Utmost Ireland has adopted a Standard Formula Approach and in its 2016 Own Risk and Solvency Assessment it concluded that the Standard Formula stresses were appropriate in generating an SCR consistent with the risk profile of the company.

Own Risk and Solvency Assessment ("ORSA"): As part of the Solvency II framework companies are required to conduct an ORSA to identify, assess, monitor, manage, and report the short and long term risks a firm faces or may face and to determine the own funds necessary to ensure the overall solvency needs are met at all times. The ORSA is an integral part of the business strategy, taken into account in strategic decisions and is used to help identify and manage risk.

Prescribed Capital Requirements ("PCR"): Capital requirements applicable to insurance entities regulated in Guernsey calculated following GSFC insurance rules.

Regulatory Capital Resources ("RCR"): Capital resources applicable to insurance entities regulated in Guernsey. Calculated as the difference between assets and liabilities after adjustments following GSFC insurance rules.

Italian Withholding Tax ("IWT"): Under the Italian withholding tax regime, companies who have sold savings business in Italy are required to pay an amount each year to the Italian revenue which the companies may then effectively recover from policyholders once they encash funds and become liable to pay a gains tax. If the company pays other taxes in Italy, or is a member of a group that does so, such as payroll taxes, it may also use those amounts to recover the tax paid under the withholding tax regime.

Variable annuity ("VA"): A variable annuity is a type of insurance product, where the policyholder pays one or more premiums during the accumulation phase, which are then invested on behalf of the policyholder. At the end of the accumulation phase, the policyholder receives a benefit which could be a lump sum amount or a level of income. The benefits are determined by the performance of the investments during the accumulation phase and are likely subject to a guaranteed minimum.