Scheme Report of the Independent Expert on the proposed transfer of insurance business from

Soteria Insurance Limited and DARAG Legacy UK Limited to DARAG Insurance UK Limited

in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

19 May 2026

Prepared by:

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LCP

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1. Executive summary

1.1. The Proposed Transfer

The firms involved

1.1.1. Soteria Insurance Limited (Soteria) is a UK-based general insurer that underwrote insurance business covering commercial insurance and personal lines (motor and home). Soteria is a directly owned subsidiary of Saturn Holdings PLC (Saturn Holdings). In February 2021, the Board of Soteria placed Soteria into run-off and regulatory permissions to effect new insurance contracts were cancelled on 29 March 2021. Soteria's last policies expired in March 2022. The principal activity of Soteria since entering into run-off has been the settlement of outstanding claims and administration of existing policies in force. Most of these services, including claims handling, are outsourced to Markerstudy Insurance Services Ltd (MISL). Saturn Holdings' strategy is to close Soteria as soon as possible, whilst ensuring that customers receive good outcomes, suitable provision is made for managing its ongoing insurance obligations and all regulatory requirements are met. The Proposed Transfer, and the subsequent separate potential transfer discussed in paragraph 1.1.22, are fundamental to that aim.

1.1.2. DARAG Legacy UK Limited (DLUK) was formerly known as One Re Limited (One Re). One Re had actively underwritten non-life reinsurance business since 1 January 2015. In October 2018, the Board of Directors decided to cease writing new business and place the company into run-off. DLUK was subsequently acquired by DARAG Deutschland AG (DAG) in December 2019 and has since continued as a UK-regulated reinsurance company in run-off. The business in DLUK consists of a small number of mostly Africa-based reinsurance treaties and an intra-group one-off inwards reinsurance agreement with DAG.

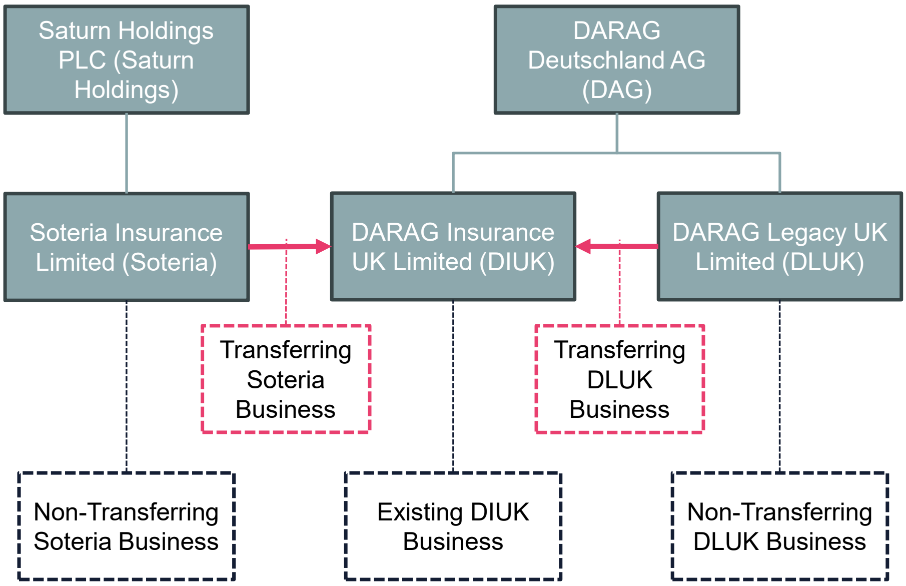
1.1.3. DARAG Insurance UK Limited (DIUK) is a wholly owned subsidiary of DAG that is incorporated in the UK and licensed as a non-life insurance company with permission to carry out contracts of general insurance. DIUK was incorporated on 19 October 1998 and underwrote non-life insurance business until 11 July 2003, when the company ceased underwriting and went into run-off. DIUK's existing portfolio mainly comprises employers liability, professional Indemnity, general third-party liability, financial institution and construction "all risk" policies. DARAG's strategy is to actively increase participation in the UK and Gibraltar legacy insurance market focussing on small to mid-sized portfolios. DIUK is planned to be DARAG Group's UK insurance risk carrier.

The Transferring Business

1.1.4. The Part VII transfer (Proposed Transfer) to DIUK includes:

- The transfer of Soteria's commercial liability portfolio, policies underwritten by Soteria in its capacity as an underwriting member of the Electricity Industry Run Off Services Limited (EIROS) pool and six inwards reinsurance policies (the Transferring Soteria Business).
- The transfer of DLUK's mostly Africa-based reinsurance treaties (the Transferring DLUK Business).

1.1.5. The diagram below summarises the key firms involved in the Proposed Transfer.



1.1.6. The Proposed Transfer involves the transfer of two portfolios to DIUK. The parties have informed me that the transfer of these two portfolios is contingent on each other, ie if one of the transfers is not sanctioned, then neither of the transfers will go ahead. I have therefore not considered the impact on policyholders if only one of the transfers goes ahead.

1.1.7. The Transferring Soteria Business consists of:

- Soteria's commercial liability portfolio (which includes asbestos and other industrial disease liabilities) comprising:
  - commercial liability business for small and medium-sized companies underwritten by CIS General Insurance Limited (CISGIL) (which changed its name to Soteria Insurance Limited on 5 January 2021) between 2006 and 2010; and
  - commercial liability business underwritten by Co-operative Insurance Society Limited (CISL) from the early 1900s until January 2006. CISGIL was established to underwrite all new and renewing general insurance business formerly written by CISL, which was transferred to Soteria in 2014.
- Policies underwritten by Soteria in its capacity as an underwriting member of the EIROS pool (covering risks between the 1950s and the late 1970s) with a 1.17% share of business underwritten by that pool for that period; and
- Six inwards reinsurance policies.

1.1.8. As of June 2025, Soteria had 1,456 open claims, only 36 of which are within the Transferring Soteria Business ie the other 1,420 open claims will remain with Soteria post-transfer.

1.1.9. The Transferring DLUK Business consists of a reinsurance portfolio relating to legacy business which is predominantly Africa-based. See section 5.5 for further detail on this business. DLUK is currently seeking to commute its mostly Africa-based inwards reinsurance contracts. A large portion of this business has already been commuted and, as of 30 September 2025, there were only 9 cedants within the DLUK portfolio with non-nil open reserves, and the remaining reserves for the Transferring DLUK Business were approximately £30,000. DLUK is continuing to attempt to commute the remainder of its inwards business, although it does not expect to be able to agree commutations with all cedants. As of the date of this report there are only three remaining cedants with open reserves. Therefore, DLUK's reserves for the Transferring DLUK Business immediately prior to the Proposed Transfer are expected to be close to zero. If DLUK does not agree commutations with the remaining cedants with open reserves, this does not have any material impact on my conclusions regarding the impact of the Proposed Transfer on policyholders or reinsurers. I will provide an update on the commutation of the Transferring DLUK Business in my Supplementary report.

1.1.10. The Soteria and DLUK portfolios include some business that is not subject to the laws of England and Wales. The Transferring Soteria Business includes policyholders based in Jersey, Guernsey and the Isle of Man. Soteria has confirmed that, based on legal advice they have received, no court order or approval from, or notification to, overseas regulators is required in respect of Soteria's policies in Jersey, Guernsey or the Isle of Man in order to proceed with the Proposed Transfer.

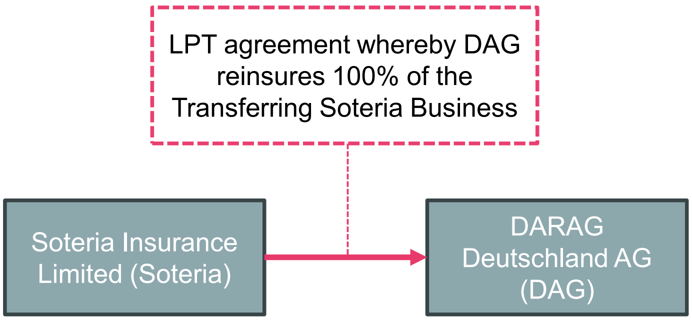
1.1.11. For the Transferring DLUK Business, the remaining three cedants with open reserves are located in South Africa, Tanzania and Congo and their policies are governed by local law, rather than English law.

1.1.12. DIUK and DLUK have considered with their legal advisers whether an order transferring policies not governed by English law would be of any practical effect, and whether the cedants under the policies will be prejudiced if the transfer is not recognised in the jurisdiction of the governing law of the policy, in light of the provisions of the Scheme and the fact that DLUK has no assets outside the UK.

1.1.13. The Scheme obliges DIUK to indemnify DLUK in respect of liabilities arising out of the Transferring DLUK Business and to take steps to be substituted for DLUK in any proceedings brought against DLUK outside the UK. As DLUK's only assets are in the UK, it would not be possible to enforce a judgment obtained against DLUK outside the UK. DLUK's legal advisers have confirmed that the Courts in the UK would recognise a Part VII Transfer as effective as a matter of English law to transfer policies irrespective of their governing law, and any proceedings brought in the UK to enforce a judgment against DLUK would be met with the defence of the order sanctioning the Proposed Transfer. Moreover, the Scheme provides that any proceedings brought in the UK against DLUK are to be deemed to have been brought against DIUK without the need for any Court order to that effect. The conclusion is that the Proposed Transfer would have the intended effect that DIUK (and not DLUK) would be obliged to meet the liabilities under the Policies. In addition, there will be no barrier to a cedant obtaining payment of a claim, and no increase in their costs in doing so, as a result of the Proposed Transfer. DIUK is therefore not proposing to seek formal recognition of the Proposed Transfer of the Transferring DLUK Business in any other jurisdiction.

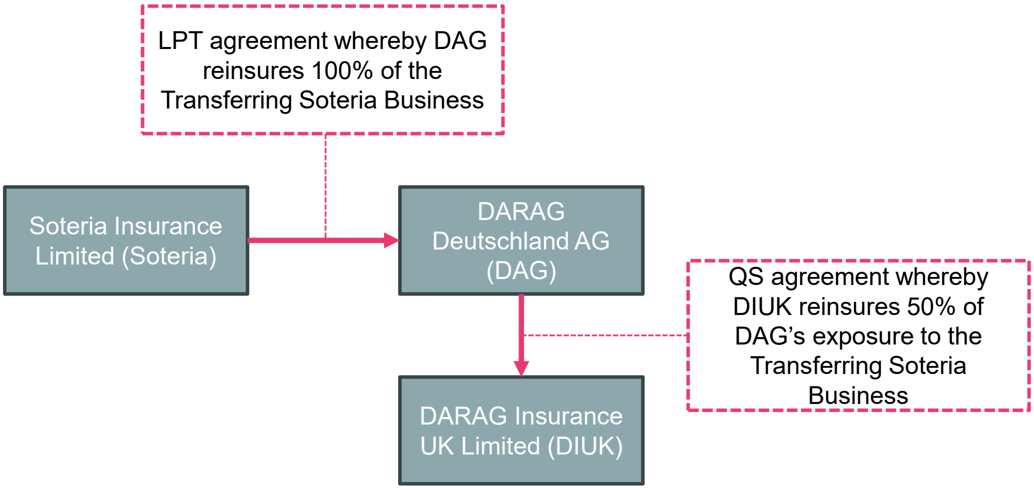
1.1.14. On 21 March 2025, Soteria, DAG and DIUK entered into a Loss Portfolio Transfer and Business Transfer Agreement (LPT) in anticipation of the Proposed Transfer. Under the LPT agreement, the Transferring Soteria Business (ie its liabilities under its commercial insurance policies, policies underwritten by it in its capacity as an underwriting member of the EIROS pool and the six inwards reinsurance policies) is fully (100%) reinsured by DAG.

1.1.15. The diagram below summarises the LPT agreement in place currently.



1.1.16. Prior to the Proposed Transfer, DAG and DIUK will be entering into a Quota Share (QS) agreement with an effective date of 31 December 2025, whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer.

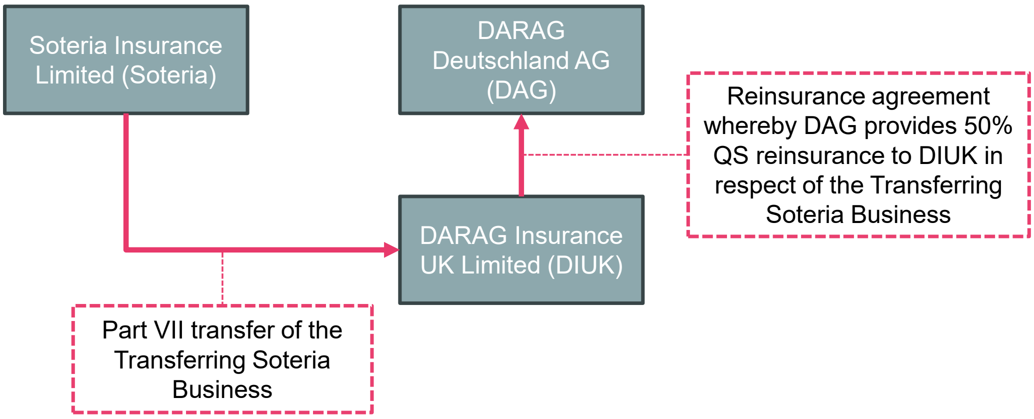
1.1.17. Therefore, immediately prior to the Proposed Transfer, the LPT and QS reinsurance arrangements will be as set out in the diagram below.



1.1.18. Immediately after the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

1.1.19. Therefore, immediately following the Proposed Transfer, the QS reinsurance arrangements will be as set out in the diagram below.



1.1.20. Effectively, the economic position will be similar immediately before and immediately after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business.

1.1.21. During Q1 2026, DARAG implemented a reorganisation under which DIUK became the beneficial owner of DLUK in March 2026, with the legal title to transfer towards the end of April 2026, following a stamp duty exemption. Therefore, prior to the Proposed Transfer, the economic risk of the Transferring DLUK Business will already be on the DIUK balance sheet.

1.1.22. Soteria has stated that, following the Effective Date of the Proposed Transfer, it is currently considering a range of options in respect of the remaining ("Non-Transferring") Soteria business, including a potential Part VII transfer of the remaining Non-Transferring Soteria business from Soteria to Tradex Insurance Company PLC (Tradex). Tradex is another entity within the same group as Soteria (Saturn Holdings). This transfer from Soteria to Tradex would cover Soteria's home and motor liabilities. Should this separate potential transfer proceed, there would be no remaining insurance liabilities in Soteria. In this case, Saturn Holdings would plan to close Soteria. This separate potential transfer does not directly impact my opinion on the Proposed Transfer and I do not consider it as part of this report.

1.1.23. The Long Stop Date in the original LPT agreement was 30 June 2026, or such later date as the Parties may agree acting reasonably and in good faith. The Parties have now agreed to extend the Long Stop Date to 31 October 2027 (or such later date as the Parties may agree acting reasonably and in good faith).

1.1.24. If the Part VII Scheme Effective Date has not occurred on or before the Long Stop Date, Soteria and DAG (on its own and on behalf of DIUK) may each choose to terminate the LPT agreement. However, the parties have informed me that they intend to continue the LPT if the Proposed Transfer does not go ahead by the Long Stop Date.

1.1.25. Further detail of the Transferring Business is set out in section 3.

Effective Date

1.1.26. The Effective Date (the date when the Proposed Transfer is expected to occur) is expected to be 31 July 2026, shortly after the Sanction Hearing, which is planned for 30 July 2026. There are currently ongoing discussions regarding the timing of the Sanction Hearing and Effective Date of the Proposed Transfer. This may result in the Effective Date changing to a later date (which is anticipated to be no more than two months later than the currently anticipated Effective Date of 31 July 2026). I will provide an update on this in my Supplementary Report. All figures in this report are based on an Effective Date of 31 July 2026.

Reinsurance

1.1.27. As explained above, there is currently an LPT agreement in place between Soteria and DAG, under which DAG reinsures 100% of the Transferring Soteria Business.

1.1.28. Effective 31 December 2025 (ie prior to the Proposed Transfer), DAG and DIUK will be entering into a QS agreement whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer.

1.1.29. Immediately after the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

1.1.30. Following the Proposed Transfer, the Transferring Soteria Business will be reinsured by DAG. Therefore, DIUK's policyholders post-transfer will be exposed to the risk of DAG defaulting on its reinsurance obligations. However, the reinsurance provided by DAG will be on a funds withheld basis. This means that, in the event of a default by DAG, any default would be limited to the amount in excess of the funds withheld asset. In addition, the risks associated with this reinsurance arrangement following the Proposed Transfer are reflected in DIUK's projected Day 1 SCR, which allows for reinsurance default risk. I have considered the impact of a reserve deterioration combined with default of DAG in section 6.10 (scenario M). This scenario is deliberately conservative in that it assumes 100% loss of the DAG reinsurance recoveries in excess of the funds withheld asset. In reality, DIUK might expect to receive a portion of the reinsurance recovery in a default scenario. Even in this extreme scenario, DIUK is projected to be sufficiently capitalised at Day 1. That is, DIUK would still be expected to be able to meet its SCR and pay its claims in full.

1.1.31. DLUK currently has a small amount of outwards reinsurance, with reserves as at 30 September 2025 of approximately £7,000. DLUK is attempting to commute this outwards reinsurance prior to the Proposed Transfer, alongside the commutation of the remainder of its inwards business, which would mean there would be no outwards reinsurance covering the Transferring DLUK Business as at the Effective Date. If the commutation is not complete by the Effective Date, the existing outwards reinsurance will transfer to DIUK as a result of the Proposed Transfer. I will provide an update on this commutation in my Supplementary report.

1.1.32. There is no other outwards reinsurance covering the Transferring Business.

1.1.33. The Proposed Transfer will not affect the underlying terms and conditions of the other existing reinsurance arrangements on the Non-Transferring Business. DIUK, DLUK and Soteria have confirmed that there will be no changes to any other existing reinsurance arrangements as a result of the Proposed Transfer.

Claims handling

1.1.34. Soteria has a service agreement with MISL under which MISL performs all claims handling and policy administration services on behalf of Soteria. Under the LPT agreement, MISL continues to administer the claims arising from the Transferring Soteria Business. Soteria has agreed to enter into a new service agreement with MISL on materially the same terms as the existing agreement, but relating to the business being transferred to DIUK only. Soteria's rights and obligations under the new agreement will transfer to DIUK under the Proposed Transfer and policy administration for the Transferring Soteria Business will continue to be performed by MISL following the Proposed Transfer. There is therefore not expected to be any change in claims handling or policy administration as a result of the Proposed Transfer in respect of the Transferring Soteria Business.

1.1.35. There is also no planned change for policy and claims administration matters as a result of the Proposed Transfer in respect of the Transferring DLUK Business. Due to the minimal activity in the Transferring DLUK portfolio, claims handling and policy administration is currently managed in-house by staff within the DARAG Group. This arrangement will continue following the Proposed Transfer.

1.1.36. DIUK's claims handling is currently outsourced to Polo Commercial Insurance Services (Polo) and this arrangement will continue following the Proposed Transfer.

1.1.37. The parties have confirmed that there are no expected changes to existing claims handling procedures for any group of policyholders as a result of the Proposed Transfer.

Sanctions

1.1.38. Soteria, DIUK and DLUK all have policies and processes in place for managing sanctions risks and I have summarised these policies below. Soteria, DIUK and DLUK have confirmed to me that sanctions checks have been conducted in line with their policies and are up to date. They have not identified any sanctions-exposed policies within the Transferring Soteria Business or the Transferring DLUK Business.

1.1.39. The Soteria business is subject to Markerstudy Group's financial sanctions and financial crime policies. The financial sanctions policy sets out the minimum requirements to comply with legal requirements to prevent breaches of financial sanctions. These minimum requirements include a risk assessment that must be undertaken by the Group Financial Crime team, annual sanctions training requirements for staff and the use of screening services for the sanctions screening of customers, claimants and parties to a claim, suppliers, brokers and employees. All new and renewal business and payments with a known connection to a country on the Group's High Risk Countries list must only be transacted following approval from the Group Financial Crime team. All sanctions alerts must be reviewed and negated within 1 working day and within no more than 5 working days if further investigation is required.

1.1.40. DIUK's claims handling and policy administration is outsourced to Polo. Polo has a sanctions policy and sanctions checking procedure in place which is adhered to for the DIUK portfolio. DIUK policyholders were subject to an initial sanctions check when Polo assumed the claims handling in 2019/2020. Polo also completes sanctions checks on policyholders on a monthly basis for any new or re-opened claims, and carries out sanctions checks on a manual basis for each payment request, including searches of the policyholder, the claimant and the payee.

1.1.41. Polo's sanctions checking procedure requires its Quality Assurance team to circulate monthly emails to claims and reinsurance staff listing the current sanctions targeted countries. Claims handlers are expected to familiarise themselves with this and be vigilant when handling claims and reinsurance. Claims handlers are required to notify the Claims Manager and Quality Assurance of the details of any transactions potentially implicated by sanctions. Details of sanctions referrals are logged and referred to the Compliance Office.

1.1.42. Each new claim and each payment is sanction-checked using a proprietary sanctions screening tool to check the insured, the claimant and all legal representatives involved. All payment requests require the Claims Handler to sign off that a sanctions check has been carried out. Any search that identifies sanctions is required to be reported immediately to the Claims Manager and Compliance. If it is determined that a claim or transaction is subject to a sanctions measure, the matter is immediately referred to the Compliance Officer and recorded on the sanctions log. No further action may be taken on such claims or transactions without the prior instructions and agreement of DARAG.

1.1.43. The DLUK business is subject to the DAG sanctions policy. DAG departments are the first line of defence and are responsible for implementing processes in line with the sanctions policy to prevent breaches of sanctions and embargoes. The Compliance Function is the second line of defence, responsible for the monitoring, assessment, guidance and reporting of sanctions risks and ensuring that sanctions training is organised. The Internal Audit function is the third line of defence and is responsible for carrying out independent testing of policies, procedures and controls.

1.1.44. All agreements and obligations are subject to a sanctions checking process. This includes a check of the contractual counterparty and its shareholders, a check of policyholders and a check of envisaged payees using an IT tool. The DAG sanctions policy specifies that the sanctions checking process is to be documented, including screenshots of the sanctions check which should be saved for a period of ten years following the end of the contract or the performance of the sanctions screening process.

1.2. My role as Independent Expert

1.2.1. Soteria, DIUK and DLUK have jointly appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

1.2.2. As IE, my overall role is to assess whether:

- The security provided to policyholders of Soteria, DIUK and DLUK will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.
- Any reinsurer of Soteria, DIUK or DLUK covering the Transferring Business will be materially adversely affected by the Proposed Transfer.

1.2.3. This report is my Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanction Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new issues that arise.

1.3. Summary of my conclusions

1.3.1. I have set out below my summary conclusions. I have considered the effect of the Proposed Transfer on the following groups of policyholders:

- "Non-Transferring Soteria Policyholders", ie Soteria policyholders whose policies will remain with Soteria after the Proposed Transfer.
- "Non-Transferring DLUK Policyholder", ie the DLUK policyholder whose policy will remain with DLUK after the Proposed Transfer.
- "Transferring Soteria Policyholders", ie Soteria policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.
- "Transferring DLUK Policyholders", ie DLUK policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.

- "Existing DIUK Policyholders", ie all policyholders of DIUK immediately prior to the Proposed Transfer, who will remain policyholders of DIUK after the Proposed Transfer.

1.3.2. I have also considered the effect of the Proposed Transfer on the following reinsurers:

- Reinsurers of Soteria covering the Transferring Soteria Business (ie the LPT agreement with DAG).
- Reinsurers of DLUK covering the Transferring DLUK Business (which DLUK is aiming to commute prior to the Proposed Transfer).

1.3.3. In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms are defined in Section 4).

Definition of "well capitalised" and "very well capitalised"

1.3.4. For the purposes of this report, I describe a company as "sufficiently capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is between 100% and 150%. I describe a company as "well capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is between 150% and 200% and "very well capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is in excess of 200%.

Non-Transferring Soteria Policyholders

1.3.5. Given that the Soteria portfolio includes policies that date back to the early 1900s, Soteria is not able to quantify its total number of policies and policyholders. However, when Soteria entered run-off in 2021, it had approximately 20,000 in-force policies. As of June 2025, Soteria had 1,456 open claims, 1,420 of which were from policies who will remain with Soteria after the Proposed Transfer. Soteria's gross of reinsurance UK GAAP provisions as at 30 September 2025 were £163.6m, £144.9m (89%) of which was in respect of the Non-Transferring Soteria Business.

I have concluded that the security provided to Non-Transferring Soteria Policyholders will not be materially adversely affected by the Proposed Transfer.

I have concluded that no material impact on service standards is expected for Non-Transferring Soteria Policyholders following the Proposed Transfer.

1.3.6. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.7. I am satisfied that the approaches used to calculate the UK GAAP and Solvency UK technical provisions for the Non-Transferring Business in Soteria are appropriate, and Soteria has confirmed that these will be materially unchanged post-transfer.

1.3.8. The SCR coverage ratio for Non-Transferring Soteria Policyholders is expected to increase slightly from 286% immediately before the Proposed Transfer to 288% immediately after the Proposed Transfer. This is a small increase in SCR coverage ratio and Soteria is very well capitalised (as defined in section 6.1) both immediately before and after the Proposed Transfer. Therefore I do not consider the security provided to Non-Transferring Soteria Policyholders to be materially adversely affected by the Proposed Transfer.

1.3.9. Soteria has provided capital projections until 31 December 2029 which indicate that Soteria will continue to manage its capital in line with its capital risk appetite (see section 6.6). Based on these projections, Soteria is generally projected to remain very well capitalised (as defined in section 6.1) between Day 1 and 31 December 2029, except when dividends are assumed to be extracted. Even after dividends are extracted, Soteria is projected to remain at least well capitalised. In line with Soteria's dividend extraction policy, dividends are only assumed to be extracted when sufficient surplus capital exists.

1.3.10. I am satisfied that Soteria is expected to have sufficient capital under a range of adverse scenarios in relation to its Non-Transferring business. In more extreme adverse scenarios, where Soteria's SCR coverage ratio would fall below 100%, Soteria would still be able to pay its claims and I am satisfied that the likelihood of such scenarios is sufficiently remote that Non-Transferring Soteria Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios are conservative in that they make no allowance for management actions that could be taken to help restore capital levels.

1.3.11. There are no plans to change how Non-Transferring Soteria Policyholders are serviced as a result of the Proposed Transfer. In particular, claims handling and administration services will continue to be performed by MISL.

1.3.12. As noted earlier in this report, Soteria has stated that, following the Effective Date of the Proposed Transfer, it is currently considering a range of options in respect of the remaining ("Non-Transferring") Soteria business, including a potential Part VII transfer of the remaining Non-Transferring Soteria business from Soteria to Tradex. Tradex is another entity within the same group as Soteria (Saturn Holdings). This transfer from Soteria to Tradex would cover Soteria's home and motor liabilities. Should this separate potential transfer proceed, there would be no remaining insurance liabilities in Soteria. In this case, Saturn Holdings would plan to close Soteria. Given that this would involve a separate Part VII process, I have not considered the impact of this potential future transfer on the Non-Transferring Soteria Policyholders here.

Non-Transferring DLUK Policyholder

1.3.13. DLUK has identified one policy (from one Non-Transferring DLUK Policyholder) which will remain with DLUK after the Proposed Transfer.

I have concluded that the security provided to the Non-Transferring DLUK Policyholder will not be materially adversely affected by the Proposed Transfer.

I have concluded that no material impact on service standards is expected for the Non-Transferring DLUK Policyholder following the Proposed Transfer.

1.3.14. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.15. Following the Proposed Transfer, the only remaining Non-Transferring DLUK Policyholder will be DAG (a DARAG entity). The only remaining DLUK policy will be the intra-group one-off inwards reinsurance agreement with DAG. This reinsurance contract between DLUK and DAG will be commuted after the Effective Date of the Proposed Transfer. This policy is not part of the Proposed Transfer and its commutation, and subsequent removal of DLUK permissions, is expected to take place no more than two months after the Effective Date of the Proposed Transfer.

1.3.16. The SCR coverage ratio for the Non-Transferring DLUK Policyholder is expected to be unchanged at 151% immediately before and after the Proposed Transfer. Therefore I do not consider the security provided to the Non-Transferring DLUK Policyholder to be materially adversely affected by the Proposed Transfer.

Transferring Soteria Policyholders

1.3.17. Given that the Soteria portfolio includes policies that date back to the early 1900s, Soteria is not able to quantify its total number of policies and policyholders. However, when Soteria entered run-off in 2021, it had approximately 20,000 in-force policies. As of June 2025, Soteria had 36 open claims from policies which will transfer to DIUK as a result of the Proposed Transfer. Soteria's gross of reinsurance UK GAAP provisions as at 30 September 2025 were £163.6m, £18.7m (11%) of which was in respect of the Transferring Soteria Business.

I have concluded that the security provided to Transferring Soteria Policyholders will not be materially adversely affected by the Proposed Transfer.

I have concluded that no material impact on service standards is expected for Transferring Soteria Policyholders following the Proposed Transfer.

1.3.18. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.19. I am satisfied that the approaches used by DIUK to calculate the UK GAAP and Solvency UK technical provisions for the Transferring Soteria Business are appropriate, and DIUK has confirmed that these will be materially unchanged post-transfer. My opinion is based on:

- A review of DIUK's reserves for the Transferring Soteria Business as at 31 May 2024 (as part of actuarial due diligence prior to the LPT agreement) and as at 30 September 2025, including actual versus expected claims development between those reviews.
- An external actuarial review of DIUK's reserving approach and analysis for mesothelioma claims performed as part of its actuarial due diligence.

1.3.20. The SCR coverage ratio for Transferring Soteria Policyholders is expected to reduce from 286% to 200% as a result of the Proposed Transfer. I do not consider the security provided to Transferring Soteria Policyholders to be materially adversely affected by this change in SCR coverage ratio as DIUK will still be very well capitalised (as defined in section 6.1)

1.3.21. On the face of it, the reduction in SCR coverage ratio for Transferring Soteria Policyholders from 286% to 200% might appear to be a significant fall in capital strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a remote probability of insolvency (ie much less than 0.5%), and a 286% coverage ratio equates to an even more remote, but not materially different, probability of insolvency. The difference between capital coverage ratios of 286% and 200% does not, in my opinion, equate to a material difference in the probability of insolvency. In addition, Soteria's SCR coverage ratio is expected to reduce to a level more comparable to that of DIUK in the years following the Proposed Transfer (see below). Therefore, I do not consider the security provided to Transferring Soteria Policyholders to be materially adversely affected by this change in SCR coverage ratio.

1.3.22. Soteria has provided capital projections until 31 December 2029 which indicate that future dividend payments are planned over this period. For example, a £23m dividend is projected to be paid during Q3 2026, and further dividends are projected in 2027, 2028 and 2029 in line with Soteria's dividend extraction policy. All else being equal, these planned dividend payments are expected to reduce Soteria's SCR coverage ratio over the subsequent few years following the Proposed Transfer, and to bring Soteria's projected SCR coverage ratios to a level more comparable to that of DIUK. Therefore, if the Proposed Transfer were not to go ahead, and the Transferring Soteria Policyholders were to remain with Soteria, their SCR coverage ratio in the years following the Proposed Transfer is not expected to remain at the pre-transfer level of 286%.

1.3.23. DIUK's strategy is to grow and to actively increase participation in the UK and Gibraltar legacy insurance market, whereas Saturn Holdings' strategy is to close Soteria following a subsequent separate Part VII transfer. Therefore, in the years following the Proposed Transfer, Transferring Soteria Policyholders are expected to be part of a book of business that is growing rather than reducing.

1.3.24. DIUK has provided capital projections until 31 December 2028 which indicate that DIUK will remain well capitalised in a scenario where DIUK takes on additional portfolios in line with its business plan. In an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer, DIUK's capital projections indicate that DIUK will remain very well capitalised until 31 December 2028.

1.3.25. I am satisfied that DIUK is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, where DIUK's SCR coverage ratio would fall below 100%, DIUK would still be able to pay its claims and I am satisfied that the likelihood of such scenarios is sufficiently remote that the Transferring Soteria Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios are conservative in that they make no allowance for management actions that could be taken to help restore capital levels.

1.3.26. DIUK is a UK entity so the Transferring Soteria Policyholders will continue to be insured by an insurer authorised and regulated in the UK following the Proposed Transfer. The rights of policyholders in respect of access to the Financial Services Compensation Scheme (FSCS) or Financial Ombudsman Service (FOS) will not change as a result of the Proposed Transfer.

1.3.27. There are no plans to change how Transferring Soteria Policyholders are serviced as a result of the Proposed Transfer. In particular, claims handling and administration services will continue to be performed by MISL, as DIUK intends to enter into its own contractual agreement with MISL. The terms of this agreement will be similar to Soteria's existing agreement with MISL, and MISL has confirmed that it intends to operate in the same way and to the same agreed service standards post-transfer.

Transferring DLUK Policyholders

1.3.28. DLUK has identified 208 contracts, from 69 cedants (Transferring DLUK Policyholders), which will transfer to DIUK as a result of the Proposed Transfer. DLUK is currently attempting to commute this business, although it does not expect to be able to agree commutations with all cedants. As of the date of this report, there are only three remaining cedants with non-nil open reserves that would transfer to DIUK under the Proposed Transfer. If DLUK does not agree commutations with the remaining cedants with open reserves, this does not have any material impact on my conclusions regarding the impact of the Proposed Transfer on policyholders or reinsurers.

I have concluded that the security provided to Transferring DLUK Policyholders will not be materially adversely affected by the Proposed Transfer.

I have concluded that no material impact on service standards is expected for Transferring DLUK Policyholders following the Proposed Transfer.

1.3.29. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.30. I am satisfied that the approaches used by DIUK to calculate the UK GAAP and Solvency UK technical provisions for the Transferring DLUK Business are appropriate, and DIUK has confirmed that these will be materially unchanged post-transfer. The Transferring DLUK Policyholders will remain within the DARAG Group and DIUK is subject to the same group-wide policies as DLUK.

1.3.31. The SCR coverage ratio for Transferring DLUK Policyholders is expected to increase from 151% (based on DLUK's MCR) to 200% as a result of the Proposed Transfer. Therefore I do not consider the security provided to Transferring DLUK Policyholders to be materially adversely affected by the Proposed Transfer.

1.3.32. Further, DIUK has provided capital projections until 31 December 2028 which indicate that DIUK will remain well capitalised (as defined in section 6.1) in a scenario where DIUK takes on additional portfolios in line with its business plan. In an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer and without the addition of new business, DIUK's capital projections indicate that DIUK will remain very well capitalised (as defined in section 6.1) until 31 December 2028.

1.3.33. I am satisfied that DIUK is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, where DIUK's SCR coverage ratio would fall below 100%, DIUK would still be able to pay its claims and I am satisfied that the likelihood of such scenarios is sufficiently remote that the Transferring DLUK Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios are conservative in that they make no allowance for management actions that could be taken to help restore capital levels.

1.3.34. Following the Proposed Transfer, Existing DIUK Policyholders will have priority over Transferring DLUK Policyholders on a winding up post-transfer, as the Existing DIUK Policyholders are direct (non-reinsurance) policyholders whereas Transferring DLUK Policyholders are reinsurance cedants. Prior to the Proposed Transfer, this is not an issue as DLUK is a pure reinsurer. However, I do not consider Transferring DLUK Policyholders to be materially adversely affected by this issue as DIUK is projected to be very well capitalised immediately after the Proposed Transfer, so the probability of insolvency is remote. In addition, DIUK's capital projections indicate that DIUK will remain at least well capitalised until 31 December 2028, and DIUK's own funds are approximately 3 times higher than those of DLUK.

1.3.35. DIUK is a UK entity so the Transferring DLUK Policyholders will continue to be reinsured by an insurer authorised and regulated in the UK following the Proposed Transfer. The Transferring DLUK Business is reinsurance business (not direct insurance business) which is not covered by the Financial Services Compensation Scheme (FSCS). The rights of policyholders in respect of access to the FSCS or Financial Ombudsman Service (FOS) will not change as a result of the Proposed Transfer.

1.3.36. DIUK is not planning any material changes to how the Transferring DLUK Policyholders are serviced following the Proposed Transfer. Due to the minimal activity in the Transferring DLUK portfolio, claims handling and policy administration is currently managed in-house by staff within the DARAG Group and this arrangement will continue following the Proposed Transfer.

Existing DIUK Policyholders

1.3.37. DIUK has identified 12,926 existing policyholders (131 of which had open claims as at 30 November 2025). On a gross of reinsurance basis, the Existing DIUK Business will make up approximately 59% of DIUK's post-transfer UK GAAP provisions (based on figures as at 30 September 2025). The Transferring Soteria Business will make up 41% and the Transferring DLUK Business will make up 0.1%.

1.3.38. On a net of reinsurance basis, the Existing DIUK Business will make up approximately 17% of DIUK's post-transfer UK GAAP provisions (based on figures as at 30 September 2025). The Transferring Soteria Business will make up 83% and the Transferring DLUK Business will make up 0.1%.

I have concluded that the security provided to Existing DIUK Policyholders will not be materially adversely affected by the Proposed Transfer.

I have concluded that no material impact on service standards is expected for Existing DIUK Policyholders following the Proposed Transfer.

1.3.39. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.40. I am satisfied that the approaches used to calculate the UK GAAP and Solvency UK technical provisions for DIUK are appropriate, and DIUK has confirmed that these will be materially unchanged post-transfer. My opinion is based on:

- A review of DIUK's reserves for the Existing Business as at 31 December 2024 and 30 September 2025.
- An external actuarial review of DIUK's valuation techniques and underlying assumptions performed as part of an audit as at 31 December 2024.

1.3.41. There is currently an independent external review being performed to identify DIUK's exposure to large claims. This may lead to a change in DIUK's reserves as at 31 December 2025. I intend to review DIUK's reserves in the context of this review and I will report on this in my Supplementary Report.

1.3.42. The SCR coverage ratio for Existing DIUK Policyholders is expected to reduce from 215% to 200% as a result of the Proposed Transfer. All else being equal, this represents a slight reduction in financial strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a remote probability of insolvency (ie much less than 0.5%). The difference between capital coverage ratios of 215% and 200% does not, in my opinion, equate to a material difference in the probability of insolvency. Therefore, I do not consider the security provided to Existing DIUK Policyholders to be materially adversely affected by this change in SCR coverage ratio.

1.3.43. DIUK has provided capital projections until 31 December 2028 which indicate that DIUK will remain well capitalised (as defined in section 6.1) in a scenario where DIUK takes on additional portfolios in line with its business plan. In an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer and without the addition of new business, DIUK's capital projections indicate that DIUK will remain very well capitalised (as defined in section 6.1) until 31 December 2028.

1.3.44. I am satisfied that DIUK is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its other business. In more extreme adverse scenarios, where DIUK's SCR coverage ratio would fall below 100%, DIUK would still be able to pay its claims and I am satisfied that the likelihood of such scenarios is sufficiently remote such that Existing DIUK Policyholders are not materially adversely affected as a result of the Proposed Transfer. I note that the scenarios are conservative in that they make no allowance for management actions to restore capital levels.

1.3.45. DIUK is not planning any material changes to how the Existing DIUK Policyholders are serviced following the Proposed Transfer. DIUK's claims handling is currently outsourced to Polo Commercial Insurance Services and this arrangement will continue following the Proposed Transfer.

Reinsurers of Soteria covering the Transferring Soteria Business

1.3.46. I have considered the position of reinsurers of Soteria who currently provide cover for the Transferring Soteria Business.

I have concluded that the reinsurers who provide cover for the Transferring Soteria Business will not be materially adversely affected by the Proposed Transfer.

1.3.47. When drawing my conclusions, I have considered the nature and magnitude of each of the individual points below, as well as the aggregate nature and magnitude of all of the below impacts.

Summary rationale:

1.3.48. The only outwards reinsurance covering the Transferring Soteria Business is the LPT agreement in place between Soteria and DAG, under which the Transferring Soteria Business is fully reinsured by DAG.

1.3.49. Effective 31 December 2025, (ie prior to the Proposed Transfer), DAG and DIUK will be entering into a Quota Share (QS) agreement whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer. However, DIUK is not directly reinsuring Soteria and therefore is not among the reinsurers of Soteria covering the Transferring Soteria business.

1.3.50. Immediately after the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

1.3.51. Effectively, the economic position will be similar immediately before and immediately after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business.

1.3.52. There is no other outwards reinsurance covering the Transferring Soteria Business.

Reinsurers of DLUK covering the Transferring DLUK Business

1.3.53. There is currently a small amount of outwards reinsurance in place for the Transferring DLUK Business, with reserves as at 30 September 2025 of approximately £7,000.

1.3.54. DLUK is attempting to commute this outwards reinsurance prior to the Proposed Transfer, alongside the commutation of the remainder of its inwards business, which would mean there would be no outwards reinsurance covering the Transferring DLUK Business as at the Effective Date.

1.3.55. If the commutation is not complete by the Effective Date, the existing outwards reinsurance will transfer to DIUK as a result of the Proposed Transfer. I will provide an update on this commutation in my Supplementary report.

1.4. Next steps

1.4.1. The remainder of this report sets out my conclusions and other supporting information in more detail.

1.4.2. I will be reviewing these conclusions and preparing a Supplementary Report ahead of the Sanction Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise.

1.4.3. Specific issues that I have highlighted in this report which require further review in due course include:

- Any updates to reserves. In particular, this includes any update to DIUK's reserves as at 31 December 2025 in the context of the ongoing independent external review of large claims;
- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update on the progress of the commutations of the Transferring DLUK Policies and the outwards reinsurance covering the Transferring DLUK Business;
- An update on DIUK's approach to calculating the risk margin and allowing for ENIDs within the Solvency UK TPs;
- The implementation of the communication plan for affected policyholders;
- Any policyholder objections received; and
- Any developments regarding the structure of the Proposed Transfer.

2. Introduction

2.1. Background

2.1.1. Part VII, Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a Scheme Report must accompany an application to the High Court of Justice of England and Wales (High Court) to approve an insurance business transfer scheme (Part VII transfer).

2.1.2. The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

2.1.3. This report is the Scheme Report for the Proposed Transfer. I will also prepare a Supplementary Report ahead of the Sanction Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

2.2. Independent Expert appointment

My appointment

2.2.1. Soteria, DIUK and DLUK have jointly appointed me to act as the IE for the Proposed Transfer. The PRA, in consultation with the FCA, has approved my appointment. Soteria and DIUK will bear the costs associated with the production of my report. I understand that no costs or expenses of the Proposed Transfer will be borne by policyholders.

My experience

2.2.2. I am a Partner in the Insurance Consulting practice at LCP. I am an actuary with over 30 years' experience. My experience covers a wide range of general insurance actuarial work including reserving, capital, pricing and transactions.

2.2.3. I am a Fellow of the Institute and Faculty of Actuaries (IFoA). I hold a Lloyd's Syndicate Actuary practising certificate and a UK Chief Actuary (non-Life with Lloyd's) practising certificate.

2.2.4. I have acted as the IE on a number of previous Part VII transfers. I have also acted as the peer reviewer on a number of other Part VII transfers.

2.2.5. Appendix 3 contains my CV with further details of my experience.

Independence statement

2.2.6. I confirm that I, Charl Cronje, and all members of the LCP team assisting me in my IE role are independent from the parties to the transfer and that I am able to act as the IE for the Proposed Transfer.

2.2.7. I confirm that neither I, nor any of the team, have any direct or indirect interests in Soteria, DIUK or DLUK (the firms), either personally or via LCP.

In particular:

- Neither I, nor any member of the team, is a shareholder in the firms or subsidiaries nor a member of any pension scheme under the management of any of these entities.
- Neither I, nor any member of the team, hold any insurance policies issued by the firms or any subsidiaries.
- Neither I nor LCP have performed any work in the last three years for any of Soteria, DIUK or DLUK.
- DARAG Europe Limited licensed LCP's reserving software, InsurSight, from November 2021 to March 2022 and from November 2023 to May 2025. I do not consider that this represents a conflict for the Proposed Transfer or impacts my independence.

2.3. Scope of this Scheme Report

2.3.1. Appendix 2 contains an extract from my terms of reference, which defines the scope of my work in relation to the Proposed Transfer. The actual work performed is in line with this agreed scope.

2.3.2. This Scheme Report considers the effect of the Proposed Transfer upon the policyholders of Soteria, DIUK, DLUK and reinsurers of the Transferring Business. It contains a description of the Proposed Transfer, the methodology I have used to analyse the Proposed Transfer, the opinions I have formed, and the reasons why I have formed those opinions.

2.3.3. The use of "I", "me" and "my" in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion, it is mine and mine alone.

2.3.4. For presentational purposes some GBP amounts in this report have been converted from EUR at an exchange rate of £1 = EUR 1.145 and from USD at an exchange rate of £1 = USD 1.344 unless stated otherwise.

2.4. Use of this Scheme Report

2.4.1. This Scheme Report has been produced by Charl Cronje FIA of LCP under the terms of LCP's written agreements with Soteria, DIUK and DLUK.

2.4.2. This Scheme Report is subject to any stated limitations (eg regarding accuracy or completeness).

2.4.3. This Scheme Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Part VII, Section 109 of the Financial Services and Markets Act (FSMA) 2000. The Scheme Report is not suitable for any other purpose.

2.4.4. A copy of the Scheme Report will be sent to the PRA and the FCA, will accompany the Scheme application to the High Court and will be available on the parties' websites.

2.4.5. This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Scheme Report for any other purpose other than that set out above.

2.5. Reliances

2.5.1. I have based my work on the data and other information made available to me by Soteria, DIUK and DLUK. Appendix 4 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of Soteria, MISL, DIUK, DLUK, the DARAG Group and their advisors.

2.5.2. My analysis is based on data as at various dates including 31 December 2024 and 30 September 2025.

2.5.3. Prior to the Sanction Hearing for the Proposed Transfer, I will prepare a Supplementary Report to confirm and/or update my conclusions in this report, based on any new material or issues that arise.

2.5.4. I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- Soteria, DIUK and DLUK will submit witness statements to the High Court stating that all information provided to me by Soteria, DIUK and DLUK respectively is correct and complete in all material aspects to the best of their knowledge, information and belief.
- Each of Soteria, DIUK and DLUK has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- Soteria, the Chief Executive and Director of DIUK and DLUK have provided attestations that there have been no material adverse changes to the financial position of Soteria, DIUK or DLUK since that information was provided to me.
- Soteria, the Chief Executive and Director of DIUK and DLUK have read this IE Scheme Report and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the information provided for the purpose of this report.

2.5.5. The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

2.5.6. I have not considered it necessary to take any third-party legal advice on any aspects of the Proposed Transfer.

2.5.7. Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.6. Professional standards

2.6.1. This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Statement of Policy issued in January 2022, the FCA guidance to their approach to review of Part VII transfers issued in February 2022 and by the PRA Rulebook and the FCA Handbook.

2.6.2. This report complies with Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

2.6.3. I have considered The Actuaries' Code as issued by the IFoA as part of producing this report.

2.6.4. This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have appropriate experience and expertise to act as peer reviewer of this report, and have themselves been the Independent Expert for a number of other transfers.

2.7. Materiality

2.7.1. The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

2.7.2. I have applied this concept of materiality in performing the work described in this Scheme Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

2.7.3. In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Scheme Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.8. Definition of "materially adverse"

2.8.1. In order to determine whether the Proposed Transfer will have a "materially adverse" impact on any group of policyholders, it has been necessary for me to exercise my judgement in light of the information that I have reviewed.

2.8.2. The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a "materially adverse" impact on any particular group of policyholders or reinsurers, I have considered both:

- the nature and magnitude of any individual adverse impacts of the Proposed Transfer for that group; and
- the nature and magnitude of the aggregate of all impacts of the Proposed Transfer for that group .

2.8.3. In the Court of Appeal judgment in The Prudential Assurance Company Ltd and Rothesay Life plc [2020] EWCA Civ 1626, the judge commented on the word 'material' and drew the distinction between 'real' and 'fanciful' risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected. Throughout this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders are materially adversely affected or otherwise.

3. Outline of Proposed Transfer

3.1. The firms involved

Soteria Insurance Limited

3.1.1. Soteria Insurance Limited (Soteria) is a UK-based general insurer that underwrote insurance business covering commercial insurance and personal lines (motor and home). Soteria is a directly owned subsidiary of Saturn Holdings Limited.

3.1.2. Soteria was formerly CIS General Insurance Limited (CISGIL), which was registered on 20 September 2005 as a society under the Industrial and Provident Societies Act 1965. CISGIL was historically a wholly owned subsidiary of the Co-operative Group Limited (Co-op Group). CISGIL was established to underwrite all new and renewing general insurance business formerly written by Co-operative Insurance Society Limited (CISL), another entity within the Co-op Group. Soteria's business also includes the general insurance business underwritten by CISL prior to the establishment of CISGIL, which was transferred into Soteria by way of a transfer made under Part VII of FSMA on 31 March 2014.

3.1.3. On 25 June 2020, CISGIL was demutualised pursuant to the Co-operative and Community Benefit Societies Act 2014 (the successor legislation to the Industrial and Provident Societies Act 1965) and incorporated as a private limited company under the Companies Act 2006. CISGIL was sold on 2 December 2020 by Co-op Group to Soteria Finance Holdings Limited (SFHL), following approval by the PRA. On 5 January 2021, CISGIL changed its name to Soteria Insurance Limited.

3.1.4. In February 2021, the Board of Soteria placed Soteria into run-off with regulatory permissions to effect new insurance contracts cancelled on 29 March 2021. Soteria's last policies expired in March 2022.

3.1.5. On 19 February 2024, ownership of Soteria transferred from SFHL to Saturn Holdings.

3.1.6. The principal activity of the Company post entering into run-off has been the settlement of outstanding claims and administration of existing policies in force. Most of these services, including claims handling, are outsourced to MISL.

3.1.7. Saturn Holdings' strategic objective is to conclude the closure of Soteria as soon as possible whilst ensuring that customers receive good outcomes and all regulatory requirements are met, and the Proposed Transfer is fundamental to that aim.

3.1.8. In line with Saturn Holdings' strategic objective to close Soteria, following the Effective Date of the Proposed Transfer covered in this report, Soteria is currently considering a range of options in respect of the remaining ("Non-Transferring") Soteria business, including a potential Part VII transfer of the remaining Non-Transferring Soteria business from Soteria to Tradex. Tradex is another entity within the same group as Soteria (Saturn Holdings). This transfer from Soteria to Tradex would cover Soteria's home and motor liabilities. Should this separate potential transfer proceed, there would be no remaining insurance liabilities in Soteria. In this case, Saturn Holdings would plan to close Soteria. Given that this would involve a separate Part VII process, I have not considered the impact of this potential future transfer here.

DARAG Legacy UK Limited (DLUK)

3.1.9. DARAG Legacy UK Limited (DLUK) was formerly known as One Re Limited (One Re). One Re had actively underwritten non-life reinsurance business since 1 January 2015. In October 2018, the Board of Directors decided to cease writing new business and place the company into run-off. DLUK was subsequently acquired by DAG in December 2019 and has since continued as a UK-regulated reinsurance company in run-off.

3.1.10. DLUK is managed on an outsourced basis by staff within the DARAG Group and has no direct employees or operational infrastructure.

3.1.11. The business in DLUK consists of:

- A small number of mostly Africa-based reinsurance treaties (the "Transferring DLUK Business" which is intended to transfer to DIUK under the Proposed Transfer); and
- An intra-group, one-off inwards reinsurance agreement with DAG (which will remain in DLUK and will be commuted after the effective date of the Proposed Transfer).

DARAG Insurance UK Limited (DIUK)

3.1.12. DARAG Insurance UK Limited (DIUK) is a wholly owned subsidiary of DAG that is incorporated in the UK and licensed as a non-life insurance company with permission to carry out contracts of general insurance. DIUK was incorporated on 19 October 1998 and underwrote non-life insurance business until 11 July 2003, when the company ceased underwriting and went into run-off. DIUK's existing portfolio mainly comprises employers liability, professional indemnity, general third-party liability, financial institution and construction "all risk" policies.

3.1.13. DARAG's strategy is to actively increase participation in the UK and Gibraltar legacy insurance market focussing on small to mid-sized portfolios. DIUK is planned to be the DARAG Group's UK insurance risk carrier. DARAG has recently implemented a reorganisation under which DIUK became the beneficial owner of DLUK, with the legal title to transfer towards the end of April 2026, following a stamp duty exemption.

3.1.14. DIUK received approval from the PRA on 4 February 2026 for a Variation of Regulatory Permissions, to include permission to effect contracts of insurance. As such, DIUK now has the ability to write new business, which demonstrates the importance of this entity within the DARAG Group as a key part of its forward-looking strategy.

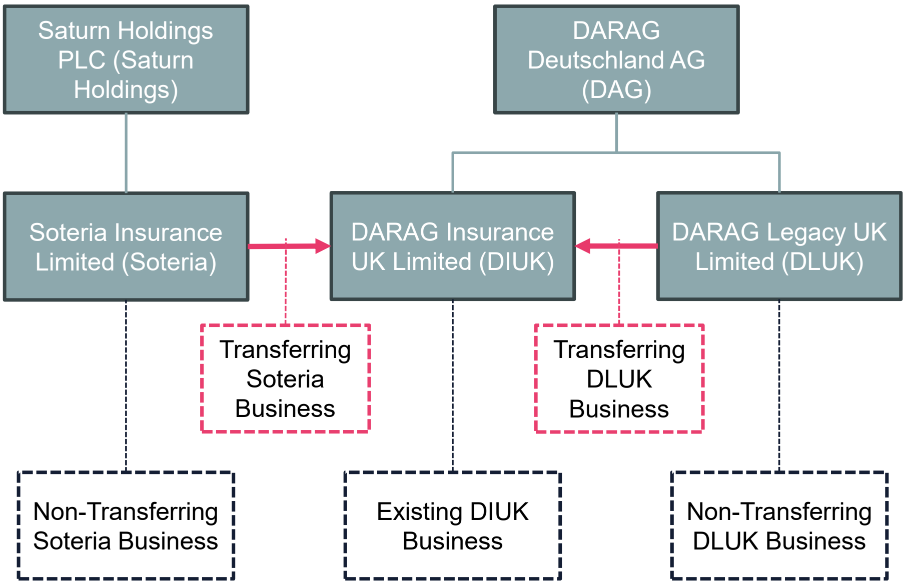
3.2. Description of the Proposed Transfer

The Transferring Business

3.2.1. The Part VII transfer (Proposed Transfer) to DIUK includes:

- The transfer of Soteria's commercial liability portfolio, policies underwritten by it in its capacity as an underwriting member of the Electricity Industry Run Off Services Limited (EIROS) pool and six inwards reinsurance policies (the Transferring Soteria Business).
- The transfer of DLUK's mostly Africa-based reinsurance treaties (the Transferring DLUK Business).

3.2.2. The diagram below summarises the key firms involved in the Proposed Transfer.



3.2.3. The Proposed Transfer includes the transfer of two portfolios to DIUK. The parties have informed me that the transfer of these two portfolios is contingent on each other, ie if one of the transfers is not sanctioned, then neither of the transfers will go ahead. I have, therefore, not had to consider the impact on policyholders if only one of the two transfers were to go ahead.

3.2.4. The Transferring Soteria Business consists of:

- Soteria's commercial liability portfolio (which includes asbestos and other industrial disease liabilities) comprising:
    - commercial liability business for small and medium-sized companies underwritten by CIS General Insurance Limited (CISGIL) (which changed its name to Soteria Insurance Limited on 5 January 2021) between 2006 and 2010; and
    - commercial liability business underwritten by Co-operative Insurance Society Limited (CISL) from the early 1900s until January 2006. CISGIL was established to underwrite all new and renewing general insurance business formerly written by CISL, which was transferred to Soteria in 2014.
- Policies underwritten by Soteria in its capacity as an underwriting member of the EIROS pool (covering risks between the 1950s and the late 1970s) with a 1.17% share of business underwritten by that pool for that period; and
- Six inwards reinsurance policies.

3.2.5. As of June 2025, Soteria had 1,456 open claims, only 36 of which related to the Transferring Soteria Business ie the other 1,420 open claims will remain with Soteria post-transfer.

3.2.6. The Transferring DLUK Business consists of a reinsurance portfolio relating to legacy business which is predominantly Africa-based. See section 5.5 for further detail on this business. DLUK is currently seeking to commute its mostly Africa-based inwards reinsurance contracts. A large portion of this business has already been commuted and, as of 30 September 2025, there were only 9 cedants within the DLUK portfolio with non-nil open reserves, and the remaining reserves for the Transferring DLUK Business were approximately £30,000. DLUK is continuing to attempt to commute the remainder of its inwards business, although it does not expect to be able to agree commutations with all cedants. As of the date of this report there are only three remaining cedants with open reserves. Therefore, DLUK's reserves for the Transferring DLUK Business immediately prior to the Proposed Transfer are expected to be close to zero. If DLUK does not agree commutations with the remaining cedants with open reserves, this does not have any material impact on my conclusions regarding the impact of the Proposed Transfer on policyholders or reinsurers. I will provide an update on the commutation of the Transferring DLUK Business in my Supplementary report.

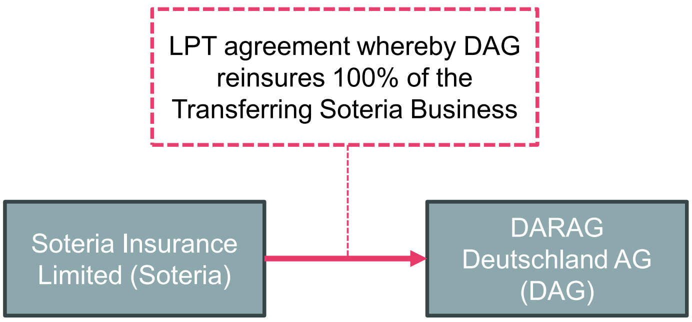
3.2.7. The Soteria and DLUK portfolios include some business that is not subject to the laws of England and Wales. The Transferring Soteria Business includes policyholders based in Jersey, Guernsey and the Isle of Man. Soteria has confirmed that, based on legal advice they have received, no court order or approval from, or notification to, overseas regulators is required in respect of Soteria's policies in Jersey, Guernsey or the Isle of Man in order to proceed with the Proposed Transfer.

3.2.8. For the Transferring DLUK Business, the remaining three cedants with open reserves are located in South Africa, Tanzania and Congo and their policies are governed by local law, rather than the law of England and Wales.

3.2.9. DIUK and DLUK have considered with their legal advisers whether an order transferring policies not governed by English law would be of any practical effect, and whether the cedants under the policies will be prejudiced if the transfer is not recognised in the jurisdiction of the governing law of the policy, in light of the provisions of the Scheme and the fact that DLUK has no assets outside the UK. The Scheme obliges DIUK to indemnify DLUK in respect of liabilities arising out of the Transferring DLUK Business and to take steps to be substituted for DLUK in any proceedings brought against DLUK outside the UK. As DLUK's only assets are in the UK, it would not be possible to enforce a judgment obtained against DLUK outside the UK. DLUK's legal advisers have confirmed that the Courts in the UK would recognise a Part VII Transfer as effective as a matter of English law to transfer policies irrespective of their governing law, and any proceedings brought in the UK to enforce a judgment against DLUK would be met with the defence of the order sanctioning the Proposed Transfer. Moreover, the Scheme provides that any proceedings brought in the UK against DLUK are to be deemed to have been brought against DIUK without the need for any Court order to that effect. The conclusion reached was that the Proposed Transfer would have the intended effect that DIUK (and not DLUK) would be obliged to meet the liabilities under the Policies. In addition, there will be no barrier to a cedant obtaining payment of a claim, and no increase in their costs in doing so, as a result of the Proposed Transfer. DIUK is therefore not proposing to seek formal recognition of the Proposed Transfer of the Transferring DLUK Business in any other jurisdiction.

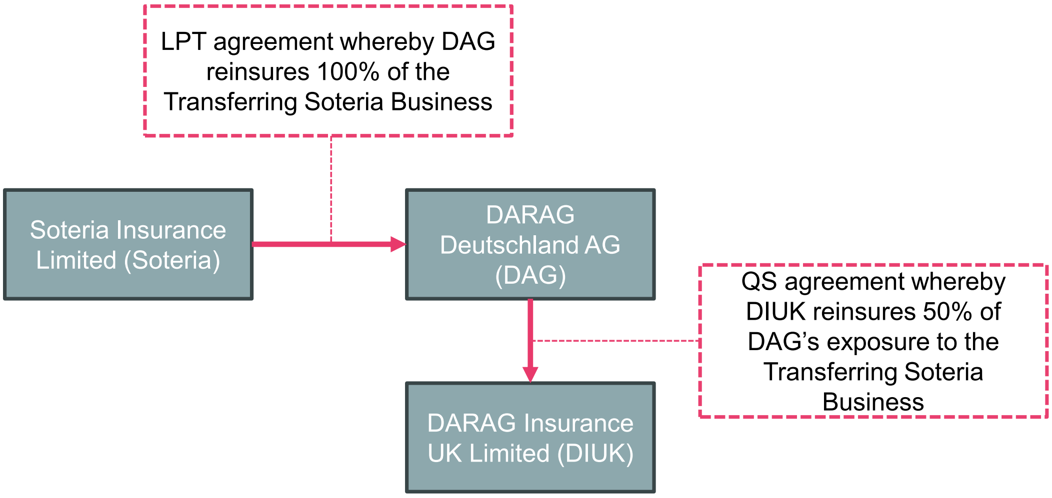
3.2.10. On 21 March 2025, Soteria, DAG and DIUK entered into a Loss Portfolio Transfer and Business Transfer Agreement (LPT) in anticipation of the Proposed Transfer. Under the LPT agreement, the Transferring Soteria Business (ie its liabilities under its commercial insurance policies, policies underwritten by it in its capacity as an underwriting member of the EIROS pool and the six inwards reinsurance policies) is fully (100%) reinsured by DAG.

3.2.11. The diagram below summarises the LPT agreement in place currently.



3.2.12. Effective 31 December 2025 (ie prior to the Proposed Transfer), DAG and DIUK will be entering into a Quota Share (QS) agreement whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer.

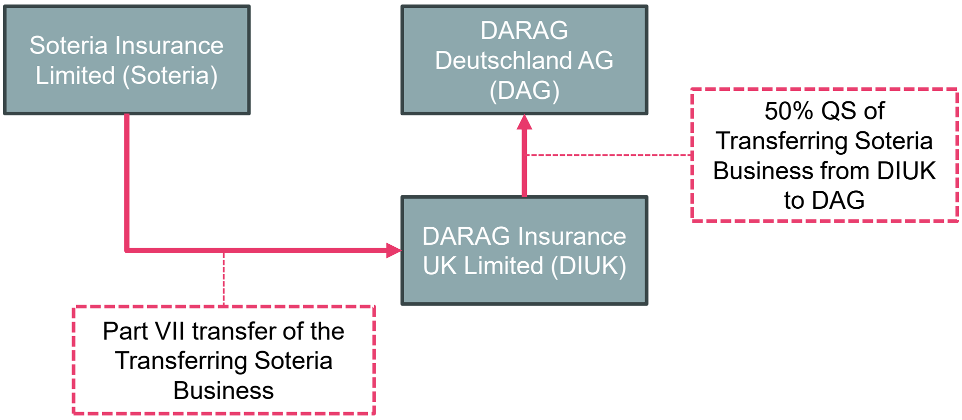
3.2.13. Therefore, immediately prior to the Proposed Transfer, the LPT and QS reinsurance arrangements will be as set out in the diagram below.



3.2.14. Immediately after the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

3.2.15. Therefore, immediately following the Proposed Transfer, the QS reinsurance arrangements will be as set out in the diagram below.



3.2.16. Effectively, the economic position will be similar immediately before and immediately after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business.

3.2.17. During Q1 2026, DARAG implemented a reorganisation under which DIUK became the beneficial owner of DLUK in March 2026, with the legal title to transfer towards the end of April 2026, following a stamp duty exemption. Therefore, prior to the Proposed Transfer, the economic risk of the Transferring DLUK Business will already be on the DIUK balance sheet, and this is reflected in the DIUK pre-transfer balance sheet shown in section 7.2.

3.2.18. Soteria has stated that, following the Effective Date of the Proposed Transfer, it is currently considering a range of options in respect of the remaining ("Non-Transferring") Soteria business, including a potential Part VII transfer of the remaining Non-Transferring Soteria business from Soteria to Tradex. Tradex is another entity within the same group as Soteria (Saturn Holdings). This transfer from Soteria to Tradex would cover Soteria's home and motor liabilities. Should this separate potential transfer proceed, there would be no remaining insurance liabilities in Soteria. In this case, Saturn Holdings would plan to close Soteria. Within my assessment of the impact of the Proposed Transfer on Transferring Soteria Policyholders, I have considered Saturn Holdings' strategy to close Soteria and that Soteria's business is reducing. However, given that this separate Part VII transfer would involve a separate Part VII process, I have not considered the impact of this potential future transfer further in this report.

3.2.19. Claims handling and administration services continue to be performed by MISL under the LPT agreement. The claims handling and administration services will continue to be performed by MISL following the Proposed Transfer, as DIUK intends to enter into a contractual agreement with MISL.

3.2.20. The LPT reinsurance operates on a funds withheld basis. The Initial Adjusted Reinsurance Premium (subject to adjustment to reflect Net Loss actually paid under the LPT agreement) is held in the Soteria Custody Accounts. This will remain a debt due to DAG until the Part VII Scheme Effective Date or the Funds Withheld Transfer Date (which is the Long Stop Date, if the Part VII Scheme Effective Date has not occurred and neither party exercises the option to terminate the LPT agreement). The Long Stop Date in the original LPT agreement was 30 June 2026, or such later date as the Parties may agree acting reasonably and in good faith. The Parties have now agreed to extend the Long Stop Date to 31 October 2027 (or such later date as the Parties may agree acting reasonably and in good faith).

3.2.21. Under the LPT agreement, funds held in the custody accounts are to be used prior to DAG being required to pay anything further. There is no top up mechanism for the custody accounts if experience was to be worse than expected.

3.2.22. If the Part VII Scheme Effective Date has not occurred on or before the Long Stop Date, Soteria and DAG (on its own behalf and on behalf of DIUK) may each choose to terminate the LPT agreement. However, the parties have informed me that they intend to continue the LPT if the Proposed Transfer does not go ahead by the Long Stop Date.

3.2.23. If, by the Long Stop Date, the Part VII Scheme Effective Date has not occurred and neither party exercises the option to terminate the LPT agreement, the funds held in the Soteria Custody Accounts will be transferred to DAG Custody Accounts. These funds are then maintained in the DAG custody accounts to pay future claims, until the net insurance liabilities are agreed or determined to be less than £2m. After this point, DAG shall be entitled to withdraw the assets from the DAG custody accounts and shall be absolutely entitled to those assets.

Effective Date

3.2.24. The Effective Date (the date when the Proposed Transfer is expected to occur) is expected to be 31 July 2026, shortly after the Sanction Hearing, which is planned for 30 July 2026. There are currently ongoing discussions regarding the timing of the Sanction Hearing and Effective Date of the Proposed Transfer. This may result in the Effective Date changing to a later date (which is anticipated to be no more than two months later than the currently anticipated Effective Date of 31 July 2026). I will provide an update on this in my Supplementary Report. All figures in this report are based on an Effective Date of 31 July 2026.

Reinsurance

3.2.25. There is currently an LPT agreement in place between Soteria and DAG, under which DAG reinsures 100% of the Transferring Soteria Business.

3.2.26. Effective 31 December 2025 (ie prior to the Proposed Transfer), DAG and DIUK will be entering into a QS agreement whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer.

3.2.27. Immediately after the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

3.2.28. Effectively, the economic position will be similar immediately before and immediately after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business.

3.2.29. Following the Proposed Transfer, the Transferring Soteria Business will be reinsured by DAG. Therefore, DIUK's policyholders post-transfer will be exposed to the risk of DAG defaulting on its reinsurance obligations. However, the reinsurance provided by DAG will be on a funds withheld basis. This means that, in the event of a default by DAG, any default would be limited to the amount in excess of the funds withheld asset. In addition, the risks associated with this reinsurance arrangement following the Proposed Transfer are reflected in DIUK's projected Day 1 SCR, which allows for reinsurance default risk. I have considered the impact of a reserve deterioration combined with default of DAG in section 6.10 (scenario M). This scenario is deliberately conservative in that it assumes 100% loss of the DAG reinsurance recoveries in excess of the funds withheld asset. In reality, DIUK might expect to receive a portion of the reinsurance recovery in a default scenario. Even in this extreme scenario, DIUK is projected to be sufficiently capitalised at Day 1. That is, DIUK would still be expected to be able to meet its SCR and pay its claims in full.

3.2.30. In respect of the Transferring DLUK Business, there is currently a small amount of outwards reinsurance in place, with reserves as at 30 September 2025 of approximately £7,000. DLUK is intending to commute this outwards reinsurance prior to the Proposed Transfer, alongside the commutation of the remainder of its inwards business, which would mean there would be no outwards reinsurance covering the Transferring DLUK Business as at the Effective Date. If the commutation is not complete by the Effective Date, the existing outwards reinsurance will transfer to DIUK as a result of the Proposed Transfer. I will provide an update on this commutation in my Supplementary report.

3.2.31. The Proposed Transfer will not affect the underlying terms and conditions of the other existing reinsurance arrangements. DIUK, DLUK and Soteria have confirmed that there will be no changes to any other existing reinsurance arrangements as a result of the Proposed Transfer.

Claims handling

3.2.32. Soteria has a service agreement with MISL under which MISL performs all claims handling and policy administration services on behalf of Soteria. Under the LPT agreement, MISL continues to administer the claims arising from the Transferring Soteria Business. Soteria has agreed to enter into a new service agreement with MISL on materially the same terms as the existing agreement, but relating to the business being transferred to DIUK only. Soteria's rights and obligations under the new agreement will transfer to DIUK under the Proposed Transfer and policy administration for the Transferring Soteria Business will continue to be performed by MISL following the Proposed Transfer. There is therefore not expected to be any change in claims handling or policy administration as a result of the Proposed Transfer in respect of the Transferring Soteria Business.

3.2.33. There is also no planned change for policy and claims administration matters as a result of the Proposed Transfer in respect of the Transferring DLUK Business. Due to the minimal activity in the Transferring DLUK portfolio, claims handling and policy administration is currently managed in-house by staff within the DARAG Group. This arrangement will continue following the Proposed Transfer.

3.2.34. DIUK's claims handling is currently outsourced to Polo Commercial Insurance Services and this arrangement will continue following the Proposed Transfer.

3.2.35. The parties have confirmed that there are no expected changes to existing claims handling procedures for any group of policyholders as a result of the Proposed Transfer.

3.3. Purpose of the Proposed Transfer

3.3.1. Soteria, DAG and DIUK entered into a Loss Portfolio Transfer and Business Transfer Agreement (LPT) on 21 March 2025, with the intention of completing the Proposed Transfer.

3.3.2. Saturn Holdings' strategic objective is to conclude the closure of Soteria as soon as possible whilst ensuring that customers receive good outcomes and all regulatory requirements are met. The Proposed Transfer is fundamental to that aim.

3.3.3. DAG's strategy is to actively increase participation in the UK and Gibraltar legacy insurance market focussing on small to mid-sized portfolios. This is planned through DIUK, which will serve as DAG's UK insurance risk carrier. DAG has recently implemented a reorganisation under which DIUK became the beneficial owner of DLUK in March 2026, with the legal title to transfer towards the end of April 2026, following a stamp duty exemption.

3.4. Alternative options considered

3.4.1. The Proposed Transfer includes the transfer of two portfolios to DIUK. The parties have informed me that the transfer of these two portfolios is contingent on each other, ie if one of the transfers is not sanctioned, then neither of the transfers will go ahead. I have therefore not considered the impact on policyholders if only one of the transfers goes ahead.

3.4.2. Under the LPT, DIUK and Soteria shall use reasonable endeavours to complete the Proposed Transfer as soon as practicable and prior to the Long Stop Date (31 October 2027). In the event that the Proposed Transfer does not go ahead by the Long Stop Date, the parties have informed me that their intention is to continue the LPT agreement.

3.4.3. If, by the Long Stop Date, the Part VII Scheme Effective Date has not occurred and neither party exercises the option to terminate the LPT agreement, the funds held in the Soteria Custody Accounts will be transferred to DAG Custody Accounts (each as defined in the LPT). These funds are then maintained in the DAG custody accounts to pay future claims, until the net insurance liabilities are agreed or determined to be less than £2m. After this point, DAG shall be entitled to withdraw the assets from the DAG custody accounts and shall be absolutely entitled to those assets.

3.4.4. If the Proposed Transfer is not sanctioned, DAG intends to continue the orderly run-off of the DLUK business.

3.5. Key dependencies

3.5.1. The key dependencies of the Proposed Transfer are as follows:

- High Court approval is required for the Proposed Transfer – an initial hearing for directions in relation to the approach of publicising the Proposed Transfer (the Directions Hearing) is planned for 27 March 2026 and the Sanction Hearing is planned for 30 July 2026. As part of this, the High Court will take into account the views of the PRA and FCA on the Proposed Transfer. As noted in section 3.2, there are currently ongoing discussions regarding the timing of the Directions Hearing and Sanction Hearing. I will provide an update on this in my Supplementary Report.
- I will comment in my Supplementary Report on any objections raised by policyholders, reinsurers or any other interested parties who consider they would be adversely affected by the Proposed Transfer, following the approval of the policyholder communications strategy by the Court at the Directions Hearing.

4. My approach as IE

Overall role

4.1.1. As IE, my overall role is to assess whether:

- The security provided to policyholders of Soteria, DIUK and DLUK will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any materially adverse impact on service standards experienced by policyholders.
- Any reinsurers of Soteria, DIUK or DLUK covering the Transferring Business will be materially adversely affected.

The key affected parties

4.1.2. To make these assessments, I have considered the effect of the Proposed Transfer on the following parties:

- Non-Transferring Soteria Policyholders, ie Soteria policyholders whose policies will remain with Soteria after the Proposed Transfer.
- Non-Transferring DLUK Policyholder, ie the DLUK policyholder whose policy will remain with DLUK after the Proposed Transfer.
- Transferring Soteria Policyholders, ie Soteria policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.
- Transferring DLUK Policyholders, ie DLUK policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.
- Existing DIUK Policyholders, ie all policyholders of DIUK immediately prior to the Proposed Transfer, who will remain policyholders of DIUK after the Proposed Transfer.
- Reinsurers of Soteria covering the Transferring Soteria Business (ie the LPT agreement with DAG).
- Reinsurers of DLUK covering the Transferring DLUK Business (which DLUK is aiming to commute prior to the Proposed Transfer).

4.1.3. I understand that current and potential future third party claimants (Claimants) who make a claim against a policyholder, which would be covered by a policy, are also considered to be policyholders by the FCA and PRA, as are all potential beneficiaries (Beneficiaries). In drawing my conclusions, I have considered the impact of the Proposed Transfer on all potential Claimants and Beneficiaries.

Five-step approach to analysing the Proposed Transfer

4.1.4. My approach to assessing the Proposed Transfer has been to perform the following five steps analysing evidence provided by Soteria, DIUK and DLUK to support the Proposed Transfer:

Step 1: Assessing the provisions of Soteria, DIUK and DLUK

4.1.5. The first important form of security that an insurer provides to policyholders is the level of provisions (also known as reserves). Provisions are based on an estimate of the amount of money the insurer will need to pay policyholders' claims and to cover the other costs associated with running the insurer.

4.1.6. Therefore, I have assessed the appropriateness of the provisions included on Soteria's, DIUK's and DLUK's balance sheets and the approach to be used for the calculation of provisions for Soteria, DIUK and DLUK pre- and post-transfer. Details of this step are set out in section 5.

Step 2: Assessing the capital positions of Soteria, DIUK and DLUK

4.1.7. In addition to the level of provisions, insurers hold capital designed to withstand more extreme levels of claims. The level of capital held is the second important form of security provided to policyholders.

4.1.8. For Soteria, DIUK and DLUK, the level of capital required is set under the Solvency UK standard. A key regulatory solvency metric is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome). Another key measure of capital under Solvency UK is the Minimum Capital Requirement (MCR). Firms need to hold capital equal to at least 100% of the greater of the SCR and the MCR. For DLUK, the MCR is projected to be higher than the SCR both immediately before and after the Proposed Transfer. For DIUK and Soteria, the SCR is projected to be higher than the MCR immediately before and immediately after the Proposed Transfer.

4.1.9. I have assessed the appropriateness of the projected capital requirements of Soteria, DIUK and DLUK. Details of this step are set out in section 6.

Step 3: Assessing overall policyholder security

4.1.10. Under this step, I have considered the level of provisions and capital (from steps 1 and 2) in the context of the assets held by each of Soteria, DIUK and DLUK and other forms of security such as compensation schemes.

4.1.11. For this analysis, I have considered the current balance sheets of Soteria, DIUK and DLUK as well as the post-transfer pro-forma balance sheets for each of Soteria, DIUK and DLUK. Details of this step are set out in section 7.

Step 4: Assessing policyholder communications

4.1.12. I have assessed the appropriateness of Soteria's, DIUK's and DLUK's communication strategy to inform policyholders and other stakeholders of the Proposed Transfer. The key focus of my assessment was whether the policyholders and other stakeholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. Details of this step are set out in section 8.

Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

4.1.13. I have considered how the level of customer service provided to policyholders could change following the Proposed Transfer. I have also considered a range of other factors that might affect policyholders, such as ongoing expense levels and tax implications. Details of this step are set out in section 9.

5. Reserving considerations

5.1. Introduction to insurance reserving

5.1.1. For an insurance firm, the primary purpose of reserving is to assess the provisions that need to be set in order to pay policyholders' claims and to cover the other costs associated with running an insurer.

5.1.2. Depending on how they are set, the provisions may be on a "best estimate" basis (with no deliberate optimism or pessimism) or include a "margin for prudence" (additional provisions to cover higher than expected claims). Where the provisions include a margin for prudence, this is typically designed to cover claims that are moderately higher than expected rather than more extreme levels of claims. A best estimate basis may involve setting a single point estimate of the provisions, but practically there normally exists a range of estimates that could be justified as best estimates.

5.1.3. In addition to any margin for prudence, the insurer would hold additional capital designed to withstand more adverse levels of claims. My considerations related to capital for the Proposed Transfer are set out in section 6.

Introduction to reserving bases

5.1.4. Insurers use a range of different reserving bases (ie different measures of the provisions), for different purposes.

5.1.5. For example, financial accounting standards require the provisions to be calculated in particular ways, and an insurer may also use a different basis for internal management accounts. Solvency Regulations require provisions to be calculated in yet another way.

5.1.6. For the Proposed Transfer, I have considered the provisions under two reserving bases, which are each relevant for different purposes, namely:

- UK Generally Accepted Accounting Principles (GAAP) – these are the accounting standards used to set the provisions underlying the published financial accounts of Soteria, DLUK and DIUK.
- Regulatory technical provisions eg Solvency UK technical provisions – these are calculated in line with Solvency UK Regulations that came into effect on 31 December 2024, replacing the European Solvency II Regulations.

5.2. My considerations relating to reserving

5.2.1. As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for each relevant group of policyholders ie Non-Transferring Soteria Policyholders, the Non-Transferring DLUK Policyholder, Transferring Soteria Policyholders, Transferring DLUK Policyholders and Existing DIUK Policyholders; and
- whether any aspects of the reserving may lead to any of these groups of policyholders being materially adversely affected by the Proposed Transfer.

5.2.2. To make these assessments, I have considered the following areas:

- Appropriateness of provisions for Soteria, DLUK and DIUK (sections 5.3-5.7);
- Approach for setting Solvency UK technical provisions (section 5.8);
- Key uncertainties when setting the provisions (section 5.9);
- Current Soteria, DLUK and DIUK reserving processes and governance (section 5.10); and
- Future reserving approach and governance (section 5.11).

5.2.3. Within these areas, I have also considered any differences in the reserving approach between Soteria, DLUK and DIUK to understand how this may affect policyholders.

5.2.4. Further details on each of these considerations are set out below, and I have stated my overall conclusion related to reserving in section 5.12.

Approach to my review

5.2.5. I have reviewed a number of documents provided by Soteria, DLUK and DIUK relating to the setting of provisions, including the reserving processes and governance. I have had discussions with staff of Soteria, MISL, DLUK, DIUK and DARAG to discuss the information provided and any questions I have had on the reserving approach. A list of the key data and documentation is provided in appendix 4.

5.2.6. I have considered the appropriateness of the following:

- UK GAAP technical provisions for Soteria, DLUK and DIUK as at 30 September 2025;
- Solvency UK technical provisions for Soteria as at 30 September 2025 and DLUK and DIUK as at 31 December 2024; and
- Reserving approach for the transferring liabilities.

5.3. Summary of provisions for Soteria, DLUK and DIUK

5.3.1. The following table shows the total UK GAAP technical provisions as at 30 September 2025 (the latest available figures at the time of my writing of my report) for Soteria, DLUK and DIUK.

Summary of UK GAAP technical provisions at 30 September 2025 (£m)

Entity	Gross of reinsurance	Net of reinsurance*
Soteria	163.6	98.0
DLUK	2.3	2.3
DIUK	24.5	3.4

** Note Soteria's net of reinsurance UK GAAP provisions are gross of their Quota Share (QS) reinsurance, but net of all other reinsurance.*

5.4. Soteria provisions (UK GAAP)

5.4.1. The following table shows the level of UK GAAP technical provisions as at 30 September 2025 for Soteria, broken down by class and by Non-Transferring and Transferring Policyholders. I have also provided a brief description of the underlying exposure of each class.

Soteria – Summary of UK GAAP technical provisions at 30 September 2025 (£m)

Class	Gross of reinsurance	Gross of LPT and QS, net of all other reinsurance	Gross of QS, net of all other reinsurance
Non-Transferring Business:			
Motor	136.6	89.8	89.8
Home	8.3	8.2	8.2
Subtotal Non-Transferring Business:	**144.9**	**98.0**	**98.0**
Transferring Business:			
Commercial liability	17.2	17.2	0.0
EIROS pool	1.2	1.2	0.0
Inwards reinsurance	0.2	0.2	0.0
Subtotal Transferring Business:	**18.7**	**18.7**	**0.0**
Total Soteria	**163.6**	**116.7**	**98.0**

Source: Soteria.
The provisions are made up of the earned claims reserves (to cover incidents that have already occurred). There was no unearned business (business relating to future exposure from an insurer's policies for which the coverage period has not yet passed) as at this date.

Class	Class description
Non-Transferring Business:	
Motor	This class contains personal lines motor insurance business, with claim types including third party property damage, bodily injury and PPOs.
Home	This class contains personal lines home insurance business, including (amongst other things) subsidence claims.
Transferring Business:	
Commercial liability	This class contains Soteria's commercial liability policies, including (amongst other things) asbestos liabilities. Mesothelioma claims make up the majority of the gross reserves.
EIROS pool	This class contains Soteria's share of the Electricity Industry Run-Off Services Limited (EIROS) pool. The liabilities cover asbestos-related diseases and other latent diseases under employer's and public liability cover provided to the Central Electricity Generating Board between 1950 and the late 1970s.
Inwards reinsurance	This class contains a small portfolio of inwards reinsurance policies, some of which are disease-exposed.

5.4.2. The provisions for Transferring Business represent 11% of Soteria's gross UK GAAP technical provisions as at 30 September 2025.

5.4.3. Soteria's business comprises predominantly personal lines motor and home insurance business, as well as liability insurance. Most of Soteria's provisions are in respect of motor insurance, the majority of which are in respect of large claims and PPOs. Soteria's reinsurance programme on the Non-Transferring Soteria Business includes catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement on the motor and home business for the years 2017-2020. There is also an LPT in place in respect of the Transferring Soteria Business from Soteria to DAG.

Soteria's approach for setting UK GAAP technical provisions

5.4.4. I have reviewed the process by which Soteria calculates its UK GAAP technical provisions.

5.4.5. Soteria's reserving is performed by MISL's actuarial team, with peer review by the Soteria Chief Actuary. The reserves are then presented to and signed off by the Soteria Quarterly Reserving Committee (QRC).

5.4.6. Soteria uses standard actuarial techniques, including:

- Development Factor Model (DFM) methods, alongside the review of key diagnostics such as claims burning cost (a comparison of average costs of claims against exposure levels) and Frequency/Severity Methods (see glossary) for motor claims.
- Soteria models PPO reserves separately for settled PPOs (PPOs already settled and in payment) and potential PPOs (reported large claims that have the potential to settle as PPOs).
- For settled PPOs, Soteria uses a discounted cashflow model to calculate the reserves.
- For potential PPOs, Soteria applies probability assumptions (based on Soteria's experience and the Institute and Faculty of Actuaries PPO working party) to allow for the expected likelihood of each potential PPO settling as a PPO as opposed to being settled as a lump sum.
- For liability claims, methods include consideration of UK Asbestos Working Party (AWP) models and assumptions and allowances for inflation. The AWP is a specialist group within the actuarial profession that researches and publishes analyses of asbestos-related insurance claims to help actuaries estimating asbestos reserves.

5.4.7. Soteria commissions an external actuarial consultancy to provide an independent review of the provisions for Soteria every two years. The latest review was based on data as at 30 June 2025 and included:

- Independent projections for the majority of the Non-Transferring Soteria Business (motor third party bodily injury classes and home subsidence claims).
- A methodology and assumptions review of Soteria's PPO model used to estimate the PPO liabilities (for both settled and future PPOs).
- A review of the movements in ultimates, incurred claims and IBNR over the past two years for the remaining classes of business.

5.4.8. As at 30 June 2025, for the business within scope of the independent review, the external estimate of the level of provisions was c.5% lower than Soteria's best estimate reserves on a gross basis, and c.8% lower than Soteria's best estimate reserves on a net basis. Compared to Soteria's booked reserves (ie including Soteria's margin), the external estimate was c. 10% lower than Soteria's booked reserves on both a gross and net basis. Given this, the external review supports the level of provisions held by Soteria in respect of the independently projected classes.

5.4.9. In addition, for PPOs, based on their review of methodology and assumptions, and scenario testing on the key assumptions, the external actuary concluded that Soteria's assumptions are supportable given the current uncertainty and historical information. For the remaining classes of business not independently projected, the external actuary considered Soteria's best estimate reserves to be reasonable.

5.4.10. The UK GAAP figures are used as the basis and starting point for the calculation of the Solvency UK technical provisions.

5.4.11. In my opinion, Soteria's reserving approach is reasonable and in line with market practice.

5.4.12. The reserving for the Non-Transferring Soteria Policyholders will continue to be performed by MISL and reviewed by Soteria following the Proposed Transfer. Therefore, the reserving for Non-Transferring Soteria Policyholders will not be impacted following the Proposed Transfer.

5.5. DLUK provisions (UK GAAP)

5.5.1. The table below shows the level of UK GAAP technical provisions as at 30 September 2025 (the latest available figures at the time of my writing of my report) for DLUK, broken down by portfolio and by Non-Transferring and Transferring Policyholders.

DLUK – Summary of UK GAAP technical provisions at 30 September 2025 (£m)

Class	Gross of reinsurance	Net of reinsurance
Non-Transferring DLUK Business (Intra-group reinsurance agreement)	2.23	2.23
Transferring DLUK Business (mostly Africa-based reinsurance treaties)	0.03	0.02
Total DLUK	**2.26**	**2.26**

Source: DLUK (converted to GBP).
The provisions are made up of the earned claims reserves (to cover incidents that have already occurred) excluding Unallocated Loss Adjustment Expenses (ULAE). There was no unearned business (business relating to future exposure from an insurer's policies for which the coverage period has not yet passed) as at this date.

5.5.2. DLUK's business consists of a small number of mostly Africa-based reinsurance treaties (the Transferring DLUK Business) and an intra-group one-off inwards reinsurance agreement with DAG (the Non-Transferring DLUK Business).

5.5.3. DLUK is currently seeking to commute its mostly Africa-based inwards reinsurance contracts. A large portion of this business has already been commuted and, as of 30 September 2025, the remaining reserves for the Transferring DLUK Business were approximately £30,000. DLUK is continuing to attempt to commute the remainder of its inwards business, although it does not expect to be able to agree commutations with all cedants. As of the date of this report there are only three remaining cedants with open reserves. Therefore, DLUK's reserves for the Transferring DLUK Business immediately prior to the Proposed Transfer are expected to be close to zero. If DLUK does not agree commutations with the remaining cedants with open reserves, this does not have any material impact on my conclusions regarding the impact of the Proposed Transfer on policyholders or reinsurers. I will provide an update on the commutation of the Transferring DLUK Business in my Supplementary report.

5.5.4. DLUK also intends to commute the intra-group one-off inwards reinsurance agreement with DAG following the Proposed Transfer. This policy is not part of the Proposed Transfer and its commutation, and subsequent removal of DLUK permissions, is expected to take place no more than two months after the Effective Date of the Proposed Transfer.

DLUK's approach for setting UK GAAP technical provisions

5.5.5. I have reviewed the process by which DLUK calculates its UK GAAP technical provisions.

5.5.6. The Transferring DLUK business consists of a small number of mature, mostly Africa-based reinsurance contracts. These contracts are mainly treaty reinsurance arrangements, meaning DLUK assumes risk on portfolios of business rather than on individual exposures. A significant proportion of these treaties are non-proportional, which limits DLUK's potential for losses because claims are subject to cedant retentions and layer limits.

5.5.7. The underlying risks being reinsured through the treaties relate to fire damage, and aviation, marine and transport risks. There is limited exposure to material or catastrophic loss exposure, particularly when considering the diversified portfolio across many African countries, cedant retentions that limit DLUK's participation and exposure, and outwards reinsurance cover that DLUK also purchases.

5.5.8. DLUK's reserving approach for this business relies on information from DLUK's reinsurance team to identify any potential deficiency or redundancy in case reserves from cedants. As at 30 September 2025, DLUK was not holding any IBNR as DLUK considered the case reserves to be adequate.

5.5.9. I have had discussions with DLUK's actuarial team to understand the rationale for not holding IBNR for the Transferring DLUK Business. DLUK's view is that the risk of new claims arising on this portfolio is low, as the terms of the policies require cedants to inform DLUK as soon as possible once it is known that a claim event may impact DLUK. I understand that DLUK has denied a number of recent claims for this reason. In addition, gross incurred movements in each calendar year since 2022 have been favourable (ie DLUK has seen negative incurred movements), which further justifies DLUK's approach to not hold any IBNR for this portfolio.

5.5.10. The Non-Transferring DLUK Business comprises one intra-group reinsurance arrangement with DAG, covering 25% of the net of excess of loss motor third-party liability exposure in the DARAG Italy portfolio on accident years 2019 and prior. For this business, DLUK uses the DFM method to calculate the reserves for the underlying portfolio, and then applies the relevant reinsurance structure (ie DLUK's reserves are 25% of the net of excess of loss reserves of the underlying business).

5.5.11. The DLUK UK GAAP figures are used as the basis and starting point for the calculation of the Solvency UK technical provisions.

5.5.12. In my opinion, DLUK's reserving approach is reasonable.

5.5.13. The reserving for the Non-Transferring DLUK Policyholder will continue to be performed by DLUK following the Proposed Transfer. Therefore, the reserving for the Non-Transferring DLUK Policyholder will not be impacted following the Proposed Transfer.

5.6. DIUK provisions (UK GAAP)

5.6.1. The table below shows the level of UK GAAP technical provisions as at 30 September 2025 (the latest available figures at the time of my writing of this report) for DIUK, broken down by class. I have also provided a brief description of the underlying exposure of each class.

5.6.2. Note that DIUK's provisions as at 30 September 2025 do not include any provisions for the Transferring Soteria Business. This is because the 50% QS reinsurance that DIUK will provide to DAG in respect of the Transferring Soteria Business immediately prior to the Proposed Transfer was not yet in place as at 30 September 2025. Effective 31 December 2025 (ie prior to the Proposed Transfer), this QS agreement will be in place, and DIUK's Day 0 provisions will therefore include an allowance for the Transferring Soteria Business. I comment on DIUK's and Soteria's provisions for the Transferring Soteria Business in section 5.7.

DIUK – Summary of UK GAAP technical provisions at 30 September 2025 (£m)

Class	Gross of reinsurance	Net of reinsurance
EL - NIHL	0.5	0.5
EL - Asbestos	0.5	0.5
EL - PPO	3.6	0.8
EL - Other	0.2	0.2
GL excl MundiPharma	0.4	0.4
GL - MundiPharma	19.1	0.9
Other	**0.1**	0.1
Total DIUK	**24.5**	**3.4**

Source: DIUK
The provisions are made up of the earned claims reserves (to cover incidents that have already occurred) excluding Unallocated Loss Adjustment Expenses (ULAE). There was no unearned business (business relating to future exposure from an insurer's policies for which the coverage period has not yet passed) as at this date.

Portfolio	Class description
EL - NIHL	This class contains noise induced hearing loss (NIHL) claims from employers liability business written from 1999 to 2003.
EL - Asbestos	This class contains asbestos (mesothelioma and asbestosis) claims from employers liability business written from 1999 to 2003.
EL - PPO	This class is a single claim that settled as a Periodical Payment Order (PPO), arising from employers liability business.
EL - Other	This class contains all other disease claims (including hand-arm vibration syndrome and vibration white finger) arising from employers liability business written from 1999 to 2003.
GL excl Mundipharma	This class contains general liability business, excluding the Mundipharma claim, written from 1999 to 2003. Claims include abuse, polyfluoroalkyl substances (PFAS), sports head injuries and misfeasance.
GL - Mundipharma	This class relates to product liability cases made against the pharmaceutical company Mundipharma in Germany.
Other	This includes professional indemnity, contract works and financial institutions business written from 1999 to 2003.

5.6.3. DIUK underwrote liability insurance from 1999 until 2003 and then entered run-off. The existing portfolio relates to outstanding liability claims from this period. Most of the gross reserves relates to the large Mundipharma and single PPO claims, with the remaining business relating to smaller claims arising from a range of employers liability and general liability business. Both large claims benefit from significant reinsurance protection and therefore the net reserves are much lower than the gross reserves.

DIUK's approach for setting UK GAAP technical provisions

5.6.4. I have reviewed the process by which DIUK calculates their UK GAAP technical provisions.

5.6.5. DIUK uses a variety of standard actuarial techniques for their portfolios depending on the nature of the liabilities, including DFM modelling, IBNR/outstanding ratios, claims watchlists and Frequency/Severity Methods. For example:

- Noise induced hearing loss (NIHL) claims: DIUK uses a frequency-severity approach, with assumptions informed by a review of case reserves and the historical nil claims rate in the portfolio. Future claim numbers are projected based on a decay factor curve assumption fitted to historical data.
- Mesothelioma and asbestosis claims: DIUK uses a frequency-severity approach. The projected number of future claims is based on models developed by the UK Asbestos Working Party, scaled to be representative of DIUK's own claims data.
- PPO claim: DIUK estimates the reserves for the PPO claim using a discounted cashflow model, based on the claimant life expectancy and other key assumptions such as inflation.
- Other general liability (GL) claims: there are a small number of open claims, the most material of which are on a watchlist maintained by the DARAG claims team. These claims have relatively small case reserves for fees only based on estimated costs to defend the claims. DIUK holds IBNR equal to 100% of the case reserves to allow for the development of small claims not on the watchlist, as well as an expense IBNR loading for potential future developments in fees.
- The large Mundipharma claim is reserved on an ultimate basis at DIUK's limit of $25m. This claim benefits from excess of loss reinsurance protection, which means the net reserve is c.$1m.

5.6.6. DIUK's reserving is performed in line with the DARAG Group reserving policy. Reserves are reviewed on at least an annual basis.

5.6.7. External reserve reviews are carried out each year end by an external consultant, and the external review partner is reviewed at least every three years.

5.6.8. DIUK commissioned an external actuarial review of the reserving approach and analysis for Mesothelioma claims within the Transferring Soteria Business as part of the actuarial due diligence process. This review covered mesothelioma related claims, which represent most of the reserves for the Transferring Soteria Business. The scope of this review was to review and challenge DIUK's reserving approach and analysis. The external actuary did not produce an independent estimate of the reserves for the portfolio, but did produce a series of alternate future claims projections. These projections produced results ranging from -8% to +16% of DIUK's reserves for mesothelioma claims. The alternate scenarios considered support my view that DIUK's reserves are within the range of best estimates that could be justified, and that DIUK's reserving approach is reasonable.

5.6.9. There is also currently an independent external review being performed to identify DIUK's exposure to large claims. This could potentially lead to a change in DIUK's reserves as at 31 December 2025. I intend to review DIUK's reserves in the context of this review and I will report on this in my Supplementary Report.

5.6.10. I have been provided with DIUK's reserves as at 30 September 2025 (the latest available figures at the time of my writing of this report), as well as the reserves as at 31 December 2024 and 31 December 2023. I have considered the movements in reserves over this period, and have had discussions with DIUK's actuarial team to understand the NIHL experience in particular, which saw deteriorations in incurred claims. In response to my queries, DIUK provided me with actual versus expected analysis for NIHL claims. DIUK expects that many of the open claims will settle for nil, resulting in an expected redundancy in case reserves. However, NIHL claim numbers have been higher than expected and DIUK will review this in January, alongside the results of the large claim review. I will report on this in my Supplementary Report.

5.6.11. The DIUK UK GAAP figures are used as the basis and starting point for the calculation of the Solvency UK technical provisions.

5.6.12. In my opinion, DIUK's reserving approach is reasonable.

5.6.13. The reserving for the Existing DIUK Policyholders will continue to be performed within the DARAG group following the Proposed Transfer. Therefore, the reserving for Existing DIUK Policyholders will not be impacted as a result of the Proposed Transfer.

5.7. Reserving estimates for the Transferring Business

Transferring DLUK Business

5.7.1. As discussed in section 5.5, the reserves for the Transferring DLUK Business as at 30 September 2025 are approximately £30,000, and are expected to be close to zero immediately prior to the Proposed Transfer due to the ongoing commutation of the underlying reinsurance contracts. The Transferring DLUK Business will be transferring from one entity to another entity in the same DARAG group. DIUK and DLUK have confirmed that there will be no change in reserving approach for the Transferring DLUK Business as a result of the Proposed Transfer, and I concluded in section 5.5 that, in my opinion, DLUK's reserving approach is reasonable. Therefore, the reserving for the Transferring DLUK Policyholders will not be impacted following the Proposed Transfer.

Transferring Soteria Business

5.7.2. Most of the outstanding liabilities from the Transferring Soteria Business are in respect of asbestos-related diseases and other latent diseases. As for any book of insurance business, the future claims experience of the Transferring Soteria Business is subject to inherent uncertainty and, as such, there is a range of reasonable best estimates for the provisions.

5.7.3. The majority of the reserves for the Transferring Soteria Business are in respect of Mesothelioma claims. I consider Soteria's and DIUK's reserving approaches for Mesothelioma and other asbestos-related diseases below. I also consider the impact of a deterioration in reserves arising from a severe Mesothelioma scenario (scenario C) in section 6.10.

5.7.4. The security of Transferring Soteria Policyholders depends on: (pre-transfer) the combined reserves and capital held by Soteria; and (post-transfer) the combined reserves and capital held by DIUK. As such, this section on reserving estimates for the Transferring Business should be considered in conjunction with the capital considerations in section 6.

5.7.5. I have been provided with the most recent actuarial reviews undertaken by Soteria and DIUK in respect of the liabilities of the Transferring Soteria Business. The following table sets out Soteria's and DIUK's UK GAAP technical provisions for the Transferring Soteria Business as at 30 September 2025. These are the latest available figures at the time of my writing of this report.

UK GAAP technical provisions for the Transferring Soteria Business as at 30 September 2025

£m	Soteria	DIUK
Transferring Soteria Business	18.7	16.7

Source: Soteria and DIUK. Figures are excluding ULAE.

5.7.6. The following table shows the breakdown by class of business (on a gross of reinsurance basis). Note that, in the below table, the DIUK provisions are as at 30 September 2025 but the Soteria provisions are as at 30 June 2025. This is because Soteria's most recent detailed review of provisions for the Transferring Soteria Business is as at 30 June 2025. Soteria's total provisions for the Transferring Soteria Business are available as at 30 September 2025, but this does not include a detailed reserving projection by claim type. Nonetheless, my view is that this remains a helpful comparison by claim type as Soteria's total provisions for the Transferring Soteria Business did not change materially between 30 June 2025 and 30 September 2025.

UK GAAP technical provisions for the Transferring Soteria Business

Gross of reinsurance (£m)	Soteria (as at 30 June 2025)	DIUK (as at 30 September 2025)	Difference (DIUK - Soteria)
Commercial liability	17.4	15.1	(2.3)
Mesothelioma	*16.0*	*13.6*	*(2.4)*
Other Asbestos	*0.8*	*0.9*	*0.1*
NIHL	*0.6*	*0.7*	*0.1*
EIROS pool	1.2	1.4	0.1
Inwards reinsurance	0.2	0.2	0.0
Total	**18.9**	**16.7**	**(2.2)**

5.7.7. Soteria and DIUK have each carried out independent projections of the Transferring Soteria Business.

Difference between Soteria and DIUK's reserves estimates

5.7.8. As at 30 September 2025, Soteria estimated the gross of reinsurance UK GAAP technical provisions for the Transferring Soteria Business at £18.7m and DIUK's estimate was £16.7m. DIUK's gross of reinsurance reserves estimate for the Transferring Soteria Business as at 30 September 2025 is £2m (11%) lower than Soteria's. The key driver of this difference is Mesothelioma claims.

5.7.9. DIUK's reserve estimate for Mesothelioma claims as at 30 September 2025 was approximately £2.4m (15%) lower than Soteria's estimate as at 30 June 2025. This difference is predominantly driven by the assumed number of future Mesothelioma claims, which itself is driven by differences in the assumed claim reporting profile.

5.7.10. I have discussed the October 2025 UK Asbestos Working Party update with each of Soteria and DIUK. Both Soteria and DIUK have considered the update, which highlighted that, across the industry, there has been an increase in the average cost of mesothelioma claims but a reduction in claims frequency. Soteria and DIUK have considered this in the context of their existing reserving approach and have concluded that there is currently no evidence to suggest that any change is required to their reserves.

5.7.11. I consider Soteria's and DIUK's reserves to both be within the range of reasonable best estimates given the nature of the underlying business including its inherent uncertainty. On the face of it, as DIUK's gross of reinsurance reserve estimates for the Transferring Soteria Business are lower than Soteria's, this may appear to suggest a fall in reserve strength post-transfer. However, my view is that this difference is reasonable given the inherent uncertainty in the liabilities, and both Soteria's and DIUK's estimates are within the range of reasonable best estimates that I would expect for this business. I have also considered adverse reserving scenarios in section 6.10, which are applied separately to each of Soteria and DIUK's reserves. I have also considered a scenario showing the impact on DIUK's Day 0 and Day 1 projections if DIUK was to adopt Soteria's view of the reserves in section 6.10.

5.7.12. In addition, an external actuarial review of DIUK's reserving approach and analysis for Mesothelioma claims performed as part of its actuarial due diligence provided support for DIUK's methodology and assumptions. See paragraph 5.6.8 for more detail on this external actuarial review. This supports my view that DIUK's estimates are within the range of reasonable best estimates.

DIUK's actual versus expected experience for the Transferring Soteria Business

5.7.13. DARAG performed a detailed reserve review of the Transferring Soteria Business as part of its due diligence (as at 31 May 2024) ahead of the commencement of the LPT agreement. Since then, DIUK has performed a further detailed reserve review of the Transferring Soteria Business as at 30 September 2025. This review as at 30 September 2025 resulted in a £270,000 increase in estimated ultimate claims for Other Asbestos. All other estimates of ultimate claims remained unchanged from 31 May 2024.

5.7.14. I have had discussions with DIUK's actuarial team to understand the deterioration seen on Other Asbestos claims. I have also been provided with actual versus expected analysis for the Transferring Soteria Business.

5.7.15. The increase in ultimate claims for Other Asbestos was due to an increase in incurred claims, which was predominantly driven by two large claims. For one of these large claims, DIUK has since had confirmation that the claimant is no longer pursuing the claim and the reserve will be released accordingly. The other large claim is asthma-related, with weak links to asbestos exposure, and is likely to be denied. In addition, DIUK's view is that their Other Asbestos average cost per claim assumption is set conservatively relative to historical experience. The reduction in the reserve in respect of the large claim means that there is now a greater allowance for future claims as at 30 September 2025 than there was as at 31 May 2024. On this basis, I am satisfied that the change in ultimate claims and actual versus expected experience seen are due to one-off movements which are within the normal range of volatility I would expect for this business. I have also considered adverse reserving scenarios in section 6.10. On this basis, I conclude that DIUK's reserving process and approach is reasonable.

5.8. Approach for setting Solvency UK technical provisions

5.8.1. I have reviewed the approaches taken by Soteria, DIUK and DLUK to convert the UK GAAP technical provisions into Solvency UK technical provisions (TPs). I have not sought to re-perform the calculation of the TPs or to perform detailed checks of the calculations performed by Soteria and DIUK. Instead, I have focused on the appropriateness of the approach and the reasonableness of the results.

5.8.2. I have focused my review on the areas which, in my experience, are of greatest relevance to an independent reviewer. These include Events Not in Data (ENIDs) and the Risk Margin.

5.8.3. The table below shows the main steps involved in going from UK GAAP technical provisions to Solvency UK TPs for Soteria (based on data as at 30 September 2025) and DIUK and DLUK (based on data as at 31 December 2024).

Steps from UK GAAP to Solvency UK technical provisions

5.8.4. For Soteria, DIUK and DLUK, the Solvency UK TPs comprise the claims provision only, as there is no unearned business. The starting point for the calculation of claims provision is the UK GAAP actuarial best estimate claims reserves. A number of adjustments are applied to these reserves to reflect Solvency UK requirements.

5.8.5. Key adjustments to the claims provision include allowances for ENIDs, future claims handling and investment expenses and reinsurance bad debt. Future cashflows are discounted using the rates prescribed by the PRA.

5.8.6. A risk margin is added to reflect the notional cost of capital required to support the run-off of liabilities.

5.8.7. I discuss Soteria's, DIUK's and DLUK's approaches to these adjustments in the following sections. The tables below show the walk-through from UK GAAP reserves to Solvency UK net technical provisions.

Soteria (as at 30 September 2025)

£m	Gross of reinsurance	Net of reinsurance*
UK GAAP reserves	171.8	105.5
Removal of management margin	(6.6)	(6.6)
Removal of UK GAAP discount credit	103.3	52.4
ENIDs	6.6	1.9
Change in expenses	17.5	36.2
Future premium receivable	0.4	0.4
Reinsurance default	0.0	0.1
Solvency UK discount credit	(127.8)	(69.1)
Quota share*	0.0	(3.8)
Solvency UK TPs excluding risk margin (A)	**165.1**	**116.9**
Solvency UK risk margin (B)	**5.0**	**5.0**
Solvency UK TPs including risk margin (A + B)	**170.1**	**121.9**

** Note Soteria's net of reinsurance UK GAAP provisions are gross of their Quota Share (QS) reinsurance, but net of all other reinsurance. The quota share premium and recoveries are allowed for within the Solvency UK TPs and are included in the "quota share" line.*

DIUK (as at 31 December 2024)

£m	Gross of reinsurance	Net of reinsurance
UK GAAP reserves	26.4	4.0
Removal of UK GAAP discount credit	0.6	0.1
ENIDs	0.0	0.0
Reinsurance default	0.0	(0.01)
Solvency UK discount credit	(5.8)	(0.9)
Solvency UK TPs excluding risk margin (A)	21.2	3.3
Solvency UK risk margin (B)	0.3	0.3
Solvency UK TPs including risk margin(A + B)	21.6	3.6

DLUK (as at 31 December 2024)

£m	Gross of reinsurance	Net of reinsurance
UK GAAP reserves	2.7	2.7
Removal of UK GAAP discount credit	0.0	0.0
ENIDs	0.0	0.0
Reinsurance default	0.0	0.0
Solvency UK discount credit	(0.2)	(0.2)
Solvency UK TPs excluding risk margin (A)	2.6	2.6
Solvency UK risk margin (B)	0.2	0.2
Solvency UK TPs including risk margin (A + B)	2.7	2.7

Events Not In Data (ENIDs)

5.8.8. Soteria includes an allowance for ENIDs within the TPs because, as is typical for most insurers, the historical claims experience used to inform the reserving projections does not typically provide sufficient implicit allowance for extremely rare claim events.

5.8.9. As at 30 September 2025, Soteria's ENID loads are £6.6m on a gross of reinsurance basis (c. 4% of the total gross best estimate technical provisions) and £1.9m on a net basis (c. 2% of the total net best estimate technical provisions).

5.8.10. Soteria's ENIDs allowance is set based on a scenario approach using a top-down framework that considers its most material risks. The scenarios considered for this purpose include: the impact of an increased inflationary environment, a heightened legislative environment leading to an uplift in claims costs or an increased propensity for claims to settle as PPOs, increased life expectancies for PPOs and the emergence of new latent claims.

5.8.11. Overall, I am satisfied that Soteria's ENIDs allowance is reasonable and proportionate and is in line with approaches commonly used in the market. Soteria's ENIDs loading as a percentage of the total best estimate technical provisions is not expected to change materially as a result of the Proposed Transfer.

5.8.12. DIUK and DLUK do not include explicit allowances for ENIDs within their TPs. This is not in line with common market practice. I have had discussions with DIUK's and DLUK's actuarial team to challenge this approach and to understand how DIUK and DLUK have gained comfort in the overall technical provisions.

5.8.13. DIUK and DLUK have explained to me that they have historically aimed to implicitly allow for ENIDs within their reserving approach and assumptions. However, DIUK has drafted a new policy outlining how they will ensure ENIDs are fully and explicitly considered going forward. For new portfolios, DIUK will be holding an explicit ENID load going forward, and work is currently underway to determine an ENID load to include within DIUK's Q4 2025 technical provisions. I will provide an update on this in my Supplementary Report.

5.8.14. With regard to DIUK's existing approach, DIUK has provided me with its rationale for not holding an explicit allowance for ENIDs, particularly for the Transferring Soteria Business. DIUK's view is that their best estimate reserving calculation has been calibrated to explicitly consider tail outcomes across a range of assumptions, and that therefore the reserves include an implicit allowance for ENIDs. For example, DIUK considers the work of the UK Asbestos Working Party (AWP) and DIUK's view is that their selected assumptions are drawn from large datasets that include extreme outcomes.

5.8.15. Not including an explicit allowance for ENIDs within TPs is not in line with common market practice. However, DIUK and DLUK have informed me that there are other factors which may at least partially offset this. For example, as discussed below, DIUK and DLUK use the Solvency II 6% pa Cost of Capital rate in their calculation of the risk margin, rather than the Solvency UK 4% pa Cost of Capital rate. All else being equal, this means that DIUK's and DLUK's risk margins are higher than they would be if they used the 4% pa rate. In addition, DIUK and DLUK consider that their total Solvency II TPs include an implicit allowance for ENIDs due to the approaches used to set reserves.

5.8.16. Soteria's ENID load as at 30 September 2025 was c. 2% of the total net best estimate technical provisions, and I am satisfied that Soteria's ENIDs allowance is reasonable and proportionate. Given the low materiality of Soteria's ENIDs loading (and that typically seen in the market), and that DIUK is expected to be very well capitalised immediately after the Proposed Transfer, I am satisfied that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer in this respect. I will provide an update on this in my Supplementary Report.

Risk margin

5.8.17. The risk margin within the TPs under Solvency UK represents the amount in addition to the best estimate provisions that a third-party insurer would require to take over the insurance obligations of an insurer.

5.8.18. Soteria, DIUK and DLUK calculate the risk margin as the present value of the cost of holding the SCR over the lifetime of insurance liabilities were they to be transferred to a (notional) reference undertaking who then effectively manages the transferred business. Soteria uses the Solvency UK prescribed Cost of Capital rate of 4% pa in excess of risk-free returns, whilst DIUK and DLUK use the Solvency II prescribed Cost of Capital rate of 6% pa in excess of risk-free returns. The risk margin is then allocated to each line of business in proportion to the SCR calculated individually to each line of business. DIUK and DLUK's use of the Solvency II prescribed Cost of Capital rate of 6% pa in excess of risk-free returns is in line with the DARAG Group-wide assumption. However, DIUK and DLUK have informed me that they will be considering moving to the 4% pa Solvency UK assumption going forward. I will provide an update on this in my Supplementary report.

5.8.19. Soteria's risk margin is £5.0m (4% of the total net best estimate technical provisions) as at 30 September 2025. DIUK's and DLUK's risk margins are £0.3m (9%) and £0.2m (8%) of the total net best estimate technical provisions as at 31 December 2024.

5.8.20. Soteria's, DIUK's and DLUK's risk margin allowances are not expected to change materially as a result of the Proposed Transfer.

5.8.21. LCP's market review of Solvency II reporting as at 2023 year-end, based on 100 non-life insurers in the UK and Ireland, showed that, across the market, the risk margin was c. 6% of total net best estimate technical provisions.

5.8.22. Soteria's risk margin (as a percentage of the net best estimate technical provisions) is lower than the market average. However, LCP's market review showed that the risk margin as a percentage of the net best estimate technical provisions varied by line of business, and was on average lower for Soteria's most material line of business (3% for motor vehicle liability).

5.8.23. DIUK's risk margin (as a percentage of the net best estimate technical provisions) is higher than the market average. However, this is largely driven by the relatively high proportion of reinsurance recoverables, predominantly in respect of large claims, which significantly reduces the net best estimate technical provisions compared to the gross. In addition, DIUK uses the Solvency II Cost of Capital rate of 6% pa in excess of risk-free returns, whereas the majority of insurers in LCP's market review used the Solvency UK Cost of Capital rate of 4% pa in excess of risk-free returns. All else being equal, using the 6% pa Cost of Capital rate means that DIUK and DLUK's risk margin is higher than it would be if they were to use the 4% pa rate. I have therefore concluded that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

5.8.24. DLUK's risk margin as a percentage of the net best estimate technical provisions is in line with that typically observed for other insurers in the market.

5.8.25. I have reviewed the approach adopted by both Soteria and DIUK for calculating the risk margin. In my experience, I consider:

- DLUK's risk margin as a percentage of the net best estimate technical provisions to be in line with that typically held by other insurers in the market.
- Soteria's risk margin as a percentage of the net best estimate technical provisions to be in line with that typically held by insurers writing similar lines of business;
- DIUK's risk margin as a percentage of the net best estimate technical provisions to be explained by the nature of the net liabilities and the use of the Solvency II Cost of Capital rate of 6% pa in excess of risk-free returns; and
- The approach used to calculate Soteria's, DIUK's and DLUK's risk margins to be appropriate given the nature of the liabilities.

Conclusion on Solvency UK technical provisions

5.8.26. In my opinion, the approach used by Soteria to calculate the Solvency UK TPs is appropriate.

5.8.27. DIUK and DLUK do not include explicit allowances for ENIDs within their TPs. This is not in line with common market practice. DIUK and DLUK have explained to me that they have historically aimed to implicitly allow for ENIDs within their reserving approach and assumptions. However, DIUK has drafted a new policy outlining how it will ensure ENIDs are fully and explicitly considered going forward. For new portfolios, DIUK will be holding an explicit ENID load going forward, and work is currently underway to determine an ENID load to include within DIUK's Q4 2025 technical provisions.

5.8.28. DIUK and DLUK have also informed me that there are other factors which may at least partially offset this. For example, DIUK and DLUK use the Solvency II 6% pa Cost of Capital rate in their calculation of the risk margin, rather than the Solvency UK 4% pa Cost of Capital rate. All else being equal, this means that DIUK's and DLUK's risk margins are higher than they would be if they used the 4% pa rate.

5.8.29. Other than as set out in the two points above regarding ENIDs and the risk margin, in my opinion, the approaches used by DIUK and DLUK to calculate the Solvency UK TPs are appropriate.

5.9. Key uncertainties when setting provisions

5.9.1. The ultimate cost of settling general insurance claims is subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim), including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

5.9.2. Below I have described some of the key uncertainties in setting the provisions. The uncertainties in this section are not intended to represent an exhaustive list. Rather, they highlight the most material areas of uncertainty for Soteria, DLUK and DIUK. Other additional sources of uncertainty that could impact the provisions may emerge in the future.

5.9.3. In section 6, where I discuss my considerations regarding capital, I have considered the impact of various adverse scenarios on each of Soteria, DLUK and DIUK. These include a number of scenarios relating to uncertainty in the reserves.

5.9.4. There are several uncertainties in setting provisions for the lines of business written by Soteria, DLUK and DIUK:

- The Existing DIUK Business and the Transferring Soteria Business are exposed to latent diseases including asbestos-related diseases, such as mesothelioma, and deafness. It can take 40 years or more before symptoms of certain asbestos-related diseases emerge. Such diseases are often fatal, and compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future and there is significant uncertainty in the number and average cost of future claims.
- The Existing DIUK Business and the Non-Transferring Soteria Business are exposed to PPOs. Reserving for PPOs requires a number of key assumptions, which are subject to uncertainty. For example, a different mix of claims than expected, such as a higher proportion of young claimants with longer life expectancies, could materially impact the value of the PPO liabilities. There is also uncertainty around longevity, Annual Survey of Hours Earnings (ASHE) inflation, investment return, and propensity (ie the likelihood of claims settling as PPOs as opposed to being settled as lump sums).
- In addition to PPOs, a significant portion of the reserves for the Non-Transferring Soteria Business relates to large bodily injury claims. These claims typically take many years to settle and are exposed to risks including uncertainty in medical and care cost inflation, legal or judicial developments, and potential future changes in the Personal Injury Discount Rate.
- There is potential for increases in the number and average cost of claims, for example due to court awards setting precedents, or the development of new medical treatments.
- Historical claims trends can in some cases not be a reliable guide for future projections due to changing external and internal factors.
- General price inflation rates have returned to a more normal level compared to recent years, but remain above the long-term Bank of England target of 2% for the Consumer Price Index. Average costs of settling claims typically inflate at a faster rate than general prices. Both price inflation and claims inflation are subject to future uncertainty. Given the long-term nature of liabilities, reserves for the Non-Transferring Soteria Business, Transferring Soteria Business and the Existing DIUK Business are subject to heightened uncertainty around inflation.
- The net of reinsurance provisions for the Existing DIUK Business (£3.4m) are significantly lower than the gross provisions (£24.5m). This is due to large reinsurance recoveries on the Mundipharma claim (£18.2m recoveries) and the single PPO claim (£2.8m recoveries). There is a risk that default, delay or dispute in these recoveries could lead to deterioration in the net provisions. The majority of DIUK's reinsurance panel is A or A+ rated, which helps to mitigate the risk of default. In section 6.10, I have considered the impact of a scenario involving the default of DIUK's largest reinsurer with a 50% recovery.

5.9.5. DIUK regularly reviews sources of uncertainties as part of their reserving reports and Actuarial Function Report. Their reserving reports also consider the impact of a range of adverse scenarios on the reserves, such as adverse inflation outcomes, a deterioration in asbestos reserves or adverse developments in other diseases.

5.10. Current reserving process and governance

Soteria – reserving process and governance

5.10.1. Soteria's reserving is performed on a quarterly basis by MISL's actuarial team, with peer review by the Soteria Chief Actuary. The reserves are then presented to and signed off by the Soteria Quarterly Reserving Committee (QRC).

5.10.2. The purposes of the Quarterly Reserving Committee include supporting the Chief Actuary in signing off the actuarial best estimate reserves, supporting the Chief Financial Officer in determining the appropriate level of management margin, and supporting the Chief Actuary in reviewing and approving the reserving approach, methodology and modelling.

5.10.3. In addition to the in-house review of reserves, Soteria commissions an independent external reserve review once every two years. The latest review was based on data as at 30 June 2025 (see section 5.4 for detail). There is also an annual external audit of the UK GAAP reserves (last performed as at 31 December 2024).

DIUK and DLUK – reserving process and governance

5.10.4. DIUK and DLUK's reserving is performed in line with the DARAG Group reserving policy.

5.10.5. Reserves are reviewed on at least an annual basis. The reserving exercise is usually carried out in Q3 and Q4. Deep dive reviews to update reserving models are carried out using a risk-based approach depending on the performance of the portfolio or at the request of the reserve committee. New portfolios are subject to a deep dive analysis by the second quarter after the portfolio is onboarded. For all DARAG portfolios with reserves over €50m written since 2023, actual experience is tracked against pricing assumptions.

5.10.6. The actuarial department recommends reserves to the Reserving Committee, which meets quarterly. The board is responsible for setting reserves, but in most cases this is delegated to the Reserving Committee.

5.10.7. The Reserving Committee considers, challenges and makes decisions regarding the UK GAAP reserves and the underlying methodology and assumptions. The Audit Committee discusses and opines on the reserves and key judgements recommended by the Reserving Committee, to make recommendations to the board as a second line of defence.

5.10.8. External reserve reviews are carried out each year end by an external consultant, and the external review partner is reviewed at least every three years. The latest external review commissioned by DIUK was dated 10 January 2025 and covered the mesothelioma-related claims within the Transferring Soteria Business.

5.10.9. There is regular discussion between the actuarial, claims and finance departments. The claims team inform the actuarial team of material claim movements and answer any questions raised by the actuarial team ahead of the reserve committee meetings. A meeting is also held with the finance department prior to the reserve committee meetings to discuss data issues and any other relevant matters.

5.11. Future reserving approach and governance

5.11.1. Soteria has confirmed that it plans to use the same approach to reserving for the Non-Transferring Soteria business after the Proposed Transfer.

5.11.2. Since another entity in the DARAG Group already reinsures the Transferring Soteria Business via the LPT agreement, DARAG already reserves for this business pre-transfer. Immediately prior to the Proposed Transfer, there will also be a QS agreement in place between DAG and DIUK whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. Immediately after the Proposed Transfer, the LPT and QS reinsurance agreements will automatically come to an end, and a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. Therefore, effectively, the economic position will be similar immediately before and after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business. DARAG has confirmed that it plans to use the same approach to reserving for the Transferring Soteria Business and its existing business after the Proposed Transfer. DIUK has also informed me that it is not planning any changes to the governance process for reserving.

5.11.3. The Transferring DLUK Business will be transferring from one entity to another entity in the same DARAG group. DIUK and DLUK have confirmed that there will be no change in reserving approach for the Transferring DLUK Business as a result of the Proposed Transfer.

5.12. Overall conclusion: reserving considerations

5.12.1. I set out below my overall conclusions related to reserving. These reserving considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on the level of capital held, and a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

Non-Transferring Soteria Policyholders

5.12.2. I have concluded that the Non-Transferring Soteria Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used to calculate the UK GAAP and Solvency UK technical provisions for Soteria's Non-Transferring Business are appropriate, and Soteria has confirmed that these will be materially unchanged post transfer.
- The results of an external independent review of reserves as at 30 June 2025 were c.£5m (8%) lower than Soteria's best estimate net provisions, and c. £13m (10%) lower than Soteria's booked net provisions (for the reserves within scope of the review). The external review also concluded that Soteria's assumptions and approach are reasonable for the remaining classes of business not independently projected. This supports the level of provisions held by Soteria in respect of the Non-Transferring Soteria Business.
- The Transferring Soteria Business is relatively small (c. 11%) compared to Soteria's total gross provisions and is already reinsured by DAG through the LPT. As such, the Proposed Transfer will have a limited impact on the Non-Transferring Soteria Policyholders.
- Soteria has confirmed that the future reserving process and governance for Non-Transferring Soteria Policyholders will be unchanged post-transfer.

Non-Transferring DLUK Policyholder

5.12.3. I have concluded that the Non-Transferring DLUK Policyholder will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The only remaining DLUK policy following the Proposed Transfer will be the intra-group one-off inwards reinsurance agreement with DAG (another entity within the same DARAG group). This reinsurance contract between DLUK and DAG will be commuted after the Effective Date of the Proposed Transfer.
- DLUK has confirmed that there will be no change in reserving approach for the Non-Transferring DLUK Business as a result of the Proposed Transfer.

Transferring Soteria Policyholders

5.12.4. I have concluded that the Transferring Soteria Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used by DIUK to calculate the UK GAAP technical provisions for the Transferring Soteria Business are appropriate, and DIUK has confirmed that these will be materially unchanged post transfer. I have identified some areas of DIUK's approach to calculating the Solvency UK technical provisions that are not in line with common market practice, for example not including explicit allowances for ENIDs. However, DIUK has drafted a new policy outlining how it will ensure ENIDs are fully and explicitly considered going forward, and work is currently underway to determine an ENID load to include within DIUK's Q4 2025 technical provisions. Overall, given that DIUK is expected to be very well capitalised immediately after the Proposed Transfer, I am satisfied that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer in this respect. I will provide an update on this in my Supplementary Report.
- On the face of it, as DIUK's gross of reinsurance reserve estimates for the Transferring Soteria Business are lower than Soteria's, this may appear to suggest a fall in reserve strength post-transfer. However, my view is that this difference is reasonable given the inherent uncertainty in the liabilities, and both Soteria's and DIUK's estimates are within the range of reasonable best estimates that I would expect for this business.

- In addition, an external actuarial review of DIUK's reserving approach and analysis for Mesothelioma claims performed as part of its actuarial due diligence provided support for DIUK's methodology and assumptions. This supports my view that DIUK's estimates are within the range of reasonable best estimates.
- Transferring Soteria Policyholders will move from being a policyholder of Soteria, whose liabilities are reinsured by DAG and DIUK through the LPT and QS agreements, to become direct policyholders of DIUK following the Proposed Transfer.
- DIUK has confirmed that the future reserving process and governance for DIUK will be unchanged post-transfer.

Transferring DLUK Policyholders

5.12.5. I have concluded that the Transferring DLUK Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- The Transferring DLUK Policyholders will remain within the DARAG Group and DIUK is subject to the same group-wide policies as DLUK.
- I am satisfied that the approaches used by DARAG to calculate the UK GAAP and Solvency UK technical provisions for the Transferring DLUK Business are appropriate, and DIUK and DLUK have confirmed that these will be materially unchanged post-transfer.

Existing DIUK Policyholders

5.12.6. I have concluded that the Existing DIUK Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer. My key reasons are as follows:

- I am satisfied that the approaches used by DIUK to calculate the UK GAAP technical provisions for the Transferring Soteria Business are appropriate, and DIUK has confirmed that these will be materially unchanged post transfer. I have identified some areas of DIUK's approach to calculating the Solvency UK technical provisions that are not in line with common market practice, for example not including explicit allowances for ENIDs. However, DIUK has drafted a new policy outlining how it will ensure ENIDs are fully and explicitly considered going forward, and work is currently underway to determine an ENID load to include within DIUK's Q4 2025 technical provisions. Overall, given that DIUK is expected to be very well capitalised immediately after the Proposed Transfer, I am satisfied that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer in this respect. I will provide an update on this in my Supplementary Report.
- There is currently an independent external review being performed to explore DIUK's exposure to large claims. This could potentially lead to a change in DIUK's reserves as at 31 December 2025. Alongside this, DIUK also plans to review the higher-than-expected NIHL claim numbers and the impact on assumptions in the updated reserves as at 31 December 2025. I intend to review DIUK's reserves in the context of these reviews and I will report on this in my Supplementary Report.
- DIUK is already exposed to the Transferring Soteria Business through the QS agreement between DAG and DIUK pre-transfer. The Transferring DLUK Business is very small relative to the Existing DIUK Business. As such, the Proposed Transfer will have no material impact on the Existing DIUK Policyholders.
- DIUK has confirmed that the future reserving process and governance for DIUK will be unchanged post-transfer.

6. Capital considerations

6.1. Introduction to insurance capital setting

6.1.1. A key reason why insurers hold capital is to withstand adverse or extreme levels of claims and other losses. The capital is held in excess of the provisions for policyholders' claims and for the other costs associated with running an insurer.

6.1.2. A key metric under Solvency UK Regulations is the Solvency Capital Requirement (SCR). This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (ie a 1 in 200 probability adverse outcome). Firms are required to hold capital equal to at least 100% of the SCR.

6.1.3. An insurer's SCR coverage ratio is calculated as the available capital in excess of provisions (also known as Own Funds or Eligible Own Funds), divided by the SCR. This is a measure of capital strength, with a higher ratio indicating there is more capital available per £ of capital required. The SCR coverage ratio does not capture all aspects of policyholder protection, but a higher coverage ratio indicates more protection, all else being equal.

6.1.4. For Soteria and DIUK, I consider the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security before and after the transfer for the following reasons:

- I consider the SCR to be a suitable measure for the overall risks of Soteria and DIUK;
- The SCR coverage ratio is an objective measure of the financial strength of an insurer that can be compared on a consistent basis between insurers or for an insurer at different points in time; and
- The SCR is a risk-based metric that is disclosed to both regulators and the public.

6.1.5. In addition to the SCR, another key measure of capital under Solvency UK is the Minimum Capital Requirement (MCR). The MCR is calculated using a formula based on volumes of premiums and Solvency UK technical provisions. For non-life insurers, the MCR typically tends to be between 25% and 45% of the SCR. Note that the MCR is subject to a minimum of £2.4m or £3.5m depending on the business written. This minimum typically only applies to the smallest insurers. Soteria's MCR as at 30 September 2025 was £8.3m and DIUK and DLUK's MCR as at 30 June 2025 was £3.5m.

6.1.6. Firms need to hold capital equal to at least 100% of the greater of the SCR and the MCR. The purpose of the MCR is to ensure that firms are holding at least a minimum level of capital. Breaching the MCR would result in more intensive regulatory intervention than would be the case for a breach of the SCR.

6.1.7. The MCR coverage ratio is calculated as the available capital in excess of provisions divided by the MCR. Soteria's MCR coverage ratio as at 30 September 2025 was 1,154%. DIUK's and DLUK's MCR coverage ratios as at 30 June 2025 were 156% and 147% respectively. Note that as at 30 June 2025, DIUK's and DLUK's MCRs were higher than their SCRs, so the MCRs applied whereas, for Soteria, as at 30 September 2025, the SCR was higher than that MCR, so the SCR applied. This means Soteria's MCR coverage ratio was materially higher than its SCR coverage ratio and materially higher than DIUK's and DLUK's MCR coverage ratios. Soteria and DIUK are projected to be very well capitalised on this measure immediately pre- and post-transfer and through to 2029 and 2028 respectively.

6.1.8. As at 30 June 2025, DLUK's MCR was higher than its SCR. DLUK's MCR is projected to continue to be higher than its SCR both pre- and post-transfer. Therefore, I have considered the MCR coverage ratio as the key measure to consider as part of my assessment of policyholder security before and after the transfer for DLUK.

6.1.9. DIUK's MCR was also higher than its SCR as at 30 June 2025. However, at Day 0 (immediately prior to the Proposed Transfer) and Day 1 (immediately after the Proposed Transfer), DIUK's SCR is projected to be higher than its MCR. I have, therefore, considered the SCR coverage ratio an appropriate measure to consider as part of my assessment of policyholder security before and after the Proposed Transfer for DIUK, and have not considered the MCR further as part of my assessment of capital considerations for DIUK.

6.1.10. For Soteria both pre-transfer and post-transfer, the SCR is higher than the MCR. Therefore, for Soteria, I have not considered the MCR further as part of my assessment of capital considerations, and my primary focus is on the SCR.

6.1.11. My assessment of the capital considerations regarding policyholder security is also supported by consideration of capital beyond a "one-year" view (section 6.4) and a review of the impact of a range of adverse scenarios on each of Soteria, DIUK and DLUK (section 6.10).

Definition of "well capitalised" and "very well capitalised"

6.1.12. For the purposes of this report, I describe a company as "sufficiently capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is between 100% and 150%. I describe a company as "well capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is between 150% and 200% and "very well capitalised" if the higher of the SCR coverage ratio and MCR coverage ratio is in excess of 200%.

6.2. My considerations related to capital

6.2.1. As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for Soteria, DIUK and DLUK;
- whether there are expected to be any material adverse changes in the strength of capital protection for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post- the Proposed Transfer for Soteria and DIUK and the projected MCR coverage ratios for DLUK); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

6.2.2. To make these assessments, I have considered the following areas:

- Soteria's, DIUK's and DLUK's approaches to calculating capital requirements (section 6.4);
- Capital requirements beyond a "one-year" view (section 6.4);
- Components of capital requirements (section 6.5);
- Risk appetites for Soteria, DIUK and DLUK (section 6.6);
- Standard formula appropriateness for Soteria, DIUK and DLUK (section 6.7);
- Projected SCR coverage ratios as at the Effective Date (section 6.8);
- The planned capital structures for Soteria, DIUK and DLUK (section 6.9); and
- The SCR under stressed scenarios (section 6.10).

6.3. Approach to my review

6.3.1. I have reviewed documents provided by Soteria, DIUK and DLUK relating to the calculation of capital requirements and projected coverage ratios. A list of the key data and documentation reviewed is provided in appendix 4.

6.4. Calculating capital requirements

6.4.1. For Soteria, DIUK and DLUK, the level of capital required is set in line with the Solvency UK standard.

6.4.2. Under Solvency UK, there are three ways in which the SCR can be calculated:

- Standard formula: under this approach, the SCR is set using a prescribed calculation and parameters, as specified in the Solvency UK/II Regulations. Within the standard formula framework, insurers can use undertaking-specific parameters (USPs) to tailor specific aspects of the parameterisation of the calculation to better reflect their risk profile.
- Internal model: under this approach, the SCR is set using the insurer's own internal capital model. The internal model is developed and parameterised by the insurer to reflect their specific business.
- Partial internal model: under this approach, the SCR is set using a combination of the standard formula and the insurer's own internal capital model. Some aspects of the SCR are calculated using the internal model, and the remainder is calculated using the standard formula.

6.4.3. The choice of approach is made by the insurer. An insurer needs to obtain regulatory approval in order to use USPs, an internal model or a partial internal model to calculate its SCR. An insurer does not need approval to calculate its SCR using the standard formula without USPs. All insurers are required to complete their own assessment of the appropriateness of the standard formula for their own business.

How each firm calculates its SCR

6.4.4. Soteria, DIUK and DLUK all use the standard formula to calculate their SCRs, with no use of USPs.

Capital requirements beyond a "one-year" view

6.4.5. The SCR is a "one-year" view of risk, covering risks that insurers face over the next 12 months.

6.4.6. Soteria also considers its Economic SCR (ECR), which is Soteria's own internal view of the ultimate capital requirement. The ECR is parameterised based on the standard formula SCR, but taking into account events that could happen over the full run-off of the liabilities (rather than events that could happen over the next year), and excluding the risk margin.

6.4.7. In addition, Soteria has provided projections of SCR coverage ratios until 31 December 2029 and DIUK and DLUK have provided projections of SCR coverage ratios until 31 December 2028. These projections indicate that Soteria is projected to remain at least well capitalised over this period. DIUK is projected to remain well capitalised in a scenario where DIUK takes on additional portfolios in line with its business plan, or very well capitalised in an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer. DLUK is projected to remain sufficiently capitalised over this period.

6.5. Components of capital requirements

6.5.1. The key components of the SCR are:

- *Underwriting risk:* the risk that the value of insurance claims proves to be higher than expected. This includes the risk of an increase in claims and uncertainties related to existing liabilities included on the balance sheet (reserving risk). This also includes the risk of experience being worse than planned for business that will be earned or written over the following year (premium risk).
- *Operational risk*: the risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would include the risk of fraud or IT failure.
- *Market risk*: the risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this includes the risk of falls in the value of investment assets that are being held to make future claims payments.
- *Counterparty default risk:* the risk of defaults or downgrades by counterparties that either owe the insurer money or hold money on its behalf. For example, this includes the risk of the failure of a reinsurer or retrocession reinsurer.
- *Diversification allowance:* this is a negative adjustment to the total SCR, recognising that the other key risks are not necessarily expected to all occur at the same time.

6.5.2. For Soteria, the most material component of the SCR as at 30 September 2025 is underwriting risk. This is made up entirely of reserving risk, which is the risk of an increase in claims and uncertainties related to the existing earned liabilities included on the balance sheet.

6.5.3. For DIUK, the most material component of the SCR as at 30 June 2025 is market risk, largely driven by spread risk and interest rate risk. These risks are mainly associated with DIUK's investment-grade bond portfolio.

6.5.4. There is no premium risk for Soteria, DIUK or DLUK given that no new business is being written or earned over the following year.

6.5.5. Soteria, DIUK and DLUK have provided SCR projections that contain the SCR risk components. I have summarised the key risks as a percentage of the total SCR, both pre-transfer and post-transfer, below. I have also shown the figures as at 30 September 2025 for Soteria and as at 30 June 2025 for DIUK and DLUK (the latest available figures at the time of my writing of this report).

Soteria: Projected breakdown of SCR risk components pre- and post-transfer

Risk components	As at 30 September 2025 £m	% of SCR	Projected Day 0 £m	% of SCR	Projected Day 1 £m	% of SCR
Non-life Underwriting risk	15.2	*53%*	12.0	*53%*	12.0	*54%*
Life and Health Underwriting risk	1.6	*5%*	1.6	*7%*	1.6	*7%*
Counterparty default risk	5.9	*21%*	6.1	*27%*	5.8	*26%*
Market risk	11.6	*41%*	7.3	*33%*	7.3	*33%*
Operational risk	3.4	*12%*	2.8	*12%*	2.8	*13%*
Diversification and other adjustments	(9.2)	*(32%)*	(7.3)	*(33%)*	(7.2)	*(32%)*
SCR	**28.5**	***100%***	**22.5**	***100%***	**22.3**	***100%***

Source: Soteria

6.5.6. The most material component of the SCR for Soteria is non-life underwriting risk, which represents 53% of the 30 September 2025 SCR and 54% of the SCR post-transfer.

6.5.7. Soteria's SCR is projected to decrease from £28.5m at 30 September 2025 to £22.5m immediately prior to the Proposed Transfer. This is driven by a reduction in non-life underwriting risk due to the ongoing projected run-off of reserves. There is also a projected reduction in market risk due to an investment rebalancing exercise following a planned dividend. The rebalancing exercise is to ensure that the remaining investments following the dividend maintain compliance with Soteria's investment mandate. This results in a reduction in one of Soteria's lower-rated investments and, therefore, a reduction in market risk.

6.5.8. Immediately post-transfer, the SCR decreases slightly to £22.3m. This is driven by a reduction in counterparty default risk due to the termination of the LPT agreement on the Effective Date of the Proposed Transfer, as this is no longer required once the Proposed Transfer is in effect.

DIUK: Projected breakdown of SCR risk components pre- and post-transfer

Risk components	As at 30 June 2025 £m	% of SCR	Projected Day 0 £m	% of SCR	Projected Day 1 £m	% of SCR
Non-life Underwriting risk	0.4	28%	2.0	21%	2.0	19%
Life and Health Underwriting risk	0.4	32%	0.3	4%	0.3	3%
Counterparty default risk	0.2	19%	0.4	4%	0.3	3%
Market risk	0.5	41%	8.2	86%	8.8	86%
Operational risk	0.3	23%	0.4	4%	0.6	6%
Diversification and other adjustments	(0.5)	(42%)	(1.8)	(19%)	(1.7)	(17%)
SCR	**1.3**	***100%***	**9.5**	***100%***	**10.2**	***100%***
MCR	**3.5**		**3.5**		**3.5**	

Source: DIUK
Note: at 30 June 2025, given that the DIUK SCR was less than the MCR of £3.5m, the MCR applies.

6.5.9. The most material component of the SCR for DIUK is market risk, which represents 41% of the 30 June 2025 SCR and 86% of the pre- and post-transfer SCR. The most material component of DIUK's market risk immediately pre- and post-transfer (ie at Day 0 and Day 1) is concentration risk related to DLUK's and DIGL's equity participation (see detail below). These equity participations also attract currency risk and equity risk.

6.5.10. DIUK's SCR is expected to increase from £1.3m (MCR of £3.5m) at 30 June 2025 to £9.5m immediately prior to the transfer. This is due to:

- the increase in reserves as a result of the 50% QS reinsurance provided by DIUK to DAG in respect of the Transferring Soteria Business prior to the Proposed Transfer;
- DLUK and DIGL (DARAG Insurance Guernsey Limited) (two other DARAG group entities) becoming subsidiaries of DIUK via equity participation prior to the Proposed Transfer. There is also a corresponding increase in eligible own funds due to this re-structuring.

6.5.11. The PRA has approved DLUK becoming a subsidiary of DIUK (DIUK became the beneficial owner of DLUK in March 2026, with the legal title to transfer towards the end of April 2026). For DIGL, I have considered an alternative scenario (scenario L) in section 6.10 which considers the impact on DIUK's SCR coverage ratio if DIGL does not become a subsidiary of DIUK.

6.5.12. DIUK's SCR is expected to increase from £9.5m to £10.2m immediately post-transfer due to:

- An increase in counterparty default risk relating to the 50% QS reinsurance to be provided by DAG to DIUK post-transfer. However, DIUK's counterparty default risk in respect of this QS reinsurance agreement is small because DAG is a well-rated entity, the reinsurance is provided on a funds withheld basis and there is an offsetting agreement in the QS agreement in the case of default.
- An increase in spread risk because of the investment of transferred assets post-transfer. These transferred assets are invested in bonds, which carry a spread risk charge. Pre-transfer, there is a 50% inwards QS reinsurance on a funds-withheld basis, which does not attract spread risk.
- DIUK's underwriting risk is expected to be materially unchanged immediately post-transfer because DIUK's reinsured share of the liabilities from the Transferring Soteria Business are already on DIUK's balance sheet before the Proposed Transfer. The impact of the DLUK Transferring Business on DIUK's SCR is very limited because the DLUK reserves immediately prior to the Proposed Transfer are expected to be close to zero.

6.5.13. As explained in paragraph 6.5.12, following the Proposed Transfer, the Transferring Soteria Business will be reinsured by DAG. Therefore, DIUK's policyholders post-transfer will be exposed to the risk of DAG defaulting on its reinsurance obligations. However, the reinsurance provided by DAG will be on a funds withheld basis. This means that, in the event of a default by DAG, any default would be limited to the amount in excess of the funds withheld asset. In addition, the risks associated with this reinsurance arrangement following the Proposed Transfer are reflected in DIUK's projected Day 1 SCR, which allows for reinsurance default risk.

6.5.14. I have considered the impact of a reserve deterioration combined with default of DAG in section 6.10 (scenario M). This scenario is deliberately conservative in that it assumes 100% loss of the DAG reinsurance recoveries in excess of the funds withheld asset. In reality, DIUK might expect to receive a portion of the reinsurance recovery in a default scenario.

6.5.15. In addition, DAG provides reinsurance to DIGL (one of DIUK's planned subsidiaries). This reinsurance is provided on a funds withheld basis. Within scenario M, as well as considering the impact of DAG default on DIUK's reinsurance recoveries, I have also considered the impact of DAG default on DIGL, and the resulting impact this would have on DIUK's equity participation in DIGL.

6.5.16. Even in this extreme scenario, DIUK is projected to be sufficiently capitalised at Day 1. That is, DIUK would still be expected to be able to meet its SCR and pay its claims in full.

DLUK: Projected breakdown of SCR risk components pre- and post-transfer

	As at 30 June 2025		Projected Day 0		Projected Day 1	
Risk components	£m	% of SCR	£m	% of SCR	£m	% of SCR
Non-life Underwriting risk	0.7	49%	0.5	46%	0.5	46%
Counterparty default risk	0.4	29%	0.3	24%	0.3	24%
Market risk	0.6	48%	0.6	58%	0.6	58%
Operational risk	0.1	6%	0.0	4%	0.0	4%
Diversification and other adjustments	(0.4)	(32%)	(0.3)	(32%)	(0.3)	(32%)
SCR	**1.3**	***100%***	**1.1**	***100%***	**1.1**	***100%***
MCR	**3.5**		**3.5**		**3.5**	

Source: DLUK (converted to GBP)
Note: given that DLUK's SCR is less than the MCR, the MCR applies.

6.5.17. As at 30 June 2025, DLUK's MCR (£3.5m) was higher than its SCR (£1.3m). DLUK's MCR is projected to continue to be higher than its SCR both pre- and post-transfer.

6.5.18. DLUK's SCR is expected to reduce from £1.3m as at 30 June 2025 to £1.1m immediately pre- and post-transfer due to the projected run-off of reserves over the period. DLUK's SCR is expected to be unchanged as a result of the Proposed Transfer because the reserves for the Transferring DLUK Business are expected to be close to zero immediately prior to the Proposed Transfer due to the ongoing commutation of the underlying reinsurance contracts. At each of these dates, the MCR applies.

6.6. Risk appetite for Soteria, DIUK and DLUK

6.6.1. I have reviewed Soteria's, DIUK's and DLUK's Own Risk Solvency Assessments (ORSAs), which, among other things, set out each firm's capital risk appetite.

6.6.2. Soteria's capital risk appetite consists of a range of thresholds and a red/amber/green (RAG) rating, above or below which various management actions may be taken:

- SCR coverage ratio above 170% (Green): Quarterly Board monitoring and able to pay dividends
- SCR coverage ratio above 140% (Green): Quarterly Board monitoring
- SCR coverage ratio between 120% and 140% (Amber): Monthly Board monitoring, detailed planning and potentially take recovery actions.
- SCR coverage ratio below 120% (Red): Monthly Board planning, PRA notification, take recovery actions or begin resolution plan.

6.6.3. Soteria's capital risk appetite was set by the Board in 2023. The appetite was set by considering stress tests and calculating the percentage of SCR that would be required to ensure that the stresses can be covered in the future. A high-level refresh of this exercise was undertaken in 2024, with the conclusion that the existing threshold percentages were still appropriate. The Board most recently approved Soteria's capital risk appetite metrics in March 2025.

6.6.4. As at 30 September 2025, Soteria's SCR coverage ratio was 336%, well in excess of the level at which it is able to make dividends in line with its capital policy. Soteria has provided projections of SCR coverage ratios until 31 December 2029, which include future proposed dividends in line with Soteria's capital risk appetite and dividend extraction policy. These projections indicate that Soteria is projected to remain at least well capitalised over this period.

6.6.5. DIUK's target minimum level of solvency coverage is 122% of the SCR. As at 30 June 2025, DIUK's capital coverage ratio (based on its MCR) was 156%, ie in excess of its target. DIUK has provided projections of capital coverage ratios until 31 December 2028 which indicate that DIUK is projected to remain in excess of its target minimum of 122% over this period.

6.6.6. DLUK's target minimum level of solvency coverage is 122% of the SCR. As at 30 June 2025, DIUK's capital coverage ratio (based on its MCR) was 147%, ie in excess of its target. DLUK has provided projections of capital coverage ratios (based on the MCR) until 31 December 2028 which indicate that DLUK is projected to remain in excess of its target minimum of 122% over this period.

6.7. Standard formula appropriateness for Soteria, DIUK and DLUK

6.7.1. I have considered the appropriateness of the standard formula for Soteria, DIUK and DLUK by:

- Reviewing Soteria's, DIUK's and DLUK's assessments of the appropriateness of using the standard formula for the purposes of setting the SCR.
- Reviewing Soteria's, DIUK's and DLUK's documentation of their standard formula SCR processes and calculations to satisfy myself that the SCRs are being calculated materially in line with the Solvency UK Regulations.

6.7.2. Based on my review, I am satisfied that using the standard formula for the purpose of setting the SCR is appropriate for Soteria, DIUK and DLUK for the purposes of my opinion.

6.7.3. Based on my review, I am satisfied that Soteria's and DLUK's SCR are being calculated materially in line with the Solvency UK Regulations.

6.7.4. My review of DIUK's SCR identified that the calculation of operational risk within the projected Day 0 and Day 1 SCR is different from what I would expect based on my interpretation of the Solvency UK Regulations (see section 6.7.20 for details). However, I understand there are also other factors influencing DIUK's Day 0 and Day 1 projected SCR coverage ratios which may at least partially offset this. Overall, given the expected low materiality of this difference, and the fact that DIUK is projected to be very well capitalised immediately after the Proposed Transfer, I am satisfied that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer. I will be reviewing DIUK's updated financial projections in my Supplementary Report and will provide an update on this area in that report.

Soteria - appropriateness of standard formula

6.7.5. Soteria uses the standard formula to calculate its SCR. I have reviewed Soteria's latest annual standard formula appropriateness report dated September 2025, which concluded that the standard formula is an appropriate representation of Soteria's capital requirement. This conclusion is reviewed annually.

6.7.6. Soteria has concluded that the standard formula remains appropriate for Soteria in run-off. It is recognised that, in run-off, PPO reserves and the associated credit risk from reinsurance are a higher proportion of Soteria's book than an average company that remains open to new business. However, Soteria's view is that this does not in itself make Soteria "non-standard", as there are many run-off entities in existence, and the fundamental nature of these risks does not change in run-off. Therefore, Soteria's view is that the change in proportions of risks does not mean the standard formula is not appropriate for Soteria.

6.7.7. Soteria's standard formula appropriateness assessment was carried out by considering each of Soteria's risks as per its Risk Management Framework. Soteria has considered how each of its risks is covered by the standard formula SCR calculation, both qualitatively and quantitatively. For each risk type, Soteria has identified the relevant standard formula SCR underlying assumptions, identified the key Soteria risk profile drivers, and provided commentary on the appropriateness of the underlying standard formula assumption for the relevant risk profile driver.

6.7.8. Soteria has used this risk-based approach to assess the appropriateness of the standard formula for calculating reserve risk, market risk, counterparty default risk, operational risk, life risk and diversification.

6.7.9. Soteria also considers its Economic SCR (ECR), which is Soteria's own internal view of the ultimate capital requirement. The ECR is parameterised based on the standard formula SCR, but taking into account events that could happen over the full run-off of the liabilities (rather than events that could happen over the next year), and excluding the risk margin. Soteria's ECR is higher than its SCR.

Soteria – review of SCR calculation process

6.7.10. I have reviewed Soteria's documentation of its process for calculating the SCR using the standard formula. I have also been provided with a copy of Soteria's SCR calculation. Soteria's SCR calculation is performed using a proprietary model. The documentation of the SCR calculation process summarises the calculation required for each risk area as well as a log of changes since previous exercises.

6.7.11. Soteria's standard formula SCR calculation is performed on an outsourced basis by MISL with checking and validation undertaken by Soteria. Soteria's actuarial function checks and peer reviews the quarterly calculations of the SCR. No material issues were identified as part of the latest quarterly checking and validation process.

6.7.12. My review did not identify any areas where Soteria's approach to calculating the SCR is materially different from what I would expect based on my interpretation of the Solvency UK Regulations. As a result, I am satisfied that the SCR is being calculated materially in line with the Solvency UK Regulations.

DIUK and DLUK - appropriateness of standard formula

6.7.13. DIUK and DLUK have reviewed the appropriateness of the standard formula for the purpose of calculating the SCR in their 2024 ORSA reports. The boards have determined that the standard formula provides a fair reflection of DIUK's and DLUK's risks, and that their target ratios of 122% add an additional layer of prudence. For both DIUK and DLUK, as at 30 June 2025, the SCR calculated under the standard formula was lower than the MCR, so the MCR applies.

6.7.14. DIUK has determined the appropriateness of the standard formula in its 2024 ORSA report by considering each modelled risk area. DIUK's view by risk area is as follows:

- Reserve risk: DIUK acknowledges that the nature of its reserve risk arises from a small number of discrete and unrelated individual claims or claim types, which may not be reflected within standard formula reserve risk calculations. DIUK has assessed the appropriateness of the standard formula for reserve risk by comparing the overall standard formula reserve risk to a simplified (unapproved) partial internal model approach (referred to as an Own Solvency Needs (OSN) assessment). DIUK's OSN assessment resulted in a modestly higher own solvency need (£0.61m) than the standard formula SCR for reserve risk (£0.44m). Therefore, DIUK has concluded that the standard formula risk charge is an appropriate quantification of reserve risk for DIUK. Although there are a small number of potentially large claims that could impact DIUK's solvency, this risk may be substantially reduced after reinsurance.
- Market risk: DIUK's investments have a profile typical of businesses in the non-life insurance industry. DIUK's view is that the standard formula provides an appropriate quantification of market risk.
- Counterparty default risk: DIUK's counterparty default risk primarily relates to reinsurance. The standard formula quantification approach, which is driven by credit rating, appears appropriate in this context.
- Operational risk: DIUK's risk register suggests that the standard formula operational risk charge is broadly appropriate for DIUK, particularly after consideration of the effects of diversification between different individual operational risks which are assumed to be largely independent of each other.

6.7.15. In addition, DIUK has updated its standard formula appropriateness assessment in its 2025 ORSA report, which takes into account DIUK's exposure to the Transferring Soteria Business. DIUK has assessed the appropriateness of the standard formula for reserve risk by comparing the standard formula reserve risk charge to an independent view informed by modelling reserves using a lognormal distribution (which is a distribution commonly used to model insurance claims). This assessment led DIUK to conclude that the standard formula continues to be appropriate after it is exposed to the Transferring Soteria Business.

6.7.16. DLUK has also determined the appropriateness of the standard formula by considering each modelled risk area. DLUK's view by risk area is as follows:

- Reserve risk: DLUK has compared the standard formula reserve risk charge to an internally derived risk measure based on the historical volatility of the underlying portfolio, and on this basis has concluded that the standard formula is appropriate.
- Market risk: DLUK holds no investments on its balance sheet other than cash, so is not exposed to typical investment risks. DLUK's view is that the standard formula captures currency risk and interest rate risk stresses at an appropriate level to capture DLUK's risk.
- Counterparty default risk: DLUK's counterparty default risk arises from a mixture of external and intragroup exposures, consisting of cash deposits, reinsurance balances and deposits with cedants. DLUK's view is that the standard formula measures these risks appropriately.
- Operational risk: DLUK's risk register suggests that the standard formula operational risk charge is broadly appropriate for DLUK, particularly after consideration of the effects of diversification between different individual operational risks which are assumed to be largely independent of each other.

6.7.17. DIUK and DLUK have also considered their exposure to risks not explicitly considered within the standard formula (including group risk, regulatory and legal risks and strategic risk) in their assessments of the appropriateness of the standard formula for assessing solvency needs.

DIUK and DLUK – review of SCR calculation process

6.7.18. I have had discussions with DIUK and DLUK to understand their approach and process for calculating the SCR. DIUK and DLUK use proprietary software to perform the standard formula SCR calculation. This software includes automated validation and consistency checks. DIUK and DLUK maintain a spreadsheet setting out the process and instructions on how to update each component of the SCR. The software also contains an audit trail capturing who has most recently updated each component, including a time stamp.

6.7.19. The overall SCR, eligible own funds and SCR coverage ratio are reported to the Board. The actuarial team produce a paper summarising the results and explaining key movements since the previous quarter. The Board has overall responsibility for approving the SCR.

6.7.20. I have also performed some sense checks on DIUK's and DLUK's SCR for reasonableness. My review identified that DIUK's calculation of operational risk within the projected Day 0 and Day 1 SCR is different from what I would expect based on my interpretation of the Solvency UK Regulations. DIUK's operational risk and total SCR at Day 0 and Day 1 is approximately £0.3m lower than I would expect. However, I understand there are also other factors influencing DIUK's Day 0 and Day 1 projected SCR coverage ratios which may at least partially offset this. For example, the Cost of Capital rate used to calculate DIUK's risk margin is the Solvency II prescribed rate of 6% pa rather than the Solvency UK rate of 4% pa (see section 5.8 for detail). All else being equal, this means that DIUK's risk margin is higher (and therefore that, all else being equal, the eligible own funds are lower) than would be the case if it used the 4% pa rate. DIUK and DLUK have informed me that they will be considering moving to the 4% pa Solvency UK assumption going forward. I will provide an update on this in my Supplementary report.

6.7.21. Overall, given the expected low materiality of this difference, and the fact that DIUK is projected to be very well capitalised immediately after the Proposed Transfer, I am satisfied that Transferring Soteria Policyholders are not materially adversely affected by the Proposed Transfer. I will be reviewing DIUK's updated financial projections in my Supplementary Report and will provide an update on this in that report.

6.8. Projected SCR coverage ratios for Soteria, DIUK and DLUK

Projected SCR coverage ratios immediately pre- and post-transfer

6.8.1. The Effective Date of the Proposed Transfer is expected to be 31 July 2026.

6.8.2. The table below sets out the projected SCR and coverage ratios, as prepared by Soteria, DIUK and DLUK, immediately before and after the Proposed Transfer ie at Day 0 (31 July 2026) and Day 1 (1 August 2026).

Projections before and after the Proposed Transfer	Own Funds	SCR/MCR	Own Funds less SCR/MCR	SCR/MCR coverage ratio	Movement in coverage ratio
Day 0 – before Transfer					
Soteria £m	64.4	22.5	41.9	286%	
DLUK £m	5.3	3.5	1.8	151%	
DIUK £m	20.5	9.5	11.0	215%	
Day 1 – after-Transfer					
Soteria £m	64.3	22.3	42.0	288%	2%
DLUK £m	5.3	3.5	1.8	151%	0%
DIUK £m	20.5	10.2	10.3	200%	(15%)

Source: Soteria, DIUK and DLUK (converted to GBP)
Note: For DLUK, given that the SCR is projected to be less than the MCR, the MCR applies. The figures shown in the above table are the higher of the SCR and the MCR. For Soteria and DIUK, the SCR is shown. For DLUK, the MCR is shown.

6.8.3. In summary:

- **Non-Transferring Soteria Policyholders:** Soteria's SCR coverage ratio is projected to increase slightly from 286% to 288% immediately after the Proposed Transfer. Therefore I do not consider the security provided to Non-Transferring Soteria Policyholders to be materially adversely affected by the Proposed Transfer.
- **Non-Transferring DLUK Policyholder**: DLUK's SCR coverage ratio is expected to be unchanged at 151% immediately before and after the Proposed Transfer. Therefore I do not consider the security provided to the Non-Transferring DLUK Policyholder to be materially adversely affected by the Proposed Transfer.
- **Transferring Soteria Policyholders**: Transferring Soteria Policyholders will move from an insurer with a 286% SCR coverage ratio to an insurer with a 200% SCR coverage ratio as a result of the Proposed Transfer. I do not consider the security provided to Transferring Soteria Policyholders to be materially adversely affected by this change in SCR coverage ratio as DIUK will still be very well capitalised.
- On the face of it, the reduction in SCR coverage ratio for Transferring Soteria Policyholders from 286% to 200% might appear to be a significant fall in capital strength. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 200% coverage ratio therefore equates to a remote probability of insolvency (ie much less than 0.5%). The reduction in capital coverage ratio from 286% to 200% does not, in my opinion, equate to a material difference in the probability of insolvency.
- **Transferring DLUK Policyholders:** Transferring DLUK Policyholders will move from an insurer with a 151% regulatory capital coverage ratio (based on DLUK's MCR) to an insurer with a 200% SCR coverage ratio as a result of the Proposed Transfer. Therefore I do not consider the security provided to Transferring DLUK Policyholders to be materially adversely affected by the Proposed Transfer.
- **Existing DIUK Policyholders**: DIUK's SCR coverage ratio is projected to reduce from 215% to 200% as a result of the Proposed Transfer. I do not consider the security provided to Transferring Soteria Policyholders to be materially adversely affected by this change in SCR coverage ratio as DIUK will still be very well capitalised.

6.8.4. Soteria and DIUK are expected to be very well capitalised immediately following the Proposed Transfer. DLUK is projected to be sufficiently capitalised immediately following the Proposed Transfer.

Projected SCR coverage ratios after the Proposed Transfer

6.8.5. Soteria, DIUK and DLUK have provided me with their SCR coverage ratio projections following the Proposed Transfer. Soteria has provided projections through to 31 December 2029 and DIUK and DLUK have provided projections through to 31 December 2028.

6.8.6. These projections indicate that Soteria is generally projected to remain very well capitalised (as defined in section 6.1) between Day 1 and 31 December 2029, except when dividends are assumed to be extracted. Even after dividends are extracted, Soteria is projected to remain at least well capitalised. In line with Soteria's dividend extraction policy, dividends are only assumed to be extracted when sufficient surplus capital exists.

6.8.7. DIUK is projected to remain well capitalised in a scenario where DIUK takes on additional portfolios in line with its business plan, or very well capitalised in an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer.

6.8.8. DLUK is projected to remain sufficiently capitalised over this period.

6.8.9. In practice, the actual coverage ratios may be higher or lower than projected depending on claims and other experience. Soteria, DIUK and DLUK will routinely monitor their capital and projected capital position in line with their capital management policies and risk appetite (considered in section 6.6 above). This could also lead to the coverage ratios being higher or lower than projected but they are expected to remain above their risk appetite levels.

Conclusion

6.8.10. Overall, considering all of the above factors, I have concluded that there is no materially adverse impact from the Proposed Transfer for any group of policyholders in terms of capital security.

6.9. The planned capital structures for Soteria, DIUK and DLUK

6.9.1. As at 30 September 2025 for Soteria and 30 June 2025 for DIUK and DLUK, 100% of Soteria's, DIUK's and DLUK's total eligible Own Funds were classified as "unrestricted tier 1", ie the highest quality under the Solvency UK Regulations.

6.9.2. Soteria, DIUK and DLUK have confirmed that the proportion of Eligible Own Funds held across different tiers is not expected to change materially between 30 September 2025 and pre- and post-transfer.

6.10. SCR scenario analysis

6.10.1. I have considered the impact of a range of adverse scenarios for Soteria and DIUK, based on projections prepared by each entity at my request. The scenarios are applied to each firm's own base results ie the results of Soteria's scenario analysis show the impact compared to Soteria's base results and the results of DIUK's scenario analysis show the impact compared to DIUK's base results.

6.10.2. I have considered the impact of each scenario on the Day 0 (ie 31 July 2026) and Day 1 (ie 1 August 2026) SCR coverage ratios for Soteria and DIUK.

6.10.3. I have not considered the impact of adverse scenarios on DLUK due to its low materiality. DLUK's reserves for the Transferring DLUK Business are expected to be close to zero immediately prior to the Proposed Transfer. The Non-Transferring DLUK Business relates to only one policyholder, DAG, which is another DARAG Group entity. In addition, DLUK's SCR is projected to be lower than its MCR at both Day 0 and Day 1, so the MCR applies.

6.10.4. The purpose of the analysis is to assess whether Soteria and DIUK can withstand adverse experience for their business and whether, under these circumstances, each insurer still provides appropriate security to all groups of policyholders. The scenarios do not attempt to represent the full range of possible adverse events to which the insurers may be exposed. Rather, they aim to focus on key areas relevant to Soteria and DIUK.

6.10.5. A 'reverse stress test' has also been considered. This is an extreme scenario which, by design, considers potential events that could lead to the unviability or insolvency of an insurer. In light of the definition of materially adverse in section 2.8, I would consider this scenario to be more "fanciful", rather than "real".

6.10.6. All of the scenarios were specified and reviewed for reasonableness by me, but the calculations have been performed by Soteria and DIUK respectively.

6.10.7. The assessment for each scenario is set out below.

Soteria scenarios

Soteria		Area	SCR coverage ratios Day 0	Impact on Day 0	Day 1	Impact on Day 1
Base result (Soteria's projections)			**286%**		**288%**	
A)	Deterioration of reserves: 20% for Non-Transferring Soteria Business, 40% for Transferring Soteria Business	Reserves	191%	(95%)	199%	(89%)
B)	Deterioration of reserves: 40% for Non-Transferring Soteria Business, 60% for Transferring Soteria Business	Reserves	120%	(166%)	126%	(162%)
C)	Mesothelioma scenario for Transferring Soteria Business: 10% increase in future claim numbers and 1% pa increase in inflation	Reserves	281%	(5%)	288%	0%
D)	PPO scenario for Non-Transferring Soteria Business: 1.5% pa increase in claims inflation, 1.5% pa decrease in discount rate, 5 year increase in life expectancy and 20% more claims settling as PPOs (rather than lump sums) compared to base assumptions	Reserves	66%	(220%)	67%	(222%)
E)	Nominal interest rates fall to 0%	Market	71%	(215%)	102%	(186%)
F)	Adverse market risk scenario: 600 basis points increase in credit spreads and instantaneous 3 notch downgrade of bond portfolio	Market	229%	(57%)	236%	(52%)
G)	A combination of Test A and Test E	Combined reserve and market	45%	(241%)	60%	(229%)
H)	Default of largest external reinsurer with 50% recovery	Reinsurance	277%	(9%)	280%	(8%)
I)	Reverse stress test: 69% deterioration of gross reserves for settled and potential PPOs, no corresponding increase in reinsurance recoveries and default of largest reinsurer	Reverse stress test	2%	(284%)	2%	(287%)

6.10.8. The scenarios are conservative in that they do not allow for any management actions that could mitigate the reduction in SCR coverage ratios. They also do not allow for the potential mitigating effect of any deferred tax assets.

DIUK scenarios

DIUK	Area	SCR coverage ratios Day 0	Impact on Day 0	Day 1	Impact on Day 1
Base result (DIUK's projections)		**215%**		**200%**	
A) Deterioration of reserves: 40% for Transferring Soteria Business and Existing DIUK Business	Reserves	171%	(44%)	160%	(40%)
B) Deterioration of reserves: 60% for Transferring Soteria Business and Existing DIUK Business	Reserves	150%	(65%)	141%	(59%)
C) Mesothelioma scenario for Transferring Soteria Business: 10% increase in future claim numbers and 1% pa increase in inflation	Reserves	199%	(16%)	185%	(15%)
D) PPO scenario for Non-Transferring Soteria Business: not applicable for DIUK.	Reserves	n/a	n/a	n/a	n/a
E) Nominal interest rates fall to 0%	Market	249%	34%	234%	34%
F) Adverse market risk scenario: 6% increase in interest rates (applicable only to investments, not reserves) and instantaneous 3 notch downgrade of bond portfolio	Market	152%	(63%)	141%	(59%)
G) A combination of Test A and Test E	Combined reserve and market	209%	(6%)	197%	(3%)
H) Default of largest external reinsurer with 50% recovery	Reinsurance	164%	(51%)	153%	(48%)
I) Reverse stress test: 180% (£18.2m) deterioration of reserves for Transferring Soteria Business	Reverse stress test	7%	(208%)	7%	(193%)
J) A combination of Test A and Test F	Combined reserve and market	109%	(106%)	102%	(98%)
K) DIUK adopts Soteria's view of reserves for the Transferring Soteria business (ie a £2m increase in gross reserves)	Reserves	207%	(8%)	195%	(6%)
L) DIGL does not become a subsidiary of DIUK	Subsidiary	290%	75%	252%	52%
M) A combination of Test A and default of intragroup reinsurer (DAG) resulting in a loss of reinsurance recoveries above the funds withheld asset	Combined reserve and outwards reinsurance	171%	(44%)	137%	(63%)
M2) A combination of Test M and a 40% reserve deterioration for DIGL, resulting in a loss of DIGL's reinsurance recoveries above the funds withheld asset, which impacts DIUK's participation in DIGL	Combined reserve and outwards reinsurance	158%	(57%)	144%	(56%)

6.10.9. The scenarios are conservative in that they do not allow for any management actions that could mitigate the reduction in SCR coverage ratios. They also do not allow for the potential mitigating effect of any deferred tax assets.

Scenario A – Deterioration of reserves: 40% for Transferring Soteria Business and Existing DIUK Business, 20% for Non-Transferring Soteria Business

6.10.10. This scenario considers a reserve deterioration of 40% for Transferring Soteria Business and Existing DIUK Business and 20% Non-Transferring Soteria Business.

6.10.11. DIUK and Soteria both remain well capitalised in this scenario at both Day 0 and Day 1. This shows that DIUK and Soteria have sufficient capital to be able to withstand material deteriorations in the reserves for the Transferring Soteria Business, the Non-Transferring Soteria Business and the Existing DIUK Business.

6.10.12. In this scenario, I have considered a larger reserve deterioration for the Transferring Soteria Business and Existing DIUK Business than the Non-Transferring Soteria Business due to the uncertainty in the provisions for the Transferring Soteria Business and Existing DIUK Business, which are exposed to latent diseases including asbestos-related diseases such as mesothelioma and deafness. The key uncertainties in the reserves are discussed in detail in section 5.9.

6.10.13. In addition, there is a £2m (11%) difference between Soteria's and DIUK's view of the gross of reinsurance provisions for the Transferring Soteria Business (see section 5.7). This scenario considers the impact of DIUK's provisions for the Transferring Soteria Business increasing by this 11% difference in views plus an additional 29% deterioration.

6.10.14. The proportional impact of Scenario A on Soteria's SCR coverage ratio is greater than on DIUK's SCR coverage ratio. This is because reserves are more material to Soteria's balance sheet than DIUK's, and underwriting risk is a more material proportion of Soteria's SCR than DIUK's.

Scenario B – Deterioration of reserves: 60% for Transferring Soteria Business and Existing DIUK Business, 40% for Non-Transferring Soteria Business

6.10.15. The scenario considers a reserve deterioration of 60% for Transferring Soteria Business and Existing DIUK Business and 40% for Non-Transferring Soteria Business. I consider the likelihood of such a scenario to be remote.

6.10.16. DIUK is projected to be well capitalised at Day 0 and sufficiently capitalised at Day 1 in this scenario. I am therefore satisfied that DIUK can withstand material adverse reserve experience for both the Transferring Soteria Business and the Existing DIUK Business and that DIUK would continue to provide appropriate security to its policyholders under this scenario.

6.10.17. Soteria is projected to be sufficiently capitalised at both Day 0 and Day 1 in this scenario. I am therefore satisfied that Soteria can withstand material adverse reserve experience and that Soteria would continue to provide appropriate security to its policyholders under this scenario.

Scenario C – Mesothelioma scenario

6.10.18. This scenario considers a deterioration in mesothelioma claims, comprising a 10% increase in the number of claims reported in the future and a 1% pa increase in claims inflation. As noted in section 5, the majority of the reserves for the Transferring Soteria Business are in respect of asbestos-related diseases, including mesothelioma. This scenario considers the impact of an adverse deterioration in these reserves.

6.10.19. As explained in section 5.7, there is a £2.4m (15%) difference between Soteria's and DIUK's view of the provisions for mesothelioma claims within the Transferring Soteria Business (although I note that Soteria's provisions are as at 30 June 2025 and DIUK's provisions are as at 30 September 2025). This scenario considers the impact of the provisions for mesothelioma claims within the Transferring Soteria Business increasing by this 15% difference plus an additional 5% deterioration.

6.10.20. Soteria remains very well capitalised in this scenario. This scenario does not impact the reserves for the Non-Transferring Soteria Business. Therefore, this scenario has no impact on Soteria's Day 1 SCR coverage ratio. The impact of this scenario on Soteria's Day 0 SCR coverage ratio is small (ie the SCR coverage ratio reduces from 286% to 281%) because of the LPT agreement in place between Soteria and DAG which fully covers the Transferring Soteria Business pre-transfer.

6.10.21. DIUK is projected to be well capitalised in this scenario. I am therefore satisfied that DIUK can withstand material reserve deteriorations for mesothelioma claims and that DIUK would continue to provide appropriate security to its policyholders under this scenario.

6.10.22. This scenario has a greater impact on DIUK's SCR coverage ratio than Soteria's. However, the impact on DIUK's SCR coverage ratio is also limited due to the intra-group reinsurance arrangements between DAG and DIUK.

Scenario D (Soteria only) – PPO scenario

6.10.23. This scenario considers a deterioration in PPO claims, comprising a 1.5% pa increase in claims inflation, a 1.5% pa decrease in the discount rate, a 5-year increase in life expectancy and 20% more claims settling as PPOs (rather than settling as lump sums) compared to the base assumptions.

6.10.24. Settled and potential PPOs make up a significant proportion of the provisions for the Non-Transferring Soteria Business (~45% of the gross best estimate Solvency UK technical provisions as at 30 June 2025). Reserving for PPOs requires a number of key assumptions, which are subject to uncertainty. This scenario considers the impact of an adverse movement in these key assumptions.

6.10.25. The Transferring Soteria Business and Existing DIUK Business are not exposed to PPOs, so this scenario is not applicable to DIUK.

6.10.26. For Soteria, this scenario leads to a 63% increase in total net technical provisions at Day 1 and a corresponding increase in the SCR. In this scenario, there is assumed to be no corresponding increase in the value of Soteria's investments, which I consider to be conservative. Soteria's SCR coverage ratio is projected to fall below 100% in this scenario at both Day 0 and Day 1. However, Soteria would still be able to pay its claims in full. I consider the likelihood of this scenario to be remote.

Scenario E – Fall in interest rates

6.10.27. This scenario considers a reduction in nominal interest rates to 0%, including the removal of discounting benefit on the technical provisions.

6.10.28. For DIUK, this scenario leads to an increase in reserves due to an increase in the technical provisions with the removal of discounting, which results in an increased SCR. However, the eligible own funds increase by more than the SCR because DIUK's investments (which are held in bonds) are assumed to increase in line with the reduction in interest rates. This means that DIUK's SCR coverage ratio increases in this scenario compared to the base and DIUK remains very well capitalised in this scenario.

6.10.29. For Soteria, this scenario leads to a material reduction in SCR coverage ratio due to the removal of discounting benefit on the technical provisions, which is particularly material for PPOs. This is partially offset by an assumed increase in Soteria's investments in line with the reduction in interest rates. In this scenario, Soteria's investments are assumed to increase by 60% of the increase in net technical provisions, based on Soteria's asset-liability matching. Soteria's investments do not increase by as much as its liabilities in this scenario because the mean term of its asset portfolio is shorter than the mean term of its liability portfolio (which includes PPOs).

6.10.30. Overall, this scenario leads to an 88% increase in Soteria's net technical provisions at Day 1 and a corresponding increase in the SCR. Soteria is projected to be sufficiently capitalised in this scenario at Day 1. At Day 0, Soteria's SCR coverage ratio is projected to fall below 100% in this scenario, however Soteria would still be able to pay its claims in full.

Scenario F – Adverse market risk scenario

6.10.31. This scenario considers an adverse market risk shock.

6.10.32. For DIUK, this scenario considers a 6% pa increase in interest rates (applicable only to investments, not the reserves) and an instantaneous 3 notch downgrade of the bond portfolio. I consider the likelihood of such a scenario to be remote.

6.10.33. DIUK remains well capitalised at Day 0 and sufficiently capitalised at Day 1 in this scenario. I am therefore satisfied that DIUK can withstand material adverse market risk experience at both Day 0 and Day 1 and that DIUK would continue to provide appropriate security to its policyholders under this scenario.

6.10.34. For Soteria, this scenario consists of a 600 basis points increase in credit spreads and an instantaneous 3-notch downgrade of the bond portfolio. This leads to a reduction in eligible own funds and a slight increase in the SCR. Soteria is projected to remain very well capitalised in this scenario at both Day 0 and Day 1. I am therefore satisfied that Soteria can withstand material adverse market risk experience at both Day 0 and Day 1.

Scenario G – Combination of scenario A and scenario E

6.10.35. This scenario considers a combination of test A (40% deterioration in reserves for Transferring Soteria Business and Existing DIUK business, 20% deterioration for Non-Transferring Soteria Business) and test E (a reduction in nominal interest rates to 0%).

6.10.36. DIUK is projected to remain very well capitalised at Day 0 and well capitalised at Day 1 in this scenario. As discussed above, scenario A leads to a reduction in DIUK's SCR coverage ratio whereas scenario E leads to an increase in DIUK's SCR coverage ratio. Therefore, the impact of this scenario is very small. I have therefore also considered an additional more adverse scenario for DIUK (scenario J) which considers a combination of test A and test F.

6.10.37. For Soteria, this scenario leads to a reduction in SCR coverage ratio, predominantly driven by an increase in underwriting risk due to the increase in reserves and removal of discounting benefit. As discussed for scenario E, the removal of discounting benefit is particularly material for Soteria's PPOs, and is not fully offset by an increase in investments due to the longer-tailed liabilities compared to assets. Overall, this scenario leads to a 126% increase in Soteria's net technical provisions at Day 1, and I consider the likelihood of such a scenario to be remote. Soteria's SCR coverage ratio is projected to fall below 100% in this scenario at both Day 0 and Day 1. However, even in such an extreme scenario, Soteria would still be able to pay its claims in full.

Scenario H – Default of largest external reinsurance counterparty with 50% recovery

6.10.38. This scenario considers the default of Soteria's and DIUK's largest reinsurance counterparties, with an assumed 50% recovery.

6.10.39. Soteria is projected to remain very well capitalised at both Day 0 and Day 1 in this scenario. DIUK is projected to be well capitalised at both Day 0 and Day 1.

Scenario I – Reverse stress test

6.10.40. For DIUK, the reverse stress test considers a 180% (~£18m) deterioration in technical provisions for the Transferring Soteria Business. This leads to an increase in underwriting risk and operational risk. This scenario leads to a reduction in DIUK's SCR coverage ratio from 215% at Day 0 and 200% at Day 1 to 7% at both Day 0 and Day 1. I consider the likelihood of this scenario to be remote. Section 5.7 discusses the differences in Soteria's and DIUK's reserving estimates for the Transferring Soteria Business. This shows that Soteria's reserving estimate is 11% higher than DIUK's as at 30 September 2025. The 180% reserve deterioration considered in this scenario is therefore very extreme relative to the differences in reserving estimates between Soteria and DIUK. Even in this extreme scenario, DIUK is still expected to be able to pay its claims.

6.10.41. For Soteria, the reverse stress test considers a 69% (~£54m) deterioration in gross technical provisions for settled and potential PPOs. There is assumed to be no corresponding increase in reinsurance recoveries in this scenario. In addition, this scenario includes the default of Soteria's largest external reinsurance counterparty with no recovery assumed from this counterparty. I consider the likelihood of this scenario to be remote due to the material deterioration in gross reserves without a corresponding increase in reinsurance recoveries. Even in this extreme scenario, Soteria is still expected to be able to pay its claims.

Scenario J (DIUK only) – Combination of scenario A and scenario F

6.10.42. As explained in the commentary for scenario G, I have considered this additional scenario J for DIUK only. This scenario considers a combination of:

- test A (40% deterioration in reserves for Transferring Soteria Business and Existing DIUK business); and
- test F (adverse market risk scenario: 6% pa increase in interest rates and instantaneous 3 notch downgrade of the bond portfolio).

6.10.43. This scenario leads to a material reduction in eligible own funds due to a combination of the deterioration in reserves (under scenario A) and the reduction in value of investments due to the assumed 6% pa increase in interest rates (under scenario F). In this scenario, the 6% pa increase in interest rates is assumed to apply only to investments, not the reserves.

6.10.44. I consider the likelihood of such a scenario to be remote due to the material increase in reserves at the same time as a significant market risk shock, and the assumption that the increase in interest rates does not lead to a reduction in reserves.

6.10.45. Despite the material reduction in eligible own funds, DIUK is projected to remain sufficiently capitalised in this scenario at both Day 0 and Day 1. Even in this extreme scenario, DIUK is still able to meet its SCR and pay its claims in full.

6.10.46. My conclusions from this scenario analysis are as follows. For each group of policyholders, I have considered how being exposed to the stressed scenarios post-transfer would compare to being exposed to the stressed scenarios pre-transfer.

Scenario K (DIUK only) – DIUK adopts Soteria's view of reserves for the Transferring Soteria business

6.10.47. This scenario considers an increase of £2m in DIUK's gross reserves on Day 0 and Day 1, such that DIUK's view of the reserves matches Soteria's view for the Transferring Soteria business.

6.10.48. DIUK is projected to be very well capitalised at Day 0 and well capitalised at Day 1 in this scenario. The difference in DIUK's and Soteria's views of the Transferring Soteria Business' reserves does not have a significant impact on the Day 0 and Day 1 coverage ratios.

Scenario L (DIUK only) – DIGL does not become a subsidiary of DIUK

6.10.49. This scenario assumes that DIGL will not become a subsidiary of DIUK. In the base scenario, DIGL is assumed to become a subsidiary and is treated as an equity participation to DIUK, which generates market risk. Therefore, in this scenario where DIGL does not become a subsidiary of DIUK, there is a reduction in DIUK's SCR (driven by market risk). There is also a reduction in DIUK's eligible own funds. Overall, this increases DIUK's SCR coverage ratios at Day 0 and Day 1.

6.10.50. DIUK is projected to remain very well capitalised at Day 0 and Day 1 in this scenario.

Scenario M (DIUK only) – Combination of scenario A and default of intragroup reinsurer (DAG)

6.10.51. This scenario is carried out for DIUK only and considers a combination of test A (40% deterioration in reserves for Transferring Soteria Business and Existing DIUK business) and default of DAG (who will be providing 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business following the Proposed Transfer).

6.10.52. The reinsurance provided by DAG will be provided on a funds withheld basis, and therefore the default is limited to the amount in excess of the funds withheld asset. In this scenario, the 40% reserve deterioration is assumed to occur immediately prior to the DAG default. DAG is assumed to default before the funds withheld asset can be topped up to match the updated view of reserves. Therefore, the full value of the reserve deterioration is assumed to be non-recoverable from DAG.

6.10.53. As discussed above, scenario A leads to a reduction in DIUK's SCR coverage ratio. At Day 0, the impact of this scenario is the same as scenario A as DAG will not be reinsuring the Transferring Soteria Business at Day 0.

6.10.54. However, at Day 1, the DAG reinsurance default further reduces DIUK's SCR coverage ratio. This scenario is conservative in that it assumes 100% loss of the DAG reinsurance recoveries in excess of the funds withheld assets. In reality, DIUK might expect to receive a portion of the reinsurance recovery in a default scenario. DIUK is projected to be well capitalised at Day 0 and sufficiently capitalised at Day 1 in this scenario.

Scenario M2 (DIUK only) – Combination of scenario M and 40% reserve deterioration for DIGL

6.10.55. In addition to the reinsurance DAG provides to DIUK, DAG provides reinsurance to DIGL. Therefore, in this scenario, as well as considering the impact of DAG default on DIUK's reinsurance recoveries, I have also considered the impact of DAG default on DIUK's equity participation in DIGL. The reinsurance provided by DAG to DIGL is also on a funds withheld basis. Therefore, as for DIUK, the default is limited to any amount in excess of the funds withheld asset. In order to illustrate the impact of a DAG default on DIGL, I have also assumed that DIGL's reserves deteriorate by 40% and that the DAG default will occur before the funds withheld asset can be topped up, meaning that the full value of the reserve deterioration is non-recoverable from DAG.

6.10.56. The SCR and eligible own funds are both lower in this scenario than in scenario M. This is because the 40% DIGL reserve deterioration and DAG default leads to a reduction in DIGL's eligible own funds, which reduces not only DIUK's eligible own funds but also its SCR. DIUK is projected to be sufficiently capitalised at Day 1 in this scenario.

Adjusted scenarios for Transferring Soteria Policyholders

6.10.57. As explained in paragraph 6.10.1, all scenarios shown above have been applied to each firm's own base results. That is, the results of Soteria's scenario analysis show the impact compared to Soteria's base results, and the results of DIUK's scenario analysis show the impact compared to DIUK's base results.

6.10.58. There is a £2m (11%) difference between Soteria's and DIUK's view of the gross of reinsurance provisions for the Transferring Soteria Business (see section 5.7). Therefore, Transferring Soteria Policyholders will be moving from an insurer with higher reserves (for the Transferring Business) to an insurer with lower reserves (for the Transferring Business). To assess the materiality of this, I have considered an alternative scenario (scenario K) in which DIUK's gross reserves increase by £2m, such that DIUK's view of the reserves matches Soteria's view for the Transferring Soteria Business. DIUK is projected to be very well capitalised at Day 0 and well capitalised at Day 1 in this scenario. This scenario shows that the difference in DIUK's and Soteria's views of the Transferring Soteria Business' reserves does not have a significant impact on the Day 0 and Day 1 coverage ratios.

6.10.59. In the table below, I have also shown the approximate impact of each of the adverse scenarios on DIUK's Day 1 SCR coverage ratio, as if DIUK had adopted Soteria's view of reserves for the Transferring Soteria Business. These figures are meant for illustrative purposes only. These figures show the impact of combining scenario K with each of the other scenarios.

6.10.60. The table below shows the impacts of each scenario on Soteria's Day 0 SCR coverage ratio and DIUK's Day 1 SCR coverage ratio. This is to give an illustration of an as-if, like-for-like comparison pre- and post-transfer for Transferring Soteria Policyholders.

DIUK	Area	SCR coverage ratios	
		Soteria Day 0	DIUK Day 1
Base result (unadjusted)		**286%**	**200%**
Illustrative adjusted base result (DIUK Day 1 adjusted to use Soteria's view of reserves for the Transferring Soteria Business)		**286%**	**195%**
A) Deterioration of reserves: 40% for Transferring Soteria Business and Existing DIUK Business	Reserves	191%	151%
B) Deterioration of reserves: 60% for Transferring Soteria Business and Existing DIUK Business	Reserves	120%	131%
C) Mesothelioma scenario for Transferring Soteria Business: 10% increase in future claim numbers and 1% pa increase in inflation	Reserves	281%	178%
D) PPO scenario for Non-Transferring Soteria Business: not applicable for DIUK.	Reserves	66%	n/a
E) Nominal interest rates fall to 0%	Market	71%	232%
F) Adverse market risk scenario: 6% increase in interest rates (applicable only to investments, not reserves) and instantaneous 3 notch downgrade of bond portfolio	Market	229%	136%
G) A combination of Test A and Test E	Combined reserve and market	45%	192%
H) Default of largest external reinsurer with 50% recovery	Reinsurance	277%	147%
J) A combination of Test A and Test F	Combined reserve and market	n/a	95%
L) DIGL does not become a subsidiary of DIUK	Subsidiary	n/a	240%
M) A combination of Test A and default of intragroup reinsurer (DAG) resulting in a loss of reinsurance recoveries above the funds withheld asset	Combined reserve and outwards reinsurance	n/a	133%
M2) A combination of Test M and a 40% reserve deterioration for DIGL, resulting in a loss of DIGL's reinsurance recoveries above the funds withheld asset, which impacts DIUK's participation in DIGL	Combined reserve and outwards reinsurance	n/a	117%

6.10.61. The table above shows that, under all adverse scenarios considered, even after adjusting for the difference in reserves between Soteria and DIUK, DIUK is expected to be able to pay its claims in full following the Proposed Transfer. Please refer to paragraphs 6.10.10 to 6.10.53 for a detailed description of each scenario.

Non-Transferring Soteria Policyholders

6.10.62. The impact of each stressed scenario on Soteria is broadly similar both immediately pre-transfer (ie at Day 0) and immediately post-transfer (ie at Day 1). This is because of the LPT agreement in place pre-transfer covering 100% of the Transferring Soteria Business. In all adverse scenarios considered, the Soteria SCR coverage ratio is slightly higher at Day 1 than Day 0 because Soteria no longer has counterparty default risk in respect of the LPT post-transfer.

6.10.63. Therefore, under these scenarios, I am satisfied that Non-Transferring Soteria Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Transferring Soteria Policyholders

6.10.64. Under the majority of scenarios considered, DIUK remains at least sufficiently capitalised. Under all scenarios, even in the most extreme and remote scenarios considered, DIUK is still expected to be able to pay its claims in full.

6.10.65. In addition, following the Proposed Transfer, the Transferring Soteria Policyholders will no longer be exposed to the PPO scenario in respect of the Non-Transferring Soteria Business.

6.10.66. The adjusted scenarios shown in paragraph 6.10.59 show that, even after adjusting for the difference in reserves between Soteria and DIUK, DIUK is expected to be able to pay its claims in full under all adverse scenarios considered.

6.10.67. Given this, I am satisfied that the Transferring Soteria Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Existing DIUK Policyholders

6.10.68. The impact of most stressed scenarios on DIUK is similar both immediately pre-transfer (ie at Day 0) and immediately post-transfer (ie at Day 1). This is because of the QS agreement that will be in place between DAG and DIUK immediately prior to the Proposed Transfer, under which DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. Post-transfer, DAG will reinsure 50% of DIUK's exposure to the Transferring Soteria Business.

6.10.69. Under the majority of scenarios considered, DIUK remains at least sufficiently capitalised. Under all scenarios, even in the most extreme and remote scenarios considered, DIUK is still expected to be able to pay its claims.

6.10.70. Therefore, under these scenarios, I am satisfied that Existing DIUK Policyholders are not materially adversely affected as a result of the Proposed Transfer.

6.11. Overall conclusion: Capital considerations

6.11.1. I have set out below my overall conclusions related to capital. These capital considerations should not be considered in isolation. For example, the overall level of protection for policyholders also depends on a range of other considerations. My overall conclusions on the Proposed Transfer are set out in section 10.

6.11.2. Based on the work and rationale described above I have concluded that:

- For Non-Transferring Soteria Policyholders, the capital strength of Soteria, as measured by the SCR coverage ratio, is projected to be slightly higher post-transfer than pre-transfer.
- For the Non-Transferring DLUK Policyholder, the capital strength of DLUK, as measured by the MCR coverage ratio, is projected to be unchanged pre-transfer and post-transfer.
- For Transferring Soteria Policyholders, the SCR coverage ratio is projected to reduce after the Proposed Transfer. However, I do not consider the security provided to Transferring Soteria Policyholders to be materially adversely affected by the projected reduction in SCR coverage ratio post-transfer, as DIUK will still be very well capitalised.
- For Transferring DLUK Policyholders, the regulatory capital coverage ratio is projected to be higher post-transfer than pre-transfer.

- For Existing DIUK Policyholders, the capital strength of DIUK, as measured by the SCR coverage ratio, is projected to be slightly lower post-transfer than pre-transfer. However, I do not consider the security provided to Existing DIUK Policyholders to be materially adversely affected by the projected reduction in SCR coverage ratio post-transfer, as DIUK will still be very well capitalised.
- I have also considered a number of stress scenarios for Soteria and DIUK. Under all scenarios, even the most extreme and remote scenarios considered, Soteria and DIUK are still expected to be able to pay its claims.
- Further, Soteria has provided capital projections until 31 December 2029 which indicate that Soteria is generally projected to remain very well capitalised over this period, except when dividends are assumed to be extracted. Even after dividends are extracted, Soteria is projected to remain at least well capitalised. In line with Soteria's dividend extraction policy, dividends are only assumed to be extracted when sufficient surplus capital exists. DIUK and DLUK have also provided capital projections until 31 December 2028. These projections indicate that DIUK is projected to remain well capitalised in a scenario where DIUK takes on additional portfolios in line with its business plan, or very well capitalised in an alternative scenario where DIUK's existing and Transferring Business runs off over time following the Proposed Transfer. DLUK is projected to remain sufficiently capitalised.
- I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders as a result of the Proposed Transfer.

7. Policyholder security

7.1. My considerations relating to policyholder security

7.1.1. As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Non-Transferring Soteria Policyholders, the Non-Transferring DLUK Policyholder, Transferring Soteria Policyholders, Transferring DLUK Policyholders and Existing DIUK Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

7.1.2. To make these assessments, I have considered the following areas:

- The Solvency UK balance sheets of Soteria, DIUK and DLUK (section 7.2)
- The solvency positions of Soteria, DIUK and DLUK (section 7.3)
- Reinsurance arrangements (section 7.4)
- Access to the Financial Services Compensation Scheme (section 7.5)
- Access to the Financial Ombudsman Service (section 7.6)
- Insurance regulation (section 7.7)

7.1.3. Further details on each of these considerations are set out below, and my overall conclusion related to policyholder security is set out in section 7.8.

7.2. Impact on the balance sheets of Soteria, DIUK and DLUK

7.2.1. I have based my analysis on the projected balance sheets provided by Soteria, DIUK and DLUK as at Day 0 (ie immediately before the Effective Date of the Proposed Transfer) and Day 1 (ie immediately after the Effective Date).

Soteria

7.2.2. The table below shows the simplified Solvency UK balance sheets for Soteria as at 31 December 2024 and projected to Day 0 and Day 1.

Solvency UK balance sheets of Soteria: £m

	As at 31 December 2024	Projected Day 0	Projected Day 1	Movement due to Proposed Transfer
Cash and investments	231.3	159.4	146.1	-13.4
Reinsurance recoverables	61.6	47.9	44.7	-3.1
Receivables & other assets	12.6	8.8	8.8	0.0
Total assets	**305.4**	**216.1**	**199.6**	**-16.5**
Technical provisions	191.9	148.5	132.1	-16.4
Reinsurance payable, accounts payable & other liabilities	19.4	3.2	3.2	0.0
Total liabilities	**211.3**	**151.7**	**135.3**	**-16.4**
Excess of assets over liabilities	**94.1**	**64.4**	**64.3**	**-0.1**
Adjustment for planned dividends	(15.0)	0.0	**0.0**	**0.0**
Total Eligible Own Funds to meet the SCR	**79.1**	**64.4**	**64.3**	**-0.1**
Tier 1	79.1	64.4	64.3	-0.1
Tier 2	0.0	0.0	0.0	0.0
Tier 3	0.0	0.0	0.0	0.0
Total capital (SCR)	**34.8**	**22.5**	**22.3**	**-0.2**
SCR coverage ratio	**227%**	**286%**	**288%**	**2%**

Source: *Soteria*

Note: The balance sheet figures shown in this table include some simplifications.

7.2.3. Soteria's excess of assets over liabilities reduce by £30m between 31 December 2024 and Day 0 due to a dividend of £15m paid during Q2 2025 and a further planned dividend of £30m planned during Q4 2025. This is partially offset by an accumulation of retained earnings from the run-off of liabilities over this period. Note that any dividends will be considered in the context of Soteria's financial strength, risk appetite and resilience to stress testing, and would require PRA non-objection.

7.2.4. Overall, Soteria's eligible own funds are materially unchanged between Day 0 and Day 1, because the Proposed Transfer replicates the current economic position. This is due to the current LPT agreement and QS agreement in place, and the plans to implement a similar QS agreement under which DAG will reinsure DIUK post-transfer.

7.2.5. The reduction in technical provisions between Day 0 and Day 1 is due to the transfer of the Transferring Soteria Business from Soteria to DIUK. There is a corresponding reduction in assets due to the LPT agreement in place pre-transfer. The reduction in assets is split between reinsurance recoverables and cash and investments. The reduction in cash and investments is in respect of a funds withheld agreement within the LPT – this relates to the assumed premium payable as part of the LPT which is retained by Soteria and treated as an investment pre-transfer.

7.2.6. There is a small (£0.2m) decrease in the SCR following the Proposed Transfer, due to the removal of counterparty default risk pre-transfer in respect of the LPT agreement between Soteria and DAG. The SCR coverage ratio therefore increases by 2% between Day 0 and Day 1.

DIUK

7.2.7. The table below shows the simplified Solvency UK balance sheets for DIUK as at 31 December 2024 and both pre- and post- the Proposed Transfer.

Solvency UK balance sheets of DIUK: £m

	As at 31 December 2024	Projected Day 0	Projected Day 1	Movement due to Proposed Transfer
Cash and investments	9.0	29.0	29.4	0.4
Reinsurance recoverables	18.0	14.9	20.0	5.2
Receivables & other assets	0.1	0.0	0.0	0.0
Total assets	**27.1**	**43.8**	**49.4**	**5.5**
Technical provisions	21.6	23.4	28.9	5.5
Reinsurance payable, accounts payable & other liabilities	0.2	0.0	0.0	0.0
Total liabilities	**21.8**	**23.4**	**28.9**	**5.5**
Excess of assets over liabilities	**5.3**	**20.5**	**20.5**	**0.0**
Total Eligible Own Funds to meet the SCR	**5.3**	**20.5**	**20.5**	**0.0**
Tier 1	5.3	20.5	20.5	0.0
Tier 2	0.0	0.0	0.0	0.0
Tier 3	0.0	0.0	0.0	0.0
Total capital (SCR)	**1.4**	**9.5**	**10.2**	**0.7**
Total capital (MCR)	**3.5**	**3.5**	**3.5**	**0.0**
Capital coverage ratio	**152%**	**215%**	**200%**	**(15%)**

Source: *DIUK*
Note 1: The balance sheet figures shown in this table include some simplifications.
Note 2: As at 31 December 2024, the MCR is higher than the SCR, so the MCR applies and the capital coverage ratio is based on the MCR.

7.2.8. DIUK's SCR increases materially from £1.4m as at 31 December 2024 to £9.5m at Day 0. This is due to:

- the increase in reserves as a result of the 50% QS reinsurance provided by DIUK to DAG in respect of the Transferring Soteria Business prior to the Proposed Transfer;
- DLUK and DIGL (two other DARAG group entities) becoming subsidiaries of DIUK via equity participation prior to the Proposed Transfer.

7.2.9. DIUK's SCR increases further from £9.5m to £10.2m post-transfer, predominantly due to an increase in spread risk because of the investment of transferred assets post-transfer. See section 6.5 for details.

7.2.10. The increase in eligible own funds to meet the SCR between 31 December 2024 and Day 0 is also heavily driven by DLUK and DIGL becoming DIUK subsidiaries via equity participation. The PRA has approved DLUK becoming a subsidiary of DIUK (DIUK became the beneficial owner of DLUK in March 2026, with the legal title to transfer towards the end of April 2026). For DIGL, I have considered an alternative scenario in section 6.10 which considers the impact on DIUK's SCR coverage ratio if DIGL does not become a subsidiary of DIUK.

7.2.11. Post-transfer, DIUK's liabilities increase by £5.5m because DIUK carries 100% of the Transferring Soteria Business after the Proposed Transfer (rather than 50% prior to the Proposed Transfer). However, there is a corresponding increase in assets (predominantly reinsurance recoverables) due to the QS reinsurance provided by DAG to DIUK post-transfer. Overall, DIUK's excess of assets over liabilities and total eligible own funds to meet the SCR are therefore unchanged pre- and post-transfer.

7.2.12. DIUK's SCR coverage ratio reduces from 215% to 200% as a result of the Proposed Transfer due to the projected increase in SCR.

DLUK

7.2.13. The table below shows the simplified Solvency UK balance sheets for DLUK as at 31 December 2024 and both pre- and post- the Proposed Transfer.

Solvency UK balance sheets of DLUK: £m

	As at 31 December 2024	Projected Day 0	Projected Day 1	Movement due to Proposed Transfer
Cash and investments	3.7	3.4	3.4	0.0
Deposits to cedants	4.6	3.1	3.1	0.0
Reinsurance recoverables	0.0	0.0	0.0	0.0
Receivables & other assets	1.5	0.5	0.5	0.0
Total assets	**9.7**	**6.9**	**6.9**	**0.0**
Technical provisions	2.7	1.6	1.6	0.0
Reinsurance payable, accounts payable & other liabilities	1.8	0.0	0.0	0.0
Total liabilities	**4.5**	**1.6**	**1.6**	**0.0**
Excess of assets over liabilities	**5.2**	**5.3**	**5.3**	**0.0**
Total Eligible Own Funds to meet the SCR	**5.2**	**5.3**	**5.3**	**0.0**
Tier 1	5.2	5.3	5.3	0.0
Tier 2	0.0	0.0	0.0	0.0
Tier 3	0.0	0.0	0.0	0.0
Total capital (SCR)	**1.4**	**1.1**	**1.1**	**0.0**
Total capital (MCR)	**3.5**	**3.5**	**3.5**	**0.0**
Capital coverage ratio	**149%**	**151%**	**151%**	**0%**

Source: *DLUK (converted to £m)*
Note 1: DLUK figures as at 31 December 2024 have been converted from USD to GBP at an exchange rate of £1 = USD 1.25. DLUK figures as at Day 0 and Day 1 have been converted from EUR to GBP at an exchange rate of £1 = EUR 1.145.
Note 1: The balance sheet figures shown in this table include some simplifications.
Note 2: DLUK's MCR is higher than its SCR, so the MCR applies and the capital coverage ratio is based on the MCR.

7.2.14. £4.6m of DLUK's assets as at 31 December 2024 were in respect of deposits to cedants. This relates to a funds withheld account for the intra-group one-off reinsurance agreement with DAG. This reduces to £3.1m immediately before and after the Proposed Transfer due to the run-off of reserves for this reinsurance agreement. The technical provisions also decrease between 31 December 2024 and Day 0 due to the run-off of reserves.

7.2.15. DLUK's capital coverage ratio (based on the MCR) is expected to remain very similar between 31 December 2024 and both before and after the Proposed Transfer. The Transferring DLUK Business represents a very small proportion (~1%) of the DLUK reserves pre-transfer.

7.3. Impact on the solvency positions of Soteria, DIUK and DLUK

7.3.1. The projected solvency positions of Soteria, DIUK and DLUK pre- and post-transfer are summarised in the following table.

Projected solvency positions of Soteria, DIUK and DLUK immediately pre- and post-transfer

	Soteria £m	DLUK £m	DIUK £m
Pre-transfer (Day 0)			
Total Own Funds eligible to meet SCR	64.4	5.3	20.5
SCR/MCR	22.5	3.5	9.5
SCR/MCR coverage ratio	**286%**	**151%**	**215%**
Post-transfer (Day 1)			
Total Own Funds eligible to meet SCR	64.3	5.3	20.5
SCR/MCR	22.3	3.5	10.2
SCR/MCR coverage ratio	**288%**	**151%**	**200%**

Note: For DLUK, given that the SCR is projected to be less than the MCR, the MCR applies. The figures shown in the above table are the higher of the SCR and the MCR. For Soteria and DIUK, the SCR is shown. For DLUK, the MCR is shown.

7.3.2. Soteria and DIUK are projected to be very well capitalised immediately before and after the Proposed Transfer. DLUK is projected to be sufficiently capitalised immediately before and after the Proposed Transfer (as described in section 6.8).

7.3.3. Soteria, DIUK and DLUK have also provided SCR coverage ratio projections following the Proposed Transfer. Soteria has provided projections through to 31 December 2029 and DIUK and DLUK have provided projections through to 31 December 2028 (see section 6.8).

7.4. Reinsurance arrangements

7.4.1. There is currently an LPT agreement in place between Soteria and DAG, under which DAG reinsures 100% of the Transferring Soteria Business.

7.4.2. Effective 31 December 2025 (ie prior to the Proposed Transfer), DAG and DIUK will be entering into a QS agreement whereby DIUK will reinsure 50% of DAG's exposure to the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis, and this agreement will remain in place up to the Effective Date of the Proposed Transfer.

7.4.3. Immediately upon the completion of the Proposed Transfer:

- the LPT agreement between Soteria and DAG will automatically come to an end;
- the 50% QS reinsurance provided by DIUK to DAG will automatically come to an end; and
- a new reinsurance agreement will come into force whereby DAG will provide 50% QS reinsurance to DIUK in respect of the Transferring Soteria Business. This reinsurance will be provided on a funds withheld basis.

7.4.4. Effectively, the economic position will be similar immediately before and after the Proposed Transfer, with DIUK and DAG each exposed to 50% of the economic risk of the Transferring Soteria Business.

7.4.5. DLUK currently has a small amount of outwards reinsurance, with reserves as at 30 September 2025 of approximately £7,000. DLUK is attempting to commute this outwards reinsurance prior to the Proposed Transfer, alongside the commutation of the remainder of its inwards business, which would mean there would be no outwards reinsurance covering the Transferring DLUK Business as at the Effective Date. If the commutation is not complete by the Effective Date, the existing outwards reinsurance will transfer to DIUK as a result of the Proposed Transfer. I will provide an update on this commutation in my Supplementary report.

7.4.6. The Proposed Transfer will not affect the underlying terms and conditions of the other existing reinsurance arrangements. DIUK, DLUK and Soteria have confirmed that there will be no changes to any other existing reinsurance arrangements as a result of the Proposed Transfer.

7.5. Access to the Financial Services Compensation Scheme

7.5.1. The Financial Services Compensation Scheme (FSCS) in the UK provides consumer protection. This statutory "fund of last resort" compensates customers in the event of the insolvency of a financial services firm.

7.5.2. If an insurer fails and is unable to pay claims, the FSCS will provide protection to eligible policyholders. The FSCS will pay 100% of any claim incurred for compulsory insurance (eg motor third party liability insurance) and 90% of claims incurred for non-compulsory insurance (eg home insurance), without any limit on the amount payable. The protection for non-compulsory insurance only applies to individuals and small businesses (being businesses with an annual turnover of less than £1m). No protection is available for Goods in Transit, Marine, Aviation and Credit Insurance. There is also no protection for reinsurance contracts.

7.5.3. The Transferring DLUK Business is reinsurance business (not direct insurance business) and so is not covered by the FSCS.

7.5.4. Soteria, DIUK and DLUK are all UK regulated entities, and as such I do not expect the rights of policyholders in respect of access to the FSCS to change as a result of the Proposed Transfer.

7.6. Access to the Financial Ombudsman Service

7.6.1. The Financial Ombudsman Service (FOS) provides private individuals, micro enterprises and small businesses with a free, independent service for resolving disputes with financial companies. For the purposes of the FOS, a micro enterprise is defined as having an annual turnover or balance sheet of less than £2m and fewer than 10 employees, and small businesses are defined to be businesses with less than £6.5m turnover and either fewer than 50 employees or a balance sheet total of less than £5m.

7.6.2. It is not necessary for the private individual, micro enterprise or small business to live or be based in the UK for a complaint regarding an insurance policy to be dealt with by the FOS. However, it is necessary for the insurance policy concerned to be, or have been, administered from within the UK and/or issued from within the UK.

7.6.3. Soteria, DIUK and DLUK are all UK companies, so the Transferring Business will continue to be based in the UK. As such, any Transferring Policyholders that are currently eligible for access to the FOS will continue to benefit from this access following the Proposed Transfer.

7.6.4. The rights of policyholders in respect of access to the FOS will not change as a result of the Proposed Transfer. Any policyholders of Soteria, DIUK or DLUK who are currently eligible to refer complaints to the FOS will continue to be eligible following the Proposed Transfer.

7.7. Insurance regulation

7.7.1. Policyholders will continue to be protected by the same statutory and regulatory mechanisms post-transfer.

Prudential regulation

7.7.2. Prudential regulation requires financial firms to control risks and hold adequate capital to ensure regulated firms are being run in a safe and sound way.

7.7.3. The UK is currently regulated under Solvency UK. Solvency UK covers the prudential regulation of insurers, including risk management and capital requirements.

7.7.4. Soteria, DIUK and DLUK are authorised and regulated by the PRA on prudential matters. Based on this consideration, I do not expect policyholders to be adversely affected by the Scheme due to any change in prudential regulation.

Conduct regulation

7.7.5. Conduct regulation of financial firms includes consumer protection, market conduct rules and ethical codes of conduct. Conduct is generally regulated by the insurance regulator in the country in which a risk is located and/or the location from which the business is carried out.

7.7.6. In the UK, the Financial Conduct Authority (FCA) is responsible for conduct regulation. The FCA seeks to ensure that consumers are treated fairly in their dealings with insurers. Its rules and guidance include conduct related requirements covering the way in which an insurance firm organises, manages and oversees and governs its business, including codes of conduct, fit and proper requirements and training and competence standards. In addition, conduct regulation covers the full product life cycle, from product design and development, sales and communications with customers, cancellations and claims handling, and complaints handling and compensation.

7.7.7. Soteria, DIUK and DLUK are regulated by the FCA on conduct matters and I would not expect the conduct regulation to change for policyholders. Based on this consideration, I do not expect policyholders to be adversely affected by the Proposed Transfer due to any change in conduct regulation.

Conclusion on regulation

7.7.8. As Soteria, DIUK and DLUK are subject to the same UK based regulatory regime, I do not expect policyholders to be adversely affected by the Proposed Transfer from a regulatory standpoint.

7.7.9. Soteria's, DIUK's and DLUK's legal advisers have confirmed that no additional transfer process and/or approval is required from overseas regulators in respect of policies that are not subject to the laws of England and Wales.

7.8. Overall conclusion: Policyholder security

7.8.1. Based on the work and rationale described in this section (section 7), I have concluded that policyholders will not be materially adversely affected by the Proposed Transfer in regard to policyholder security.

8. Policyholder communications

8.1. My considerations relating to policyholder communications

8.1.1. I have assessed the appropriateness of Soteria, DLUK's and DIUK's proposed communications strategy to inform policyholders of the Proposed Transfer.

8.1.2. The key focus of my assessment was whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them. As part of this assessment, I have also considered the rationale behind any waivers that are being sought, to ensure these are proportionate and reasonable.

8.2. Overview of communications strategy

8.2.1. Soteria, DLUK and DIUK (the parties) have developed a communications strategy to notify affected parties of the Proposed Transfer and allow time for any affected parties to raise objections to the High Court. I have summarised the main points of the communications strategy below, including the waivers that Soteria, DLUK and DIUK will be seeking.

8.2.2. The parties have confirmed to me that the communications strategy has been prepared to be clear and fair, and to provide sufficient information on the Proposed Transfer, its potential impact and how to raise queries or objections, consistent with the requirements in "FG 22/1: The FCA's approach to the review of Part VII insurance business transfers".

8.2.3. I am satisfied that the communications strategy will ensure that those who will be materially affected by the Proposed Transfer will be informed appropriately.

Non-Transferring Soteria Policyholders:

8.2.4. Soteria is seeking a waiver in respect of notifying Non-Transferring Soteria Policyholders (see detail in section 8.3).

Non-Transferring DLUK Policyholder:

8.2.5. Following the Proposed Transfer, the only remaining Non-Transferring DLUK Policyholder will be DAG (a DARAG Group entity). DAG is already aware of the Proposed Transfer.

Transferring Soteria Policyholders:

8.2.6. Given that the Transferring Soteria Business includes policies that date back to the early 1900s, Soteria does not retain a full and reliable list of Transferring Soteria Policyholders for the commercial liability policies.

8.2.7. Since 2011, Soteria has been notified of its employers' liability claims either through its participation in the Employers' Liability Tracing Office (ELTO) scheme or from a small number of claimant law firms on behalf of employees who worked at the SME businesses insured by Soteria. The ELTO scheme and claimant law firms are key sources in Soteria's notification approach in respect of the commercial liability policies.

8.2.8. From the ELTO database, Soteria has identified 1,115 policyholders for whom Soteria provided insurance cover (the Transferring ELTO Policyholders). Soteria has contact details of the Transferring ELTO Policyholders with open claims, but the ELTO database does not have current name and address contact details for every Transferring ELTO Policyholder, and many will have gone out of business, been acquired or been liquidated or dissolved.

8.2.9. Soteria has performed a tracing exercise using Companies House in an attempt to ascertain the contact details of the Transferring ELTO Policyholders whose details are not included in the database. As of January 2026, this exercise has identified addresses for 911 companies, and Soteria is in the process of tracing more companies. Ahead of sending out communications, Soteria will undertake a further targeted update of tracing efforts, where appropriate, to identify any updated contact details for policyholders for whom details were previously unavailable. Soteria will send individual letters to the companies for whom they have found contact details.

8.2.10. In order to reach as many policyholders as possible for which Soteria may otherwise not have contact details, Soteria intends to notify claimant solicitors who have brought, or may bring, claims in respect of such policies. Soteria has undertaken a tracing exercise to ascertain up-to-date contact details of the claimant solicitors who have submitted claims to Soteria since 2011. Soteria will notify each of these claimant solicitors for whom it has contact details (the Known Claimant Solicitors).

8.2.11. In addition, Soteria intends to write to other identified claimant solicitor firms who specialise in asbestos or noise induced hearing loss claims, and who may bring future claims on behalf of claimants (Potential Claimant Solicitors).

8.2.12. The parties are proposing to notify Transferring Soteria Policyholders of the commercial liability policies for which contact details are available by issuing a Communication Pack to:

- All Transferring ELTO Policyholders where a current name and address can be found.
- ELTO.
- All Known Claimant Solicitors.
- All Potential Claimant Solicitors.

8.2.13. Notifications to Transferring Soteria Policyholders will be undertaken by post. For claimant solicitor firms, Soteria will seek email addresses and will deliver both postal and electronic copies of the communications where possible.

8.2.14. In summary, Soteria's proposed communication approach for Transferring Soteria Policyholders is as follows:

- **Commercial liability policies**: Soteria proposes to issue Communication Packs to all Transferring ELTO Policyholders where a current name and address can be found, ELTO, all Known Claimant Solicitors and all Potential Claimant Solicitors.
- **Inwards reinsurance policies**: Soteria has contact details for the cedants of the transferring inwards reinsurance policies and will notify them directly of the Proposed Transfer.
- **EIROS pool**: the manager of the EIROS pool is Electricity Insurance Run-Off Services Limited (the Pool Manager), and it will have the details of the current pool participants. Clyde & Co LLP performs administrative services for and on behalf of the Pool Manager, including managing communications between the pool participants. Pro Insurance Solutions Limited (Pro) provides claims handling services to the Pool Manager. Soteria intends to notify the Pool Manager and Clyde & Co LLP of the Proposed Transfer who will, in turn, inform the other pool participants. Soteria also intends to notify Pro.

8.2.15. I am satisfied that the proposed communications strategy is proportionate and will ensure that those who will be materially affected by the Proposed Transfer will be informed appropriately.

8.2.16. Soteria and DIUK are seeking a waiver in respect of the other Transferring Soteria Policyholders notifications. This is detailed in section 8.3.

Transferring DLUK Policyholders

8.2.17. DLUK intends to notify all Transferring DLUK Policyholders of the Proposed Transfer directly via email. DLUK believes it has accurate contact details for all Transferring DLUK Policyholders. However, to address the possibility that some contact details may not be correct, it is seeking a waiver of the requirement to notify all of the Transferring DLUK Policyholders.

Existing DIUK Policyholders

8.2.18. DIUK proposes to notify the Existing DIUK Policyholders with open claim notifications (131 of the 12,926 Existing DIUK Policyholders). DIUK is not proposing to notify the rest of the Existing DIUK Policyholders without open claims notifications and is seeking a waiver of this requirement. This is detailed in section 8.3.

Reinsurers of Soteria covering the Transferring Soteria Business

8.2.19. The only outwards reinsurance directly covering the Transferring Soteria Business is the LPT agreement in place between Soteria and DAG. DAG is a DARAG Group entity and is already aware of the Proposed Transfer.

Reinsurers of DLUK covering the Transferring DLUK Business

8.2.20. There is currently a small amount of outwards reinsurance in place for the Transferring DLUK Business, with reserves as at 30 September 2025 of approximately £7,000. DLUK is attempting to commute this outwards reinsurance prior to the Proposed Transfer.

8.2.21. DLUK intends to notify the reinsurers of DLUK covering the Transferring DLUK Business of the Proposed Transfer directly via email. DLUK believes it has accurate contact details for all such reinsurers. However, out of an abundance of caution, to address the possibility that some contact details may not be correct, it is seeking a waiver of the requirement to notify all of the reinsurers of DLUK covering the Transferring DLUK Business.

8.3. Requested waivers and rationale

8.3.1. Soteria, DLUK and DIUK intend to request that the Court grants a dispensation from the need to directly notify the following:

- **Non-Transferring Soteria Policyholders**.
- **Transferring Soteria Policyholders** for whom contact details are unavailable.
- **Existing DIUK Policyholders** without open claims notifications.
- **Transferring DLUK Policyholders** for whom contact details held are incorrect.
- **Reinsurers of DLUK covering the Transferring DLUK Business** for whom contact details held may be incorrect.

8.3.2. Soteria, DLUK and DIUK have provided rationale to support their requests for dispensation which included consideration of the judgment of Norris J in the Directions Hearing in Re Aviva International Insurance Limited [2011] EWCH 1901 (Ch.) (the Aviva Judgment). The Aviva Judgment summarised the following factors as a rationale for granting a dispensation:

- the impossibility of contacting policyholders;
- the practicality of contacting policyholders;
- the utility of contacting policyholders;
- the availability of other information channels through which notice of the application can be made available;
- the proportionality of strict compliance and the impact of collateral commercial concerns; and
- the likely impact of the Proposed Transfer on policyholders.

8.3.3. I have reviewed this rationale and discussed and challenged it with Soteria, DLUK and DIUK. I am satisfied that the requested waivers are proportionate and reasonable, and I provide more detail on this below.

Non-Transferring Soteria Policyholders

8.3.4. Soteria is not proposing to notify its Non-Transferring Soteria Policyholders of the Proposed Transfer, and Soteria is seeking a dispensation in this regard for the following reasons:

- The Non-Transferring Soteria Policyholders are retail policyholders whose policies are unaffected by the Proposed Transfer and who are unlikely to have any knowledge of, nor any interest in, the Transferring Soteria Business.
- The Non-Transferring Soteria Business ceased in 2021 and, since the business covered motor and home policies, which are typically occurrence-based, there remains a small possibility of new claims arising but this would most likely be from third party claimants who would be currently unknown.
- Soteria considers that the Proposed Transfer does not materially affect the security of the Non-Transferring Soteria Business because the risk profile of the non-transferring motor and home liabilities is unchanged. These liabilities are expected to continue to run off in the same manner as before and are supported by the same operational arrangements and capital resources. While a subset of Soteria's historical liabilities is being transferred, these transferring liabilities currently contribute only minimally to Soteria's solvency capital pre-transfer due to the existing LPT with DAG. As a result, the Proposed Transfer does not materially affect Soteria's overall SCR calculation.

8.3.5. Soteria has applied the likely impact of the Proposed Transfer argument from the Aviva Judgement to support their request for dispensation.

8.3.6. I have reviewed the information regarding the waivers sought in respect of Non-Transferring Soteria Policyholders and am satisfied that these are reasonable arguments in support of such waivers.

Transferring Soteria Policyholders

8.3.7. The proposed notification approach for Transferring Soteria Policyholders is summarised in paragraph 8.2.12. The parties are seeking a waiver in respect of notifying the other Transferring Soteria Policyholders for the following key reasons:

- Soteria will not be able to contact Transferring Soteria Policyholders who cannot be reached through the channels described in paragraph 8.2.12, as they do not have the contact details.
- Notice will be published in the Gazettes and four national newspapers as well as targeted advertising (see details below) so policyholders will have a reasonable opportunity of becoming aware of the Proposed Transfer through those publications.

8.3.8. The parties have applied the impossibility, availability of other information channels and likely impact of the Proposed Transfer arguments from the Aviva Judgement to support their request for dispensation.

8.3.9. I have reviewed the information regarding the waivers sought in respect of Transferring Soteria Policyholders and am satisfied that these are reasonable arguments in support of such waivers.

Existing DIUK Policyholders

8.3.10. DIUK is not proposing to notify the Existing DIUK Policyholders without open claims notifications, and is seeking a dispensation in this regard for the following reasons:

- DIUK only has accurate contact details for the policyholders with open claims. These contact details are held by Polo Commercial Insurance Services (Polo), DIUK's outsourced claims handlers. DIUK considers that these policyholders with open claims are the most likely to be affected by the Proposed Transfer since they have an immediate interest in the financial security of DIUK.
- All Existing DIUK Policyholders are remaining with the same insurer, and there will be no change to their policy terms and conditions or to the parties responsible for, or the approach taken to handling claims as a result of the Proposed Transfer.

- The Existing DIUK Business has been in run-off since 2003 and materially all of the records held in relation to the policies are held in paper form. DIUK estimates that it would take at a minimum 4 to 5 weeks to review the paper files (c. 90% of records) and electronically held records (remaining c. 10%) to locate up-to-date contact addresses for the remaining 12,795 policyholders without open claims notifications. It estimates the cost of this exercise would be £50,000. Given the age of the business, and the nature of the policyholders (including small businesses), DIUK's view is that this process may not yield useful results and the expected costs of the exercise are therefore disproportionate to the benefit to be achieved.
- DIUK will advertise notice of the Proposed Transfer via the DARAG Group website and extended advertising in proposed publications as outlined in section 8.4.

8.3.11. DIUK has applied the utility, proportionality, availability of other information channels and likely impact of the Proposed Transfer arguments from the Aviva Judgement to support their request for dispensation.

8.3.12. I have reviewed the information regarding the waivers sought in respect of Existing DIUK Policyholders and am satisfied that these are reasonable arguments in support of such waivers.

Transferring DLUK Policyholders and reinsurers of DLUK covering the Transferring DLUK Business

8.3.13. DLUK has contact details which it believes are accurate for all Transferring DLUK Policyholders and all reinsurers of DLUK covering the Transferring DLUK Business, and DLUK intends to notify them directly of the Proposed Transfer. However, out of an abundance of caution, DLUK is seeking a waiver of the obligation to notify all policyholders and reinsurers to cater for the remote possibility that some contact details may not be accurate. DLUK does not anticipate that this scenario will arise.

8.3.14. I have reviewed the information regarding the waivers sought in respect of Transferring DLUK Policyholders and reinsurers of DLUK covering the Transferring DLUK Business and am satisfied that this is a reasonable argument in support of such waivers.

Conclusion on waivers

8.3.15. Overall, I am satisfied with Soteria's, DLUK's and DIUK's rationale for the waivers sought, as information regarding the Proposed Transfer is available from other sources and my conclusions in this report are that none of the Non-Transferring Soteria Policyholders, Transferring Soteria Policyholders or Existing DIUK Policyholders will be materially adversely affected by the Proposed Transfer.

8.4. Planned notices

8.4.1. Soteria, DLUK and DIUK will place a notice of the Proposed Transfer in:

- the London, Belfast and Edinburgh Gazettes;
- the following national newspapers in the UK:
  - The Daily Mail (National circulation)
  - The Sun (National circulation)
  - The Financial Times (National circulation)
  - The Telegraph (National circulation)
- The following additional publications to achieve wider readership:
  - The Scotsman (Scotland circulation)
  - This Week in Farming (National circulation)

8.4.2. Soteria will also request a notice of the Proposed Transfer to be placed in the CoOperatives UK Newsletter, subject to their editorial considerations.

8.4.3. The planned notices outlined above go beyond the minimum requirements set out in the regulations.

8.4.4. Dedicated webpages will also be set up on each of DARAG's and Soteria's websites. The website will contain all relevant documents, including those contained within the communication pack and the full Independent Expert's Report.

8.4.5. I am satisfied with the proposal for planned notices.

8.5. Translation of key documents

8.5.1. All publication notices and major documents (including this report) will be provided in English and there are no plans to translate any documents into other languages.

8.5.2. Soteria, DIUK and DLUK do not anticipate needing to translate any documents, as all policies were originally issued in English and all ongoing correspondence with active business is also conducted in English. However, if requested, the parties will arrange for translations or accessible formats to support non-native English speakers and vulnerable customers, including options such as hard copy, large print, braille or in CD/audio format. I would rely on Soteria, DIUK and DLUK to ensure the accuracy and appropriateness of any such materials.

8.6. Clarity of communication

8.6.1. I have reviewed a draft of the proposed covering letters and Q&A document to be provided to policyholders, explaining the background to the Proposed Transfer and the transfer process.

8.6.2. I understand that the communication pack to be provided to the parties set out in section 8.2 will include:

- A **covering letter** explaining the Proposed Transfer, tailored to the relevant recipient (eg policyholder, Known Claimant Solicitor or Potential Claimant Solicitor). This covering letter will explain why the recipient has been sent the communication pack, where further information may be obtained and any actions that the recipient may need to take.
- A booklet containing **questions and answers** about the Proposed Transfer, a summary of the terms of the Scheme and a summary of the Independent Expert's report (the **Information Booklet**).
- A copy of the legal notice of the Proposed Transfer including the date of the Court hearing and how to raise concerns or object to the Proposed Transfer or obtain further information.

8.6.3. Based on my review, and discussions with Soteria, DLUK and DIUK, I am satisfied the communication to policyholders regarding the Proposed Transfer is clear, fair and not misleading. The proposed communication also includes clear guidance on policyholders' entitlement to object and how to do so.

8.7. Overall conclusion: Policyholder communications

8.7.1. Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.

8.7.2. Soteria and DIUK are applying for waivers from communicating with certain defined groups of policyholders, each of which is supported by an appropriate and pragmatic rationale.

8.7.3. I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that Soteria, DLUK and DIUK have sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

9. Customer service and other considerations

9.1. Customer service

9.1.1. I have reviewed the customer service arrangements of Soteria, DIUK and DLUK and concluded that there will be no material changes to policyholder administration and claims handling, ie the policyholder experience, in respect of:

- Non-Transferring Soteria Policyholders
- The Non-Transferring DLUK Policyholder
- Transferring Soteria Policyholders
- Transferring DLUK Policyholders
- Existing DIUK Policyholders

9.1.2. I am satisfied that the operational arrangements of Soteria, DIUK and DLUK with regard to policyholder administration and claims handling will remain broadly unchanged following the Proposed Transfer and no specific operational risks have been notified to me as at date of this report.

Claims handling

9.1.3. Soteria has a service agreement with MISL under which MISL performs all claims handling and policy administration services on behalf of Soteria. Under the LPT agreement, MISL continues to administer the claims arising from the Transferring Soteria Business. Soteria has agreed to enter into a new service agreement with MISL on materially the same terms as the existing agreement, but relating to the business being transferred to DIUK only. Soteria's rights and obligations under the new agreement will transfer to DIUK under the Proposed Transfer and policy administration for the Transferring Soteria Business will continue to be performed by MISL following the Proposed Transfer. There is therefore not expected to be any change in claims handling or policy administration as a result of the Proposed Transfer in respect of the Transferring Soteria Business.

9.1.4. There is also no planned change for policy and claims administration matters as a result of the Proposed Transfer in respect of the Transferring DLUK Business. Due to the minimal activity in the Transferring DLUK portfolio, claims handling is currently managed in-house by staff within the DARAG Group. This arrangement will continue following the Proposed Transfer.

9.1.5. DIUK's claims handling is currently outsourced to Polo Commercial Insurance Services (formerly known as Capita) and this arrangement will continue following the Proposed Transfer.

9.1.6. The parties have confirmed that there are no expected changes to existing claims handling procedures for any group of policyholders as a result of the Proposed Transfer.

Policy administration

9.1.7. Soteria, DIUK and DLUK have confirmed to me that it is envisaged that there will be no changes in current customer service arrangements as a result of the Proposed Transfer.

9.1.8. Soteria's policy administration is currently performed by MISL. This will continue after the Proposed Transfer, for both Non-Transferring Soteria Policyholders and Transferring Soteria Policyholders, as Soteria's rights and obligations under its agreement with MISL will transfer to DIUK under the Proposed Transfer (see section 9.1.2).

9.1.9. For both the Non-Transferring DLUK Policyholder and Transferring DLUK Policyholders, due to the minimal activity in the portfolio, policy administration is performed by staff within the DARAG Group. This arrangement will continue following the Proposed Transfer.

9.1.10. For Existing DIUK Policyholders, DIUK's policy administration is currently outsourced to Polo Commercial Insurance Services and this arrangement will continue following the Proposed Transfer.

Complaints procedures

9.1.11. Soteria, DIUK and DLUK all follow a complaints handling procedure.

9.1.12. Soteria is subject to the Saturn Group Complaints Process and Oversight Procedure to ensure compliance with FCA requirements relating to customer outcomes. A monthly management information (MI) pack is produced which captures a variety of diagnostics such as the volume of complaints received, resolved and outstanding, with tracking of resolution times. All complaint records, MI packs and meeting minutes are retained for a minimum of 6 years for FCA-regulated complaint data. The MI is monitored and reviewed by a range of parties including Compliance, the Head of pricing, Performance and Customers and the Chief Risk Officer. If MI identifies regulatory breaches or high-risk systemic issues, there is an escalation protocol in place to escalate issues to Compliance and/or the Risk Committee.

9.1.13. DLUK follows the DAG Complaints Procedure and DIUK follows the DIUK Complaints Handling Procedure (which is in line with DAG's procedure). DIUK and DAG are committed to handling complaints from their legacy insurance customers fairly, transparently and in accordance with statutory requirements. Third party administrators (TPAs) are responsible for notifying DIUK and its Compliance Department of any complaints, and overseeing the response to the complaint. The TPA must issue an acknowledgement letter to the complainant within one working day of receipt, and must provide a final written response within 8 weeks.

9.1.14. DIUK will be responsible for complaint handling in relation to any complaints arising from its conduct of the Transferring Soteria business after the Effective Date of the Proposed Transfer. However, complaints arising from Soteria's conduct of the Transferring Soteria business before the Effective Date will remain the responsibility of Soteria (unless the complaint arises from any action taken by Soteria on the instructions of, or with the consent of, DARAG or DIUK, in which case such liabilities will be attributed to DIUK).

9.1.15. DIUK will be responsible for complaint handling for the transferring DLUK business after the Proposed Transfer, whether arising from events before or after the Effective Date.

9.1.16. DIUK has confirmed that there will be no material changes to its complaints procedure following the Proposed Transfer.

Consumer Duty

9.1.17. I have been provided with a copy of Saturn's Conduct Risk Framework, which applies to Soteria and was last approved in November 2025. The Saturn Group has a dedicated Customer Committee which actively monitors and challenges how the organisation delivers fair value, supports customer needs and upholds regulatory expectations such as the Consumer Duty. Underlying policies and procedures include the Saturn Group Customer Policy, the Saturn Group Vulnerable Customer Policy and the Product Governance and Oversight Policy.

9.1.18. The Saturn Group operates a "three lines of defence" approach to risk management. The first line of defence consists of front-line staff, business unit leaders and operational managers, the second line of defence is made up of the risk, compliance and assurance teams, and the third line of defence is internal and external audit, who report directly to the Board.

9.1.19. Customer journey mapping is Saturn's primary method for assessing whether customer journeys deliver the outcomes expected under the Consumer Duty. This involves qualitative mapping and quantitative testing to evidence how customers experience their products and services and to identify where foreseeable harm may arise. Saturn also monitors a set of metrics (Conduct Risk Indicators) to evidence that customers are receiving good outcomes. These metrics allow Saturn to detect emerging risks, measure performance against expectations and demonstrate continuous improvement. All employees receive conduct and Consumer Duty training.

9.1.20. DIUK has a Consumer Duty and Treating Customers Fairly policy which was approved on 10 June 2025. This policy sets out a structured approach to implementing the FCA's Consumer Duty principles and aims to ensure that DIUK consistently delivers fair outcomes to its customers. The Group CEO and Group Risk and Compliance Committee are responsible for reviewing this policy and the DIUK Board assumes collective responsibility for the implementation of Consumer Duty.

9.1.21. DIUK takes a proactive and ongoing approach to ensure good outcomes for customers, including ongoing assessment and monitoring, outcome testing and ensuring customer outcomes responsibilities are embedded at all levels, including the Board and senior leadership. All relevant staff, including those in outsourced arrangements, receive training on DIUK's Consumer Duty and Treating Customers Fairly policy during onboarding. DIUK's claims handling is outsourced to Polo, which has its own policies and procedures in place that address Consumer Duty, the fair treatment of customers and the needs of vulnerable customers.

9.1.22. DIUK has confirmed that their processes to meet Consumer Duty obligations will be unchanged following the Proposed Transfer and that the processes will apply to the Transferring Soteria Business and the Transferring DLUK Business as well as the Existing DIUK Business.

9.2. Tax implications

9.2.1. In relation to the Proposed Transfer, the three types of tax that potentially impact the premium policyholders are charged are:

- Corporation tax: this is levied on profits, and policyholders are not directly affected by the obligation for Soteria, DIUK or DLUK to pay corporation tax.
- Value added tax (VAT): policyholders do not pay VAT on insurance premiums.
- Insurance premium tax (IPT): the applicable IPT rate for each policyholder is determined by the location of the risk insured which will not change. Therefore, the amount of IPT charged will not be affected by the Proposed Transfer.

9.2.2. In addition, as all the business written by Soteria, DIUK and DLUK is now in run-off, there are no direct tax implications of the Proposed Transfer on any of the policyholder groups I have considered.

9.2.3. Soteria, DIUK and DLUK have informed me that they do not anticipate any material tax implications as a result of the Proposed Transfer. Although I am not an expert in matters of taxation, I consider it to be a reasonable assumption that there will not be any material tax implications for any group of policyholders as a result of the Proposed Transfer.

9.3. Pension arrangements

9.3.1. Soteria, DIUK and DLUK have informed me that none of the three entities has a defined benefit pension scheme. Therefore, I do not consider that any of the policyholder groups I have considered are materially adversely affected by the Proposed Transfer in terms of pensions arrangements.

9.4. Investment management implications

9.4.1. Soteria's investment management follows Saturn's Investment Policy Statement. The investment portfolio is structured to reflect the profile of liabilities, provide capital growth through investment in return-seeking assets (whilst balancing risk and capital efficiency), maintain adequate liquidity and support solvency coverage targets. As Soteria is in run-off, the focus of its investment strategy is on income-generating, cashflow-matching assets that deliver the required level of investment return with a high degree of certainty and liquidity, whilst also mitigating duration, inflation and currency risk. Soteria's strategic asset allocation includes approximately 55% of the portfolio in core fixed income assets and cash or money markets.

9.4.2. DIUK and DLUK currently hold investable assets by currency that are sufficient to meet the insurance liabilities held in each currency. The asset/liability currency matching is updated on a quarterly basis. Any surplus investment assets are held in the functional currency of the entity. For DIUK, this is GBP. For DLUK, this is currently USD, but DLUK is in the process of moving its surplus to GBP before 31 December 2025, in anticipation of DLUK becoming a subsidiary of DIUK prior to the Proposed Transfer and ultimately completing the Proposed Transfer.

9.4.3. Currently, DIUK's assets are held in money market funds and DLUK's assets are held in fixed term cash deposits. These are conservative investment strategies reflecting the small size of the current portfolios. However, given DIUK's intention to complete the Proposed Transfer and the associated planned growth in DIUK's investment portfolio, DIUK's and DLUK's investment strategies will be updated from Q1 2026. DIUK and DLUK are currently seeking non-objection from the PRA to move investment management of their portfolios to an outsourced provider. Once this non-objection has been received and due diligence has been completed, the DIUK money market fund holdings and DLUK cash deposit will be sold or matured, and the funds will be transferred to the investment manager for investment.

9.4.4. Following the appointment of the outsourced investment manager, DIUK's and DLUK's investment strategy will be to match assets for both currency and duration against the insurance liabilities. Investment management will be performed with reference to DARAG's investment guidelines. The investment portfolio will consist of government bonds and investment grade (BBB and above) corporate bonds, with money market funds established to maximise yield on short-term surpluses.

9.4.5. Following the Proposed Transfer, DIUK and DLUK do not anticipate any material changes to their investment strategies or investment risk appetite.

9.4.6. There are no planned changes to Soteria's, DIUK's or DLUK's investment strategies or investment risk appetites as a result of the Proposed Transfer (note that the changes to DIUK's investment strategy outlined above are planned prior to the Proposed Transfer). Therefore, I do not anticipate any materially adverse impact for any of the policyholder groups I have considered in terms of investment management as a consequence of the Proposed Transfer.

9.5. Implications for ongoing expense levels

9.5.1. All costs and expenses incurred relating to the Proposed Transfer will be borne by Soteria, DIUK and DLUK and will not be borne by policyholders. One-off costs associated with the Proposed Transfer are expected to be modest relative to the size of the Transferring Business and existing portfolios of Soteria DIUK, and DLUK.

9.5.2. Therefore, there are no impacts for any of the policyholder groups I have considered as a result of any changes to ongoing expense levels.

9.6. Impact on liquidity position

9.6.1. Soteria's liquidity is managed in line with Saturn's Liquidity Response Plan which ensures that, at all times, customer claims are able to be paid. The Saturn Board sets red and amber risk appetite thresholds for liquid investments and management monitors against this risk appetite regularly. The Liquidity Response Plan provides guidelines for monitoring liquidity in the event of a breach of liquidity thresholds and the appropriate actions to be taken when formulating a response plan. Potential actions following a breach of thresholds include considering selling sovereign bonds or corporate bonds, considering stopping investment purchases and re-investment of bonds that mature, and reconsidering proposed dividend payments.

9.6.2. DIUK and DLUK's current investment approach is discussed in section 9.4. Currently, the entirety of DIUK's investable assets are held in money market funds with next-day liquidity. Once the planned changed in investment strategy (see section 9.4) have been implemented, DIUK anticipates that the duration of DIUK's asset portfolio and the associated cash inflows from bond coupons and maturities will be appropriate to meet cash outflows. DIUK will also retain a cash liquidity buffer of £250,000 to meet liquidity requirements. Liquidity risk will be monitored by reviewing actuarial insurance liability payment patterns and operating expense requirements against predicted cash inflows. In addition, DIUK's planned future investment portfolio will all be held in highly liquid sovereign debt and investment grade corporate bonds.

9.6.3. Currently, DLUK's entire investable asset portfolio can be crystallised within 32 days by giving notice on its term deposit. DLUK also currently maintains cash of £300,000. DLUK deems this to provide sufficient liquidity, as the DLUK intra-group quota share is on a funds withheld basis (ie claim payments are drawn from the separate funds withheld by DAG), and the remaining DLUK reserves and operating expenses are small. Once DLUK's future investment strategy has been implemented (see section 9.4), its investment portfolio cashflows and currency will be duration-matched.

9.6.4. There are no expected changes to Soteria's, DIUK's or DLUK's liquidity position as a result of the Proposed Transfer. Therefore, I do not anticipate any materially adverse impacts on the liquidity position for any of the policyholder groups I have considered as a consequence of the Proposed Transfer.

9.7. Impact of other transfers

9.7.1. Soteria has stated that, following the Effective Date of the Proposed Transfer covered in this report, it is currently considering a range of options in respect of the remaining ("Non-Transferring") Soteria business, including a potential Part VII transfer of the remaining Non-Transferring Soteria business from Soteria to Tradex. Tradex is another entity within the same group as Soteria (Saturn Holdings). This transfer from Soteria to Tradex would cover Soteria's home and motor liabilities. Should this separate potential transfer proceed, there would be no remaining insurance liabilities in Soteria. In this case, Saturn Holdings would plan to close Soteria. Given that this would involve a separate Part VII process, I have not considered the impact of this future potential transfer here.

9.7.2. DARAG's strategy is to actively increase participation in the UK and Gibraltar legacy insurance market focussing on small to mid-sized portfolios. DIUK is planned to be the DARAG Group's UK insurance risk carrier. This may potentially include future Part VII transfers. I am not aware of any specific future planned transfers into or out of DIUK that will affect any of the Transferring or Existing Policyholders. Any future transfers would need to go through a separate approval process to ensure that policyholders would not be materially adversely affected.

9.8. Set-off

9.8.1. I have considered whether the Proposed Transfer is likely to lead to any changes in the rights of set-off for creditors or debtors of Soteria, DIUK or DLUK. 'Set-off' is a right that allows parties to cancel or offset mutual debts with each other by subtracting one from the other and paying only the balance.

9.8.2. Soteria, DIUK and DLUK have confirmed that there are no changes in set-off rights as a result of the Proposed Transfer. I have also not identified any material set-off rights as part of my review.

9.8.3. Therefore, considerations around set-off do not impact my conclusions.

9.9. Overall conclusion: Customer service and other considerations

9.9.1. Based on the work and rationale described above, I have concluded that no material impact on service standards (or any other considerations within this section of the report) is expected following the Proposed Transfer for Transferring Soteria Policyholders, Transferring DLUK Policyholders, Non-Transferring Soteria Policyholders, Non-Transferring DLUK Policyholders and Existing DIUK Policyholders.

10. Conclusions and Statement of Truth

10.1. Conclusion

10.1.1. I have considered the Proposed Transfer and its likely effects on the Non-Transferring Soteria Policyholders, the Non-Transferring DLUK Policyholder, the Transferring Soteria Policyholders, the Transferring DLUK Policyholders, the Existing DIUK Policyholders and the reinsurers of the Transferring Business.

10.1.2. In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: General Actuarial Standards and TAS 200: Insurance.

10.1.3. I have concluded that:

- The security provided to Non-Transferring Soteria Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-Transferring Soteria Policyholders following the Proposed Transfer.
- The security provided to the Non-Transferring DLUK Policyholder will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for the Non-Transferring DLUK Policyholder following the Proposed Transfer.
- The security provided to Transferring Soteria Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Soteria Policyholders following the Proposed Transfer.
- The security provided to Transferring DLUK Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring DLUK Policyholders following the Proposed Transfer.
- The security provided to Existing DIUK Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Existing DIUK Policyholders following the Proposed Transfer.
- Reinsurers who provide cover for the Transferring Soteria Business will not be materially adversely affected by the Proposed Transfer.

10.2. Issues to highlight

10.2.1. I consider it necessary that I review the most recent information, up to the date of the Sanction Hearing for the Proposed Transfer, when this becomes available later in the year, before confirming my opinion and conclusions.

10.2.2. Specific issues that I have highlighted in this report which require further review include:

- Any updates to reserves. In particular, this includes any update to DIUK's reserves as at 31 December 2025 in the context of the ongoing independent external review of large claims;
- Any updates to the financial information provided in this report eg financial projections including SCR coverage ratios and balance sheets;
- Any update on the progress of the commutations of the Transferring DLUK Policies and the outwards reinsurance covering the Transferring DLUK Business;
- An update on DIUK's approach to calculating the risk margin and allowing for ENIDs within the Solvency UK TPs;
- The implementation of the communication plan for Transferring Policyholders;
- Any policyholder objections received; and
- Any developments regarding the structure of the Proposed Transfer.

I will consider these points further as part of my Supplementary Report.

10.3. IE duty and declaration

10.3.1. My duty to the High Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I have complied with that duty.

10.3.2. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

10.3.3. I confirm that I am aware of the requirements applicable to experts in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims 2014. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

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Professional standards

Our work in preparing this document and the associated documents described above complies with Technical Actuarial Standard 100: General Actuarial Standards, together with Technical Actuarial Standard 200: Insurance.

The use of our work

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https://www.lcp.com/en/important-information-about-us-and-the-use-of-our-work contains important information about LCP and LCP Delta (including LCP's regulatory status and complaints procedure), and about this communication (including limitations as to its use).

Appendix 1 – Glossary

Term	Definition
Best estimate	An estimate prepared with no margin for either prudence or optimism.
Bornhuetter-Ferguson (BF) method	A blend of Development Factor Modelling and the Expected Loss Ratio Method (defined later in this glossary). The weighting given to each is dependent on how developed the claims are for a policy year.
Counterparty default risk	The risk of defaults or downgrades by counterparties that either owe an insurer money or hold money on its behalf. For example, this covers the risk of the failure of a reinsurer or a broker.
Currency risk	An element of market risk within the Solvency UK/II Standard formula. It reflects the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of currency exchange rates.
Development Factor Modelling (DFM)	An actuarial method for estimating future claims development using assumptions based on past patterns of claims development. 'Development' could mean the reporting of claims, payment of claims or the progression of case reserves.
Effective Date	The effective date of the Proposed Transfer, expected to be 31 July 2026.
Equity risk	An element of market risk within the Solvency UK/II Standard formula. It reflects the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of market prices of equities.
Events not in data (ENIDs)	An allowance in Solvency UK technical provisions for possible future events or developments that are not reflected in the insurer's historical data.
Existing DIUK Policyholders	Policyholders of DIUK immediately prior to the Proposed Transfer, who will remain policyholders of DIUK after the Proposed Transfer.
Expected Loss Ratio method	An actuarial method for estimating future claims development based on combining an exposure measure and an assumed rate per unit of exposure (the 'initial expected loss ratio').
Financial Conduct Authority (FCA)	The UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Financial Ombudsman Service (FOS)	Set up by the UK Parliament, the FOS is a free service that settles complaints between consumers and businesses that provide financial services. Parliament set up the FOS and has legal powers in the UK to address unresolved complaints between a business and a customer relating to financial services.
Financial Reporting Council (FRC)	The body responsible for setting actuarial standards in the UK. The FRC also regulates auditors and accountants and sets the UK's Corporate Governance and Stewardship Codes.
Financial Services and Markets Act 2000 (FSMA)	The legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
Financial Services Compensation Scheme (FSCS)	The FSCS is the compensation fund of last resort for customers of UK authorised financial services firms. This covers insurance for individuals and some insurance for small businesses.
Frequency/Severity Methods	Actuarial methods for estimating future claims based on modelling claim numbers and average claim sizes separately, and then multiplying them together, to calculate the overall claims cost.
Funds withheld	In the context of a reinsurance arrangement, funds withheld refers to a structure in which assets backing the reinsured liabilities are retained by the cedant. This reduces the cedant's exposure to the risk of reinsurer default.
Generally accepted accounting principles (GAAP)	A collection of commonly followed accounting rules and standards for financial reporting. GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Term	Definition
High Court	The High Court of Justice in London, which, together with the Court of Appeal and the Crown Court, are the Senior Courts of England and Wales.
Incurred but not enough reported (IBNER)	See definition of IBNR.
Incurred but not reported (IBNR)	The provision for claims that may be reported in the future but relate to events that have already occurred. This also includes provision for possible future development of existing open claims, i.e. those that have been reported but not fully settled. The provision for possible development of open claims is called IBNER (Incurred But Not Enough Reported). Depending on the type of insurance being considered and the claims handling approach, both the IBNR and IBNER can be either positive or negative.
Independent Expert	A suitably qualified person appointed by the Court to produce an independent report on an insurance business transfer scheme, in accordance with the FSMA. The Independent Expert's primary duty is to the Court, and the Independent Expert's opinion is independent of those of the sponsoring companies involved in the Transfer and of the regulators.
Interest rate risk	An element of market risk within the Solvency UK/II Standard formula. It reflects the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates or the volatility of interest rates.
Loss Portfolio Transfer (LPT) agreement	The Loss Portfolio Transfer (LPT) agreement which Soteria and DAG entered into on 21 March 2025 in preparation for the Proposed Transfer, under which all of the liabilities arising from the Transferring Soteria Business were fully reinsured by DAG.
Market risk	The risk of changes in an insurer's financial position due to changes in the market value of assets, liabilities and financial instruments. For example, this covers the risk of falls in the value of assets that are being held to make future claims payments.
MCR coverage ratio	The MCR coverage ratio is the ratio of Own Funds to Required Capital (MCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer.
Minimum Capital Requirement (MCR)	A formulaic calculation of the capital requirement as part of the Solvency UK/II regulations for insurers. Breaching the MCR defines the point of intensive regulatory intervention. The calibration of the MCR is to be the capital required to give an 85% confidence level of sufficient capital to last one year. The MCR is a simpler calculation than the SCR and is typically a less onerous requirement.
Non-Transferring DLUK Policyholder	The DLUK policyholder whose policy will remain with DLUK after the Proposed Transfer.
Non-Transferring Soteria Policyholders	Soteria policyholders whose policies will remain with Soteria after the Proposed Transfer.
Non-Transferring Business	DLUK and Soteria policyholders whose policies will remain with DLUK and Soteria respectively after the Proposed Transfer. This group comprises both the Non-Transferring DLUK Policyholder and the Non-Transferring Soteria Policyholders.
Operational risk	The risk of losses caused by failures in an insurer's operational processes, people and systems, or from events that are external to the insurer. For example, this would cover the risk of fraud or IT failure.
Own Funds (or Eligible Own Funds)	The capital in excess of provisions available to meet the capital requirements under Solvency UK/II.
Periodical Payment Order (PPO)	A court order that mandates regular, ongoing payments, typically instead of a single lump-sum settlement.
Personal Injury Discount Rate (PIDR)	A percentage set by the Government that courts use to discount lump-sum compensation awards for serious personal injury. It reflects the investment return a claimant is expected to earn on the money over their lifetime.

Term	Definition
Polyfluoroalkyl substances (PFAS)	A family of man-made chemicals, commonly used in eg non-stick pans, firefighting foam and waterproof fabrics. These substances are often referred to as “forever chemicals” because they do not break down easily and are linked to potential health and ecological risks.
PRA’s Statement of Policy	The Statement of Policy issued by the PRA entitled ‘Statement of Policy – The PRA’s approach to insurance business transfers – January 2022 (Updating April 2015)’
Proposed Transfer	The proposed insurance business transfer from Soteria and DLUK to DIUK under Section 105 of the FSMA.
Prudential Regulation Authority (PRA)	The part of the Bank of England that carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Quota Share (QS) reinsurance	A type of reinsurance arrangement where an insurer shares a fixed percentage of premiums and claims with a reinsurer.
Reinsurance	An arrangement with another insurer to share or pass on risks.
Reinsurance bad debt	Reinsurance bad debt is a provision for amounts that are owed by reinsurers but which may not be paid, e.g. due to the insolvency of the reinsurer.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (i.e. the SCR).
Retrocession reinsurer	An insurer that provides reinsurance to another reinsurer.
Scheme Document	A document submitted to the High Court setting out details of the Scheme or Proposed Transfer.
Scheme Report	This report prepared by me, as the Independent Expert, for submission to the High Court.
SCR coverage ratio	The ratio of an insurer’s available capital to its Required Capital (SCR). This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the insurer (all else being equal).
Solvency Capital Requirement (SCR)	The amount of capital an insurer is required to hold under Solvency UK/II Regulations. This is an estimate of the capital required to cover the loss that an insurer could experience over the next 12 months with a probability of 99.5% (i.e., a 1 in 200 event). If an insurer’s capital (ie the excess of its assets over its liabilities) falls below the SCR, it will trigger regulatory intervention, with the intention of remedying that position.
Solvency and Financial Condition Report (SFCR)	Solvency UK/II requires each insurer to publish an SFCR annually that contains certain qualitative and quantitative information.
Solvency UK	The system for establishing (among other things) minimum capital requirements for UK insurers, originally under the Solvency II Directive 2009/138/EC.
Spread risk	An element of market risk within the Solvency UK/II Standard formula. It reflects the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.
Standard formula	A prescribed approach under Solvency UK/II for the calculation of capital based on an insurer’s financial information (e.g. premiums and claims provisions).
TAS 100	The FRC issued Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) which applies to all technical actuarial work completed on or after 1 July 2023.
TAS 200	The FRC issued Technical Actuarial Standard 200: Insurance (TAS 200) which applies to all technical actuarial work completed on or after 1 January 2025.

Term	Definition
Technical provisions	Under Solvency UK, the technical provisions cover the ultimate costs of settling all claims arising from events occurring up to the balance sheet date plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Tier 1 capital	Under Solvency UK, capital is categorised into 3 tiers based on the permanence and loss absorbency of the form of capital. Tier 1 capital is the highest quality.
Transferee	The insurer to which the business is being transferred, DARAG Insurance UK Limited (DIUK).
Transferors	The insurers from which the business is being transferred, Soteria Insurance Limited (Soteria) and DARAG Legacy UK Limited (DLUK).
Transferring DLUK Policyholders	DLUK policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.
Transferring Soteria Policyholders	Soteria policyholders whose policies will transfer to DIUK as a result of the Proposed Transfer.
Unallocated Loss Adjustment Expenses (ULAE)	An insurer's estimated claims handling costs that cannot be directly linked to an individual claim. Provisions for ULAE are included as part of the overall claims reserve under UK GAAP.
Underwriting risk	The risk that the value of insurance claims proves to be higher than expected.
Unearned Premium Reserve (UPR)	A provision for the unexpired portion of insurance policies. This appears as a liability on the insurer's balance sheet, since the premium would be paid back upon cancellation of the policy.

Appendix 2 – Extract from Terms of Reference

I, Charl Cronje, will act as IE to support the proposed Part VII transfer from Soteria Insurance Limited (Soteria) to DARAG Insurance UK Limited (DIUK) and from DARAG Legacy UK Ltd (DLUK) to DARAG Insurance UK Limited (DIUK).

The key deliverables from the work will be the following reports in respect of the Transfer (the “Reports”):

- The main Independent Expert report prior to the Directions Hearing;
- The summary report prior to the Directions Hearing; and
- The supplementary report prior to the Sanction Hearing.

The Reports and any other analysis, advice and opinions in respect of the Transfer will be in accordance with the relevant requirements set out in Part VII of the Financial Services and Markets Act 2000 (and associated supplemental guidance).

Other key deliverables from the work will be:

- Input as required to address any issues arising, including addressing comments raised by the PRA from their review of the Reports; and
- Presentation of my findings as the IE to the court, if required, and responding to any queries and additional court requests.

Appendix 3 – CV of Charl Cronje FIA

Charl is a leading actuary in the general insurance market, with over 30 years' experience. He advises general insurers on underwriting strategy, reserving, mergers and acquisitions, capital modelling, risk management, pricing, reinsurance strategy and a variety of other matters.

He has acted as Chief Actuary (SMF 20) on an outsourced basis for a number of insurers.

Charl holds a Lloyd's Syndicate Actuary practising certificate and a UK Chief Actuary practising certificate. He has acted as the signing actuary providing SAOs on nine Lloyd's syndicates.

He also acts as an expert witness on reinsurance disputes.

Independent Expert experience

- Charl has acted as the Independent Expert on several Part VII transfers.
- Has also acted as the formal peer reviewer on a number of further Part VII transfers.

Appendix 4 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer. All data I have requested has been provided to me. Each of Soteria, DIUK and DLUK has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

- Draft High Court and regulatory documents prepared by Soteria, DIUK and DLUK for the Proposed Transfer, including:
  - Scheme Document (draft received on 9 January 2026)
  - First Witness Statements for Soteria, DIUK and DLUK (drafts received on 9 January 2026)
  - Draft proposed communication plan and communications prepared by Soteria, DIUK and DLUK including:
    - Proposed communications strategy (received on 9 January 2026)
    - Covering letters to the policyholders and other stakeholders (received on 12 December 2025)
    - FAQs document (received on 12 December 2025)
    - Website wording (received on 12 December 2025)
- Documents relating to provisions and reserving processes, including:
  - Actuarial reserving reports for DLUK (as at 31 December 2024) and DIUK (as at 31 December 2024 and 30 September 2025)
  - Various actuarial reserving committee papers for Soteria (latest as at 30 September 2025)
  - DARAG's actuarial due diligence report (as at 31 May 2024) and updated reserves (as at 30 September 2025) for the Transferring Soteria Business
  - Actuarial Function Report for Soteria (dated June 2025) and DIUK (dated September 2025)
  - Reserving Policy for the DARAG Group
  - Reserving Committee Terms of Reference for Soteria and the DARAG Group
  - External actuarial reserving report for Soteria (as at 30 June 2025) and the DARAG Group's exposure to mesothelioma claims within the Transferring Soteria Business (dated January 2025)
- Documents relating to capital and related processes, including:
  - Solvency and Financial Condition Report (SFCR) for Soteria, DIUK and DLUK year ending 31 December 2024
  - Own Risk and Solvency Assessment (ORSA) reports for Soteria, DIUK and DLUK and separate standard formula appropriateness report for Soteria
  - Soteria's capital policy (dated November 2025) and dividend extraction report (dated October 2025)
  - Various capital stress scenarios for Soteria and DIUK
  - Projections of future balance sheets and capital requirements up to 31 December 2029 for Soteria and 31 December 2028 for DIUK and DLUK

Appendix 5 – Mapping to requirements

The table below shows the relevant section references in the Scheme Report where I have addressed each point in the guidance from Chapter 18 of the Supervision Manual of the FCA Handbook and the PRA's 'Statement of Policy – The PRA's approach to insurance business transfers – January 2022 (Updating April 2015)' with regards to the Scheme Report.

The guidance references for 'PRA x.x' are taken from the PRA Statement of Policy and 'FCA x.x' are taken from Chapter 18 of the Supervision Manual.

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (1) FCA 18.2.33 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	2.2 (page 20)
PRA 2.30 (2) FCA 18.2.33 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator (the PRA)	2.2 (page 20)
PRA 2.30 (3) FCA 18.2.33 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role	2.2 (page 20) Appendix 3
PRA 2.30 (4) FCA 18.2.33 (4)	Whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest	2.2 (page 20)
PRA 2.30 (5) FCA 18.2.33 (5)	The scope of the report	2.3 (page 21)
PRA 2.30 (6) FCA 18.2.33 (6)	The purpose of the scheme	3.3 (page 31)
PRA 2.30 (7) FCA 18.2.33 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	3.2 (page 25)
PRA 2.30 (8) FCA 18.2.33 (8)	What documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided	Appendix 4
PRA 2.30 (9) FCA 18.2.33 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others	2.5 (page 22)
PRA 2.30 (10) FCA 18.2.33 (10)	The people the independent expert has relied on and why, in their opinion, such reliance is reasonable.	2.5 (page 22)
PRA 2.30 (11) FCA 18.2.33 (11)	Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified	1.3 (page 11) 10 (page 92)

Guidance reference	Guidance	Scheme report reference
PRA 2.30 (12) FCA 18.2.33 (11A)	Their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme.	1.3 (page 17) 10 (page 92)
PRA 2.30 (13) FCA 18.2.33 (12)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme.	10 (page 92)
PRA 2.30 (14) FCA 18.2.33 (13)	For each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons	Reserving: 5.12 (page 50) Capital: 6.11 (page 72) Policyholder security: 7.8 (page 80) Policyholder communications: 8.7 (page 86) Customer service and other considerations: 9.9 (page 91)
PRA 2.32 (1) FCA 18.2.35 (1)	A description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme	3.2 (page 25)
PRA 2.32 (2) FCA 18.2.35 (2)	A description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	3.2 (page 25)
PRA 2.33 (1) FCA 18.2.36 (1)	Include a comparison of the likely effects if it is or is not implemented	3.4 (page 31)
PRA 2.33 (2) FCA 18.2.36 (2)	State whether the firm(s) considered alternative arrangements and, if so, what	3.4 (page 31)
PRA 2.33 (2A) FCA 18.2.36 (3)	Where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders	1.3 (page 11)
PRA 2.33 (3) FCA 18.2.36 (4)	Include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	(a) 1.3 (page 11) (b) and (c) 9 (page 87)

The Proposed Transfer does not involve a mutual company. As such, PRA 2.35 and FCA 18.2.38 do not apply.

The Proposed Transfer does not involve any long-term insurance business. As such, PRA 2.36 (FCA 18.2.39) does not apply.