WEALTH PASSPORT – UK HYBRID POLICY

utmost WEALTH SOLUTIONS

PRIVATE PLACEMENT MEMORANDUM

WEALTH PASSPORT – UK HYBRID POLICY OFFERED BY UTMOST LUXEMBOURG S.A. (THE INSURER)

THIS PRIVATE PLACEMENT MEMORANDUM (THE "MEMORANDUM") IS PROVIDED TO PROSPECTIVE POLICY INVESTORS (WHICH TERM SHALL ALSO INCLUDE THE POLICYHOLDER) FOR INFORMATIONAL USE SOLELY FOR THE PURPOSE OF EVALUATING THE POSSIBLE PURCHASE OF THE POLICY. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO ANY PERSON OR TO THE PUBLIC GENERALLY TO ACQUIRE THE POLICIES. DISTRIBUTION OF THIS MEMORANDUM TO ANY PERSON OTHER THAN THE PROSPECTIVE INVESTOR AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH PROSPECTIVE INVESTOR WITH RESPECT TO THE OFFER AND SALE OF THE POLICIES IS NOT AUTHORISED.

THIS MEMORANDUM DESCRIBES CERTAIN POLICIES OFFERED BY THE INSURER, WHICH ARE DESIGNED TO MEET THE REQUIREMENTS FOR CLASSIFICATION AS DEFERRED VARIABLE ANNUITY CONTRACTS IN THE UNITED STATES OF AMERICA WHILE CONTINUING TO BE TREATED AS LIFE INSURANCE POLICIES IN THE UNITED KINGDOM. THIS DOCUMENT PROVIDES FURTHER DETAIL ON U.S. REGULATION AND TAX IN RELATION TO THE POLICIES, AND IS SUPPLEMENTARY TO THE KEY FEATURES DOCUMENT THAT THE UNITED KINGDOM FINANCIAL CONDUCT AUTHORITY REQUIRES US TO PROVIDE TO YOU. IF YOU HAVE NOT DONE SO, PLEASE READ THE KEY FEATURES DOCUMENT, THE GENERAL TERMS AND CONDITIONS AND THE ADDENDUM TO YOUR POLICY BEFORE RETURNING TO READ THIS MEMORANDUM.

THE MEMORANDUM AND THE INFORMATION CONTAINED HEREIN CONSTITUTE CONFIDENTIAL AND PROPRIETARY INFORMATION OF THE INSURER WHICH MAY NOT BE DISSEMINATED WITHOUT THE PRIOR WRITTEN CONSENT OF THE INSURER. BY ACCEPTING DELIVERY OF THIS MEMORANDUM, THE PROSPECTIVE INVESTOR AGREES NOT TO PHOTOCOPY OR REPRODUCE IN ANY MANNER THIS MEMORANDUM OR TO DIVULGE ITS CONTENTS TO ANY PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE INSURER. THE PROSPECTIVE INVESTOR FURTHER AGREES TO RETURN THIS MEMORANDUM (INCLUDING ALL COPIES) TO THE INSURER IF A DECISION IS MADE NOT TO PURCHASE A POLICY OR THE OFFERING IS TERMINATED.

THE INSURER IS A COMPANY INCORPORATED IN LUXEMBOURG. THE POLICY PROVIDES FOR ANNUITY PAYMENTS THAT ARE WHOLLY DEPENDENT UPON THE INVESTMENT PERFORMANCE OF THE UNDERLYING ASSETS RELATING TO THAT PARTICULAR POLICY. THE POLICY DOES NOT PROVIDE FOR ANY GUARANTEED MINIMUM PAYMENTS, VALUES OR RETURN. THE MINIMUM SINGLE PREMIUM FOR EACH INVESTOR IS ONE MILLION U.S. DOLLARS (USD 1,000,000).

THE INSURER IS LICENSED AND REGULATED IN LUXEMBOURG. THE INSURER IS NOT LICENSED TO AND DOES NOT CONDUCT ANY INSURANCE BUSINESS WITHIN THE UNITED STATES OF AMERICA OR ANY OF ITS TERRITORIES OR POSSESSIONS (COLLECTIVELY REFERRED TO AS THE "UNITED STATES" OR "U.S."). THE POLICIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

THE POLICIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY U.S. STATE SECURITIES LAWS AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE U.S. STATE SECURITIES LAWS. ACCORDINGLY, THE POLICIES DESCRIBED IN THIS MEMORANDUM ARE BEING OFFERED AND SOLD EXCLUSIVELY TO PROSPECTIVE INVESTORS OUTSIDE OF THE UNITED STATES PURSUANT TO REGULATIONS UNDER THE SECURITIES ACT. THE INSURER, THE POLICIES AND THE SEGREGATED ACCOUNT ITSELF WILL NOT BE REGISTERED AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT").

THE CONTENTS OF THIS MEMORANDUM ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OR HER OWN ATTORNEY, BUSINESS AND TAX ADVISORS AS TO THE LEGAL, BUSINESS AND TAX IMPLICATIONS OF ACQUIRING A POLICY. THIS MEMORANDUM CONTAINS DISCLOSURES OF POTENTIAL RISK FACTORS WHICH SHOULD BE CAREFULLY CONSIDERED BY EACH PROSPECTIVE INVESTOR PRIOR TO ACQUIRING A POLICY. MOREOVER, THE HEADINGS ARE NOT INTENDED TO AFFECT THE CONSTRUCTION OF THE PROVISIONS OF THIS MEMORANDUM.

UNDER NO CIRCUMSTANCES SHALL THE DELIVERY OF THIS MEMORANDUM CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS OR IN THE AFFAIRS OF THE PARTIES DESCRIBED OR OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF, OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS MEMORANDUM.

THE POLICIES DESCRIBED HEREIN HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY. THE FOREGOING AUTHORITIES HAVE NOT REVIEWED THIS MEMORANDUM NOR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS MEMORANDUM.

THE INSURER IN ITS SOLE DISCRETION RESERVES THE RIGHT TO REJECT, FOR ANY OR NO REASON WHATSOEVER, ANY OFFER TO PURCHASE THE POLICIES DESCRIBED HEREIN.

THERE WILL BE NO "DIRECTED SELLING EFFORTS" (AS DEFINED IN REGULATION 'S' OF THE SECURITIES ACT) OR OTHER MARKETING OF ANY TYPE IN THE UNITED STATES WITH RESPECT TO THESE POLICIES. THIS MEMORANDUM, THE KEY FEATURES DOCUMENT, THE APPLICATION FORM, THE GENERAL CONDITIONS AND THE ADDENDUM TO THE POLICY ARE THE ONLY AUTHORISED DOCUMENTS WHICH HAVE BEEN PREPARED TO DESCRIBE THE POLICIES. NO PERSON OTHER THAN THE INSURER HAS BEEN AUTHORISED TO MAKE REPRESENTATIONS, OR GIVE ANY INFORMATION, WITH RESPECT TO THESE POLICIES. INFORMATION OBTAINED OTHER THAN FROM THIS MEMORANDUM AND THE DOCUMENTS REFERRED TO ABOVE MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE INSURER. PROSPECTIVE INVESTORS AND THEIR ADVISERS WHO HAVE ANY QUESTIONS CONCERNING THE TERMS AND CONDITIONS OF THE POLICY OR WHO DESIRE ADDITIONAL INFORMATION OR DOCUMENTATION TO VERIFY OR SUPPLEMENT THE INFORMATION CONTAINED HEREIN SHOULD CONTACT THE INSURER. THE DESCRIPTION OF THE POLICY CONTAINED HEREIN IS QUALIFIED ENTIRELY BY REFERENCE TO THE KEY FEATURES DOCUMENT, THE POLICY ITSELF, ITS CONDITIONS AND THE ADDENDUM.

THE POLICY

The Policy is a single premium life insurance contract that is designed with deferred variable annuity features. The Policy is intended to qualify as an annuity under the relevant U.S. regulations, although the Insurer does not guarantee any particular result under the laws of the U.S. or of any other jurisdiction.

Full details of the Wealth Passport – UK Hybrid Policy are contained in the Application Form, the General Conditions and the Addendum to Life Assurance Policy and are summarised in the Key Features document, which you should read before investing. Copies of all documents are available on request.

Premiums with respect to each Policy will be invested in a segregated asset account (the "Segregated Account") to be managed in accordance with one or more discretionary investment programs (the "Investment Programs") offered by the designated investment manager (the "Investment Manager"). The Policyholder, at the time of acquisition of the Policy and periodically thereafter, may in accordance with certain established procedures elect to allocate funds in the Segregated Account among the available Investment Programs, as amended from time to time. Investors may generally make additional premium payments at any time, subject to the Insurer's consent, minimum contribution requirements and other applicable procedures. The Investor may choose between different payment options for the annuity payments.

The Policy does not provide an annuity guaranteed for life. It provides a facility to access a specified part of your investment as an annuity payment for a period based on life expectancy. There is no guaranteed minimum amount and if the value of your investment is not sufficient to make the payments, then no further payments will be made. Other provisions may limit the amount paid out. All payments under the Policy are dependent on the investment performance of the portfolio held in the Segregated Account maintained by the Insurer for that particular Policy. Investment performance is not guaranteed, and the risk of negative investment performance is borne by the Policyholder.

Utmost Luxembourg S.A. is regulated by the Luxembourg insurance regulator, the Commissariat aux Assurances.

ELIGIBLE INVESTORS

The Policy will be offered and sold only to "accredited investors" (as defined under Regulation D of the Securities Act) who acquire the Policies outside the U.S. in "offshore transactions" as defined in Regulation S under the Securities Act. Hence the purchase of a Policy is suitable only for individuals, trusts and other entities of substantial financial means. The Policy will be offered for sale only to persons or entities who we have reasonable grounds to believe are eligible investors, because the Policies are being sold in an offering that has not been registered with the SEC. Prospective Policyholders must complete and return an Investor Questionnaire which requests certain information required to determine a potential Policyholder's eligibility to purchase a Policy, and we may request that such persons furnish such other information as we deem necessary to evaluate their qualifications to purchase a Policy. We reserve the right, in our sole and absolute discretion, to reject any application for a Policy.

Policies will be sold only to eligible investors under the Securities Act. Prior to being approved for the purchase of a Policy, a prospective Policyholder must satisfy, and represent in writing that he, she or it has satisfied, certain purchaser eligibility standards. In addition to being an eligible investor, the required eligibility standards and written representations include that the prospective Policyholder:

(1) is acquiring a Policy only for the benefit of the Policyholder, as well as beneficiaries and annuitants, and not with a view towards resale or distribution;

(2) has adequate means of providing for his or her current needs and personal contingencies outside of the Policy;

(3) has substantial experience in making financial product purchase decisions of this type.

The eligibility standards referred to above represent minimum eligibility requirements for prospective Policyholders. The satisfaction of such standards by a prospective Policyholder does not necessarily mean that the Policies are a suitable investment for such Policyholder.

The Insurer, the Policies and the Segregated Accounts have not been registered under the Securities Act or the Investment Insurer Act, as amended.

POLICY INVESTMENT MANAGEMENT

Premiums and related investment assets with respect to each Policy will be held in a Segregated Account in the possession of a custodian (the "Custodian"). The Segregated Account funds will be held by a Custodian in accordance with an established custody relationship.

The funds in the Segregated Account will be managed in accordance with one or more discretionary Investment Programs offered by the designated Investment Manager selected by the Insurer.

Each Investment Program embodies a particular investment focus. The Investment Programs offer a broad range of investment categories which may include investments in investment grade and other debt and equity securities, options, warrants, derivatives and other instruments. The Policyholder (including any related and affiliated person) does not have the right under the Policy to direct the Insurer or Investment Manager to make, hold or dispose of any particular investment. The Policyholder may under no circumstances have any communications directly or indirectly with the Investment Manager regarding the current or future investments, plans or strategies with respect to the Segregated Account nor the selection, quality or expected future rate of return of any specific investment or group of investments. The Policyholder's rights are limited to the selection of general investment strategies by means of the designation of an Investment Program subject to the approval of the Insurer and the Investment Manager. Moreover, it is expected that the Insurer will consider the purchase of Segregated Account investment assets which could require the Insurer to make additional equity investments from Segregated Account funds (i.e., capital calls) only if the Insurer determines that the Segregated Account contains sufficient liquid assets from which any such additional equity investments may be satisfied. Alternatively, as a precondition to issuing the Policy, the Insurer may request that the Policyholder contractually agree to contribute additional Premiums as necessary or up to a specified amount, as requested by the Insurer, to guarantee the Insurer's ability to satisfy additional equity investments relating to investments to be held within a Segregated Account. Each Policyholder should carefully consider the investment risks inherent in the various Investment Programs. The Insurer does not guarantee the operation, performance or availability of any Investment Program. A Policyholder could lose his or her entire investment placed with any particular Investment Program.

Valuations will be prepared on a calendar quarterly basis for each Segregated Account based on information provided by the Investment Manager and/or Custodian. Each quarterly report will set forth the Segregated Account value as of the end of the quarter based on the fair market value of the assets allocated to the Segregated Account as reported to the Insurer by the Investment Manager and/or Custodian less applicable fees, expenses, taxes and charges. The Insurer will make such quarterly reports available to the Policyholder. Periodic reports will continue until the earlier of the surrender or termination of the Policy.

The Insurer is not registered as an investment adviser under the U.S. Investment Advisers Act and is not and will not provide investment advice in relation to the Policies to any Policyholder. The Investment Manager may or may not be registered as investment adviser under U.S. Investment Advisers Act. The Insurer assumes no liability exposures for any damages or additional expenses incurred or impacting Policyholders by reason of any Investment Manager's lack of such registration.

The Insurer may in its sole discretion at any time and from time to time change the Investment Manager and/or Custodian or may select additional Investment Managers and/or Custodians but is under no obligation to do so.

RISK FACTORS

Each Policyholder should be aware of certain risks associated with an investment in the Policy.

The risks include investments and the U.S. federal income tax laws. The risks of the Policy in connection with the Segregated Accounts are the risks of investing in the underlying securities selected by the Investment Manager(s). The risks vary depending on the investment objectives of the underlying securities or investments selected. The risks may include, among others: (1) the risk of poor performance or default by one or more issuers of securities that constitute the Segregated Accounts' assets; (2) the risks of adverse government regulations affecting industries that contain companies whose shares are held by the Segregated Accounts; (3) the risks of interest rate and currency exchange rate fluctuations; (4) the risk of erratic price movements, high portfolio turnover, and related transaction costs; and (5) the risks of investing in illiquid investments for which there may be limited or no immediate opportunity to liquidate. In addition, the risks assumed by a Policyholder include specific investment-related risks as per the chosen Investment Program.

The risks faced by Policyholders in connection with the federal income tax laws are caused by the current and future application of the tax laws. Under existing federal income tax law, a Policyholder may be subject to adverse tax consequences and penalties involving certain withdrawals from the Policy. In addition, there can be no guarantee as to the substance and effect of any revisions in the tax laws or any changes in the interpretation of the tax laws. Therefore, a Policyholder cannot be certain of the continual effect of the federal income tax laws on Policy ownership. Even under the current tax laws as they are presently interpreted, their effect on Policy ownership in both the United Kingdom and the U.S. may be affected by changes in circumstances and life events including, but not limited to, divorce and remarriage. Upon becoming aware of the potential upcoming occurrence of such change or event, Policyholders are strongly recommended to consult an independent professional adviser to understand the attendant tax consequences and take appropriate action. Additionally, although the Policy is intended to achieve tax deferral in both the United Kingdom and the U.S., surrenders and other taxable events will be taxed differently under the United Kingdom and U.S. tax rules, creating additional complexity in reporting and filing in both jurisdictions. Moreover, there is a material risk that the Policy might not qualify for tax deferral (if it does not, the Policyholder would be taxed on any income, including capital gains, earned on the Segregated Accounts' assets and may also face interest and penalties on any unpaid taxes). This will be the case if there is any arrangement or understanding that the Segregated Account will invest in a particular security or other investment or the Policyholder is otherwise deemed to have control over the investments of a Segregated Account. As such, it is incumbent upon Policyholders to ensure that they do not engage in any arrangement or understanding with respect to particular securities or investments that will be made in the Segregated Account.

The Policy has been designed to meet certain US tax requirements; in addition to the comments made herein in relation to the US tax treatment of the Policy and payments made under it, Policyholders should also be aware that its tax treatment outside the United States is not without doubt, and they are strongly recommended to consult an independent professional adviser as to the potential tax consequences of the investment and in particular as to the tax treatment of the Policy and any payments at the Annuity Payments Start Date and each continuing anniversary. In particular, in the United Kingdom, one possible interpretation of the election of the Payment Option (either by the Insured or as a default option) is that it could amount to a surrender of the Policy at the Annuity Payments Start Date. It is considered that a more natural interpretation of the Policy is that the payments made amount to a series of part surrenders on the Annuity Payments Start Date and subsequently with each being taxed separately. However, this may not be accepted by either HM Revenue and Customs or any court.

The value of the Policy at any time is variable, depending on the performance of the assets in the Segregated Account and is subject to fluctuation. The Policy does not provide any guaranteed benefits unless an Enhanced Death Benefit is agreed.

The Policy is designed to allow regular payments during a maximum period, fixed by the Insurer based on the life expectancy of the Annuitant or Annuitants but such regular payments will cease when the funds in the Segregated Account are depleted or the relevant Life Assured dies.

The Policy can only be sold to "accredited investors" (as defined under Regulation D of the Securities Act) who acquire the Policy outside the United States in "offshore transactions" (as defined in Regulation S of the Securities Act). Each investor must satisfy certain financial guidelines established by the Insurer and commit to a minimum initial Premium payment of at least one million U.S. Dollars (USD 1,000,000).

Rules governing taxation are subject to change and the effects of taxation depend upon your particular circumstances. The Insurer accepts no liability for the effects of any future legislative changes or of Revenue practice in the U.S., the United Kingdom, Luxembourg or elsewhere. Investors should always seek independent professional advice before making an investment.

US TAX MATTERS

The following discussion is based on the U.S. federal income, gift & estate tax law as of the date hereof but does not include a discussion of the tax laws of any state or local U.S. jurisdiction or other non-U.S. jurisdiction. This summary is intended solely as a general overview of complex tax concepts but is not intended to be a complete discussion of this subject matter nor to cover all factual situations. The tax consequences described herein may be adversely affected by subsequent changes in the law or later interpretations of present law, which may have retroactive effect. This tax discussion has no binding effect on the U.S. Internal Revenue Service (the "IRS") or a court and the IRS may seek to challenge the treatment discussed below or disagree with its conclusions or analysis. The Insurer does not intend to seek a private letter ruling from the IRS on any of the issues discussed below, and the Company will not make any independent assessment of the suitability of the Policy for prospective Policyholders. A prospective Policyholder should consult with his or her independent advisors as to the suitability of the Policy in light of his or her particular circumstances.

All prospective investors are urged to consult their personal legal and tax advisors concerning the legal, tax, estate planning and other aspects of the policies.

U.S. TAXATION OF THE INSURER

The Insurer will be subject to U.S. federal corporate income tax on income that is effectively connected with the conduct of a trade or business within the U.S., if any. The Insurer intends to operate in such a manner as to reduce the risk of being found to be engaged in a U.S. trade or business. All relevant facts and circumstances are taken into account in determining whether a person is so engaged.

The Insurer does not intend to carry on a trade or business within the U.S. In that regard, the Insurer does not intend to: (i) maintain an office or other fixed place of business in the U.S.; (ii) employ, or appoint as agents, persons in the U.S. with the authority to act on behalf of the Insurer; (iii) conduct meetings of directors or officers in the U.S.; or (iv) negotiate, sign or accept annuity, insurance or reinsurance agreements or settle claims under such agreements in the U.S. Moreover, the Insurer will accept payment of Premiums and issue and deliver Policies only outside of the U.S. The Policy will not be offered for sale in the U.S. Prospective investors may only purchase a Policy at the Insurer's offices outside of the U.S., or in certain other locations outside of the U.S. designated in writing by the Insurer.

If the Insurer were considered to carry on a trade or business within the U.S., income that is attributable to such U.S. business would be subject to U.S. federal corporate income taxes. In the context of the Insurer, this income may include underwriting income and investment income attributable to the U.S. business. In addition, the U.S. federal branch profits tax may apply to any earnings attributable to a foreign corporation's U.S. business which are withdrawn from the U.S. business.

If a foreign corporation is found to be engaged in a U.S. trade or business, but has not timely filed a U.S. federal income tax return, U.S. federal corporate income tax may be imposed upon the gross income of the foreign corporation without the benefit of tax deductions. In this regard, the Insurer will consider whether to file federal tax returns as a protective measure in case it is found to be engaged in a U.S. trade or business.

If the Insurer does not carry on a trade or business in the U.S., investment income from sources within the U.S. (i.e., dividends, interest and other fixed or determinable, annual or periodic income as defined in IRC Section 881(a)) generally would be subject to a U.S. withholding tax of thirty percent (30%). Interest received from U.S. banks and interest received on certain portfolio debt instruments, however, should be exempt from this withholding tax. Investment income from foreign sources would not be subject to U.S. withholding taxes but may be subject to taxation by the source jurisdiction. U.S. withholding tax, to the extent applicable, will reduce the return on investments of the Segregated Account.

U.S. TAXATION OF U.S. BENEFICIAL OWNERS

The Policy will not be offered or sold to any person who is physically present in the U.S. at the time (1) promotional or other materials with respect to the Policy are presented or delivered to the prospective investor, (2) the decision is made to acquire the Policy, or (3) substantial actions are taken by the prospective investor in furtherance of acquiring the Policy. Nevertheless, a U.S. citizen or resident may be considered a U.S. taxpayer ("U.S. Taxpayer") even though such person may not be considered a U.S. person for U.S. securities law purposes. Additionally, a U.S. Taxpayer may be treated as the beneficial owner of the Policy for U.S. tax purposes even if the Securities Act considers the Policy to have been purchased and held by a non-U.S. person. U.S. Taxpayers are subject to U.S. federal income tax on their worldwide income. Furthermore, U.S. citizens and individuals deemed to be domiciled in the U.S. are subject to U.S. federal gift, estate, and generation-skipping transfer tax on gratuitous transfers of their assets wherever located. This section summarises in very broad terms certain key U.S. tax provisions specifically directed at deferred variable annuities. The general application of these rules to a U.S. Taxpayer who is treated as the beneficial owner of the Policy for U.S. tax purposes is discussed in the following subsections. This is not intended to be an exhaustive discussion of these complex tax issues that may be subject to significant exceptions and variations based on the particular facts and circumstances surrounding each U.S. Taxpayer.

(1) Distributions Before the Annuity Payments Start Date

Distributions received at any time prior to the "annuity starting date" (as defined in Internal Revenue Code ("IRC") Section 72(c)(4) to be the first day of the first period for which an amount is received as an annuity under the contract, which date is generally prior to the Annuity Payments Start Date as defined in the Policy) are generally taxable as ordinary income to the U.S. Taxpayer to the extent of the "income on the contract" which consists of the excess of (a) the cash value of the contract (determined without regard to any surrender charge) over (b) the investment in the contract at such time. To the extent that the distribution is greater than the income on the contract, then the distribution should be characterised as a non-taxable return of invested capital that reduces the U.S. Taxpayer's investment in the Policy. For these purposes, a "distribution" includes withdrawals, pledges, assignments, agreements to assign or pledge, distributions, surrenders or transfers. All Policies issued by the Insurer in a particular calendar year deemed to be beneficially owned by the same U.S. Taxpayer are generally treated as a single contract for purposes of determining the income on the contract.

(2) Annuity Payments

Each distribution received by a U.S. Taxpayer after the annuity starting date is treated in part as a distribution of ordinary income and in part as a non-taxable return of capital. The character of each payment is determined by the ratio of income to invested capital amortised over the actuarial life expectancy of the Annuitant (or Joint Annuitants, if any) in accordance with specific U.S. Treasury Regulations. Amounts received after the investment in the Policy has been fully recovered are generally taxable in full as ordinary income.

(3) Ten Percent (10%) Penalty Tax

Subject to certain narrow exceptions, if a U.S. Taxpayer is treated as receiving a distribution from the Policy before reaching age 59½, an additional tax of ten percent (10%) is imposed on the amount of the distribution that is includible in gross income. The exceptions to the imposition of this penalty tax include distributions (1) made on or after the death of the U.S. beneficial owner of the Policy, (2) attributable to the U.S. beneficial owner becoming totally and permanently disabled, or (3) which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the U.S. Taxpayer or the joint lives (or joint life expectancies) of such taxpayer and his designated beneficiary.

(4) Policy Transfers

The exchange of the Policy for other property, other than certain qualified exchanges for another annuity contract, is generally a taxable event for U.S. tax purposes. Upon a transfer of the Policy for full and adequate consideration, the U.S. Taxpayer is required to recognise gain or loss, if any, equal to the difference between the cash or fair market value of the property received and the U.S. Taxpayer's investment in the Policy. A U.S. Taxpayer who transfers the Policy for less than full and adequate consideration (such as a gift) is considered to have received ordinary income in an amount equal to the excess of the cash value of the Policy over the investment in the Policy. A U.S. Taxpayer who transfers the Policy for less than full and adequate consideration may also be subject to U.S. federal gift tax (and possibly generation skipping transfer tax) in an amount measured by the fair market value of the gift.

U.S. FEDERAL GIFT, ESTATE AND GENERATION SKIPPING TRANSFER TAX

The value of the Policy may be subject to U.S. federal gift, estate or generation skipping transfer tax if the Policy is gratuitously transferred during a beneficial owner's lifetime (or upon their death) if the beneficial owner is a U.S. citizen or domiciled in the U.S. at the time of the transfer or deemed transfer. Generally, a U.S. citizen or domiciled individual's gross estate includes the value of an annuity or other payment receivable by any beneficiary by reason of surviving the decedent. Furthermore, there is no step-up in the basis of an annuity upon the death of the holder, although such basis may be increased for that portion of the federal estate tax directly attributable to the Policy. Annuity payments received after the beneficial owner's death generally are treated as "income in respect of a decedent".

U.S. TAX REQUIREMENTS TO QUALIFY AS A TAX DEFERRED VARIABLE ANNUITY CONTRACT

The Insurer intends that the Policy qualify for U.S. federal income tax deferral in accordance with the annuity taxation regime. To that end, the Insurer intends to structure, manage and administer the Policy based on the assumption that the Policy constitutes an annuity contract, the holder of which is governed by the rules set forth in IRC Section 72. Consistent with such position, the Policy must generally meet the following principal requirements to qualify for the desired federal income tax deferral: (1) each Segregated Account must be adequately diversified within the parameters of IRC Section 817(h); (2) the Investor or any other beneficial owner (or person related to such Investor or beneficial owner) must not hold, exercise or assert any prohibited control over the investments in the Segregated Account; (3) the Policy must be owned by an individual or as an agent for a natural person; (4) the Policy must provide for certain required distributions if the holder dies before the entire policy value has been distributed; and (5) the Policy must not constitute a "debt instrument" as defined in IRC Section 1275(a)(1) to which the OID rules apply.

(1) Variable Contract Status

IRC Section 817(d) defines a "variable contract" to include a contract which (1) provides for the allocation of all or part of the amounts received under the contract to an account which, pursuant to State law or regulation, is segregated from the general asset accounts of the insurance company, (2) provides for the payment of an annuity, and (3) the amounts paid in, or the amount paid out, reflect the investment return and the market value of the segregated asset account. Many qualified practitioners knowledgeable in this area previously debated whether the segregation referenced in the IRC Section 817(d) definition of a "variable contract" must be pursuant to the laws of a state in the United States or, alternatively, whether segregation according to the laws of a non-U.S. jurisdiction satisfies this segregation requirement. The IRS has relatively recently ruled that that where a variable contract issued by a non-U.S. insurer (which has elected under Section 953(d) of the Code to be treated as a domestic corporation for U.S. federal income tax purposes) is allocated to an account whose assets are segregated from its general asset accounts under applicable non-U.S. law, such segregation satisfies the requirements necessary for "variable contract" treatment for U.S. federal income tax purposes. In this case, the Insurer has not made an election to be treated as a domestic corporation under Section 953(d) of the Code. The Insurer has received an opinion from its outside Luxembourg counsel that the variable contract's assets are "clearly segregated from other assets and liabilities of the insurance company" under Luxembourg law. In general, characterisation as a "variable contract" increases (rather than decreases) the conditions that must be met in order to qualify for the U.S. federal income tax deferral generally available to annuity contracts. In taking a conservative position on this issue, the Insurer intends to structure, manage and administer the Policies on the assumption that such Policies constitute "variable contracts" and, therefore, will endeavour to comply with the more stringent U.S. tax requirements applicable to such contracts, including the diversification and investor control rules discussed next.

(2) Asset Diversification Requirements

Assuming the Policies are characterized as "variable contracts" under IRC Section 817(d), such characterisation requires that each segregated asset account of such Policies must be adequately diversified within the parameters detailed under IRC Section 817(h) and U.S. Treasury Regulations Section 1.817-5.

In general, these provisions require that a segregated account will be considered adequately diversified if the account invests:

(1) no more than 55% of the value of the total assets of the account in any one investment;

(2) no more than 70% of the value of the total assets of the account in any two investments;

(3) no more than 80% of the value of the total assets of the account in any three investments; and

(4) no more than 90% of the value of the total assets of the account in any four investments.

In effect, each segregated account of a variable contract must include at least five investments within the above parameters to meet the minimum diversification requirements. In applying these percentages, all securities of the same issuer, all interests in the same real estate project, and all interests in the same commodity, are deemed to be a single investment. Each governmental agency or instrumentality is considered to be a separate issuer. These diversification percentages are generally applied at the end of each calendar quarter subject to a thirty (30) day grace period for portfolio adjustments to bring the account into compliance.

A significant question may arise in the context of pooled investments or other fund type investments in determining whether investment in such vehicles should be treated (for purposes of applying the minimum diversification percentages) as a single investment or, alternatively, whether the segregated account should be considered to own a pro rata share of each of the underlying investments held by such funds. Provided that the investment vehicle meets certain strict requirements, then a "look-through" rule may permit diversification testing on the basis that the segregated account is treated as owning a pro rata share of the investment vehicle's underlying individual investments. If there are multiple tiers of investment vehicles then qualification for "look through" treatment must be determined independently at each tier. If the look through rule does not apply - and it is limited in its application – then the segregated account's investment in a fund will be considered a single investment for purposes of applying the minimum diversification percentages.

The Segregated Account does not qualify as, and is not to be considered, an insurance dedicated fund or as a permitted investor in an investment vehicle intended to qualify as an IDF (as described in U.S. Treasury Regulation §1.817-5(f)).

Since the Insurer typically is informed of the investment holdings and results only after the close of the reporting period, it is the Investment Managers that have primary responsibility for compliance with these diversification requirements. The Insurer will use commercially reasonable efforts to require that the Investment Managers maintain the Segregated Account in compliance with these diversification requirements. However, the Insurer does not guarantee such compliance and the risk of failure to comply with such provisions may ultimately be borne by the Policyholder and Beneficiaries. Each Investment Manager is generally required to periodically certify to the Insurer that it is in compliance with these requirements.

(3) Investor Control

Although there are many overlapping principles, the investor control doctrine generally applies independent of, and in addition to, the diversification rules. In particular, the uncertainty discussed above with respect to whether contracts issued by non-U.S. insurance carriers constitute "variable contracts" and, therefore, are subject to the diversification rules, generally does not affect potential application of the investor control doctrine to a Policy.

As a basic premise for a variable contract to qualify for tax deferral or exemption, the assets in the underlying segregated asset account must be considered to be owned by the insurance company and not by the variable contract owner. In order to meet this requirement, the variable contract owner (including related persons) must not have any control over the investments or investment decisions in the underlying variable contract segregated account. The IRS has enumerated a number of factors it believes to be significant in an attempt to provide some guidance on the parameters of such considerations. However, it is not entirely clear how much control or influence, if any, can be exercised by a variable contract owner over the underlying investments before such person will be treated as the owner of the underlying segregated asset account assets.

In order to minimize exposure on this investor control issue, the Policyholder will not be permitted to directly or indirectly consult with the Investment Manager regarding any investments within the Policy segregated account. All investment decisions will be made exclusively by the Investment Manager. Policyholders will not have any authority to require the Investment Manager to acquire, hold or dispose of any particular investment or pursue any particular investment strategy nor will any Policyholder be permitted to advise the Investment Manager with respect to any such matters. A Policyholder does not have any ownership interest in the assets held in the Segregated Account maintained with respect to a Policy.

(4) Required Distributions Upon Death of Holder or Annuitant

The Policies are intended to comply with the requirements of IRC Section 72(s), which mandates a certain pattern of distributions if the holder (or Annuitant for policies held by certain types of entities) dies before the entire interest in the Policy is distributed. Specifically, the Policy provides that if the holder (or Annuitant, as applicable) dies on or after the "annuity starting date" (as defined in IRC Section 72(c)(4) to be the first day of the first period for which an amount is received as an annuity under the contract, which date is generally prior to the Annuity Payments Start Date as defined in the Policy) but before the entire interest in the contract has been distributed, then the remaining portion of such interest will be distributed at least as rapidly as under the method of distributions being used as of the date of the holder's (or Annuitant's, as applicable) death. If the holder (or Annuitant, as applicable) dies before such annuity starting date, the entire interest in the Policy must be distributed either (a) within five (5) years of the death of such holder (or Annuitant, as applicable), or (b) over the life of, or a period not greater than the life or expected life of, the Beneficiary (or surviving Joint Policyholder, if any), with annuity payments beginning within one year after the date of death of the holder (or Annuitant, if applicable).

(5) Original Issue Discount Rules

An annuity contract that meets the definition of a "debt instrument" under IRC Section 1275(a)(1) may be subject to the "original issue discount" rules of IRC Sections 1271 through 1275 if issued by a company that is not subject to taxation as an insurance company under Subchapter L of the IRC. As mentioned previously, the Insurer has not made an election to be treated as a domestic corporation under Section 953(d) of the Code and thus is not an insurance company subject to Subchapter L of the IRC.

An annuity contract may be considered a "debt instrument" if, under a facts and circumstances analysis, it has the characteristics of debt. Of particular relevance to the Policy, one of the critical elements of a "debt instrument" is a guaranteed return of the principal amount either based on the terms of the contract or the nature of the underlying investments. In effect, the IRS has indicated that an annuity is more likely to be characterised as a debt instrument if the underlying segregated account is comprised primarily of debt instruments (e.g., such as a bond fund, certificates of deposit, debentures, notes or other evidences of indebtedness) or cash equivalents. It is therefore recommended that investments within the Segregated Account be managed in a manner to reduce exposure to this characterisation by minimising the percentage of the Segregated Account invested into such debt instruments.

The Insurer believes that the Policies should not constitute a debt instrument because, among other things, the Policies do not provide for any guaranteed amounts and the Policyholder's investment in the Policy is wholly at risk. However, even if a Policy is determined to constitute a "debt instrument", the OID rules may not apply if the contract meets the "annuity contract exception" of IRC Section 1275(a)(1)(B) such that there is a real and significant life contingency. The Policy has been designed with the intent to include a real and significant life contingency in each of the Payment Options.

(6) Foreign Financial Account Reporting

As a rule, each U.S. person who has a financial interest in a bank, securities or other financial account in a foreign (non-US) country (a "foreign financial account") is required to report his interest in the account on FinCEN Form 114 (Report of Foreign Bank and Financial Accounts) ("FBAR") if the aggregate value of all of the U.S. person's foreign financial accounts exceeds US$10,000 at any time during the calendar year. Section 1010.350(c) of the final regulations (31 CFR § 1010) addressing the reporting of foreign financial accounts and the FBAR (the "Final Regulations") defines a "reportable account" to include the term "other financial account." "Other financial account" is further defined to include "an account that is . . . an annuity policy with a cash value." Consistent with the Final Regulations, the general definitions section of the FBAR instructions was revised in March 2011 to define a "financial account" to include an annuity policy with a cash value. Consequently, any Policyholder who is a U.S. person on any day during a calendar year will need to list the Policy on their FBAR report for such year.

In addition, U.S. taxpayers holding specified foreign financial assets with an aggregate value exceeding a certain threshold have to report information about those assets on Form 8938. Any interest in a foreign-issued insurance contract or annuity with a cash-surrender will qualify as specified foreign financial assets. The current asset threshold is USD 50,000 for single U.S. taxpayers, but can change in future. Higher asset thresholds apply to U.S. taxpayers who file a joint tax return or who reside abroad.

(7) Foreign Account Tax Compliance Act (FATCA)

With limited exceptions, the Foreign Account Tax Compliance Act ("FATCA") provisions of the Hiring Incentives to Restore Employment Act (the "HIRE Act") and IRS guidance and final regulations (the "FATCA Regulations") generally provide that a 30% withholding tax will be imposed on certain "withholdable payments" to any "foreign financial institution" ("FFI"), irrespective of whether the beneficial owner is a U.S. person, unless that FFI enters into an agreement with the IRS to disclose the name, address and taxpayer identification number of certain U.S. persons that own directly or indirectly, an interest in the account, as well as certain other information relating to any such interest. The term "withholdable payment" generally includes any payment (or allocation from a partnership, if no corresponding payment is made) of (i) U.S.-source interest, dividends, annuities, and royalties (an "FDAP Payment") and (ii) the gross proceeds of a disposition of any stock, debt instrument, or other property that can produce U.S.-source dividends or interest (a "Proceeds Payment"). The 30% withholding tax under FATCA will also generally apply to withholdable payments made to a non-U.S. entity that is not an FFI unless such entity provides the withholding agent with a certification identifying each substantial U.S. owner of the entity, which generally includes any U.S. person who directly or indirectly owns more than 10% of the entity, or an exception applies. Subject to certain transition rules, withholding requirements with respect to FDAP Payments generally took effect on July 1, 2014, and withholding requirements with respect to Proceeds Payments generally will take effect on January 1, 2019.

The term "FFI" includes an insurance company that issues or is obligated to make payments with respect to cash value insurance contracts and annuity contracts. The Insurer will be an FFI subject to the FATCA provisions and, accordingly, will be obligated to identify certain direct and indirect U.S. account holders and to comply with certain annual reporting requirements with respect to the Policies.

If the Insurer were to fail to either qualify for an exception or enter into an FFI agreement, as applicable, it would be subject to the 30% withholding tax with respect to any such withholdable payments that it receives.

The Insurer will attempt to satisfy any obligations imposed on it to avoid imposition of this 30% withholding tax, including by either: (i) attempting to qualify for an applicable exemption, or (ii) entering into an agreement with the IRS as a participating FFI to undertake due diligence and provide certain required information regarding its Investors to the IRS.

The Insurer's ability to satisfy its obligations under an agreement with the IRS will depend on each Policyholder and Beneficiary providing the Insurer with any information, including information concerning the direct or indirect owners of such Policyholders and Beneficiaries, that the Insurer determines is necessary or appropriate to satisfy such obligations. If the Insurer fails to satisfy such obligations or if a Policyholder or Beneficiary fails to provide the Insurer with the necessary information, payments of U.S. source income and payments of proceeds from the sale of property described in the previous paragraph will generally be subject to the FATCA 30% withholding tax.

The Insurer may in its sole discretion redeem and cancel the Policy if any Policyholder or Beneficiary fails to provide the Insurer with any information, including information concerning the direct or indirect owners of such Policyholders and Beneficiaries, that the Insurer determines in its sole discretion is necessary or appropriate to satisfy its obligations under FATCA or any FATCA related agreements.

Each Policyholder and Beneficiary shall promptly supply, including by way of updates, to the Insurer in such form and at such time as is reasonably requested by the Insurer, including by way of electronic certification, any information, representations and forms as shall reasonably be requested by the Insurer within twenty (20) days after receiving written notice specifically requesting same to assist the Insurer in obtaining any exemption, reduction or refund of any withholding tax or other similar payments (including FATCA withholding tax imposed pursuant to Sections 1471-1474 of the IRC, or any similar legislation or any agreement entered into pursuant to any such legislation). If requested by the Insurer, the Policyholders and Beneficiaries shall execute any and all documents, opinions, instruments and certificates as the Insurer shall reasonably request or that are otherwise required to satisfy the Insurer's obligations under FATCA or any FATCA related agreements. The Insurer may disclose the information provided by a Policyholder or Beneficiary to the IRS, the U.S. Treasury or other parties as necessary to comply with FATCA or any FATCA related agreements.

In the event that any Policyholder or Beneficiary fails to supply such information, representations or forms to the Insurer, the Insurer shall have full authority to take any action to remedy or mitigate any adverse consequences to the Insurer or other Policyholders or Beneficiaries due to such Policyholder's or Beneficiary's failure to provide such information, which action may include withholding any tax or payment required to be withheld pursuant to any applicable legislation, regulation, rule or agreement.

If a Policyholder or Beneficiary fails to provide the Insurer with any information and/or documents the Insurer requests to satisfy its obligations under FATCA, the Insurer may in its sole discretion exercise its right to mandatorily redeem and cancel such Policy. Prospective Policyholders and Beneficiaries are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investments in the Policy.

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