Report to the Directors of Aviva Life & Pensions UK Limited from the With Profits Actuary on the Proposed Transfer of European Economic Area Non-UK Life Assurance Business of Aviva Life & Pensions UK Limited to Friends First Life Assurance Company Designated Activity Company

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With Profits Actuary, Aviva Life & Pensions UK Limited

5 October 2018

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1. Executive Summary

1.1. Summary

1.1.1. This report, addressed to the Directors of Aviva Life & Pensions UK Limited ("UKLAP"), is made in my capacity as With Profits Actuary and concerns a Scheme of Transfer ("the Scheme"). This is the proposed transfer of long-term business from UKLAP to Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC"), the rebranded name, from 29 March 2019, of Friends First Life Assurance Company ("FFLAC"). All references throughout the remainder of this document will be to the end state company, ALPI DAC.

1.1.2. The objective of this report is to consider the effect of the Scheme on the security of benefits, benefit expectations and fair treatment of policyholders within the with-profits funds of UKLAP, both those remaining in UKLAP and those transferring to ALPI DAC.

1.1.3. A separate report has been prepared by the Chief Finance Actuary of UKLAP, which includes the opinion of the Chief Risk Actuary of UKLAP, that describes the business covered under the Scheme, the assets and liabilities to be transferred, and operational aspects of managing the business once it has been transferred, along with how the Scheme impacts the benefit security and the fair treatment of both existing and transferring policies in UKLAP.

1.1.4. A further report has been produced by the ALPI DAC Head of Actuarial Function. ("HoAF"). This provides a view on the impact on the existing policyholders of ALPI DAC, as well as the policyholders transferring in from UKLAP.

1.2. Conclusions

1.2.1. I conclude that, after the implementation of the Scheme:

- The financial security of existing with-profits policyholders will not be materially adversely affected by the transfer, either those transferring or those remaining in UKLAP;
- The Scheme will have no impact on the expected benefits or the fair treatment of remaining UKLAP with-profits policyholders; and
- The Scheme will have no material adverse impact on the expected benefits and fair treatment of transferring with-profits policyholders.

1.2.2. In reaching this latter conclusion I note that there are adverse actual and potential impacts on benefit expectations, relating to tax and additional ongoing costs. These are not, in my view, material adverse impacts relative to the importance of being able to continue to service the policies legally post Brexit, and protections are in place to ensure any such impacts are fair to policyholders.

S Lowry

Somerset Lowry, FIA
With Profits Actuary, Aviva Life & Pensions UK Limited

Date: 5 October 2018

2. Introduction

2.1. Purpose of the report

2.1.1. As the With Profits Actuary for UKLAP, I have been asked to report to the Board of UKLAP on the proposals for the transfer of a subset of business currently written within UKLAP to ALPI DAC under Part VII of the Financial Services and Markets Act 2000. The proposals are set out in the Scheme.

2.1.2. The objective of this report is to consider the following:

- The effect of the Scheme's proposals on the benefit security of policyholders transferring from the with-profits sub-funds of UKLAP;
- The effect of the Scheme's proposals on the benefit security of the remaining with-profits policyholders of UKLAP;
- The effect of the Scheme on the fair treatment of the transferring with-profits policyholders, including their legal rights and reasonable benefit expectations;
- The effect of the Scheme on the fair treatment of the remaining with-profits policyholders, including their legal rights and reasonable benefit expectations; and
- Whether the proposed arrangements for the ongoing management of the with-profits business to be transferred from UKLAP to ALPI DAC are expected to provide for the fair treatment of those policyholders following the implementation of the Scheme.

2.2. Independent Expert

2.2.1. Mr T Roff of Grant Thornton UK LLP has been retained by the Board of UKLAP in the capacity of Independent Expert and has been approved as such by all the relevant regulatory bodies. I have read a draft of his report on the terms of the Scheme and considered his conclusions. A copy of this report has also been provided to Mr Roff who has had the opportunity to review earlier draft versions.

2.3. Guidance on Usage of this Report

2.3.1. This report is written for the Board of UKLAP in my capacity as With Profits Actuary for UKLAP, and should be read in conjunction with the Scheme, the Chief Finance Actuary's Report, the HoAF's report and the report by the Independent Expert.

2.3.2. For the purposes of this report, the in-scope business is referred to throughout the document as two distinct blocks:

- **"Irish"** policies: This relates to the policies held within the Non-Profit Sub-Fund of UKLAP that are allocated to the Irish branch account of the Non-Profit Sub-Fund ("UKLAP Irish NPSF") and to policies held within the Irish With-Profits Sub-Fund ("UKLAP Irish WPSF") of UKLAP. While these are not distinct legal entities, they are segregated accounts and used as a reference throughout this document.

  UKLAP Irish NPSF and UKLAP Irish WPSF include business that was previously transferred into UKLAP from Aviva Life & Pensions Ireland Limited in 2015, pursuant to a scheme of transfer sanctioned by the Irish High Court on 2 December 2014 ("the Irish 2014 Scheme"), which became effective on 1 January 2015, and any new Irish business written since 1 January 2015.
- **"Other non-UK EEA"** policies: This relates to all other in scope business, namely policies written in non-UK EEA territories currently in UKLAP.

2.3.3. A list of definitions and abbreviations that I have used in this report is included in the Appendix.

2.4. Independence

2.4.1. I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1997, and hold a certificate issued by the Institute and Faculty of Actuaries to act as a With Profits Actuary. I have been the With Profits Actuary for UKLAP since 3 May 2018.

2.4.2. I am an employee of Aviva Employment Services Limited, a fully owned subsidiary of Aviva plc. I hold shares and have contingent share interests in Aviva plc, and have unit-linked pension policies issued by UKLAP.

2.4.3. I can confirm that my personal interests have not influenced me in reaching any of the conclusions detailed in this report.

2.5. Scope

2.5.1. This report is addressed to the Directors of UKLAP, and is available for consideration by the Board of ALPI DAC.

2.5.2. The transfer is subject to the consent of the High Court of Justice in England and Wales (the "Court").

2.5.3. The Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the Central Bank of Ireland ("CBI") have been provided with a copy of my report at an early stage in order that they may carry out an assessment of the Scheme.

2.5.4. A copy will be presented to the Court so that it may be taken into account when the Court reaches its decision on whether or not to approve the Scheme.

2.5.5. A full copy of this report will be available for inspection by policyholders of UKLAP during normal business hours following the publication of the notice of the transfer at:

- The registered office of UKLAP, (Wellington Row, York, YO90 1WR);
- St Helen's, 1 Undershaft, London, EC3P 3DQ;
- 1 Park Place, Hatch Street, Dublin 2;
- Friends First House, Cherrywood Business Park, Loughlinstown, Dublin 18;
- Block A, Galway West Business Park, Distributor Road, Knocknacarra, Galway; and
- Avenue 5000, Cork Airport Business Park, Cork, T12 FDN3.

2.5.6. Copies of this document will also be accessible for viewing and/or download from our website at: https://transfer.aviva.com/life

2.6. Reliances

2.6.1. I have read the report prepared by Mr N Rowley, the Chief Finance Actuary of UKLAP. I have considered his comments on the effect of the Scheme on the various policyholders of UKLAP and ALPI DAC.

2.6.2. Where appropriate I have made reference to the Chief Finance Actuary's report throughout this document to avoid repetition within this report.

2.6.3. I have read the report prepared by Mr R O'Sullivan, the Head of Actuarial Function of ALPI DAC. I have considered his comments on the effect of the Scheme on the various policyholders of UKLAP and ALPI DAC.

2.6.4. I have also discussed the Scheme with Mr R Kerry FIA, who was the With Profits Actuary for UKLAP until 25 April 2018.

2.6.5. The financial information on UKLAP and ALPI DAC referred to in this report is based on 31 December 2017 results. I have relied on these figures being correct.

2.6.6.Other economic capital information has been provided to me, that I have relied on. This information is confidential and has not been reproduced in this report.

2.6.7.Figures have also been supplied to me on the financial position allowing for the proposed transfer. These have been subject to review internally, and by me in the course of writing this report. I have relied on these figures being correct.

2.6.8.For the purposes of estimating the impact of the Scheme, UKLAP methodology and assumptions have been reviewed in accordance with UKLAP's internal governance process. Results for ALPI DAC have been reviewed in accordance with ALPI DAC's internal governance process, which is appropriate for the regulatory framework in which that company operates.

2.6.9.This report is based on information made available to me up to 5 October 2018 and takes no account of developments after this date.

2.6.10.I will continue to keep the financial position under review in the period leading up to the Sanctions Hearing on 13 February 2019, and prior to the Sanctions Hearing will provide a supplementary report to the Board of UKLAP considering developments in the period to January 2019 and the response to the customer communication.

2.7.TAS Compliance

2.7.1.This report is technical actuarial work and hence falls within the scope of the Technical Actuarial Standards issued by the Financial Reporting Council. I consider that this report and the work underlying it meet in all material aspects the requirements of TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

2.7.2.In addition, under the Actuarial Professional Standard X2, this report has been reviewed by Mr A Carr, FIA, the Chief Risk Actuary of UKLAP.

3. Background

3.1. Overview

3.1.1. On 23 June 2016, the UK voted to leave the EU and on 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU ("Brexit"). While the terms of Brexit are not yet known, there is a substantial risk that, upon or shortly following Brexit, UKLAP will lose its passporting[1] rights under the single market directives, to carry out Long-Term Insurance Business in Other non-UK EEA States on a Freedom of Services ("FoS") and Freedom of Establishment ("FoE") basis.

3.1.2. On 14 November 2017, Aviva Group Holdings Limited announced that it had agreed the terms for the purchase of an Irish life assurance company, Friends First Life Assurance Company ("FFLAC"). This company was transferred from Aviva Group Holdings to UKLAP on 31 May 2017 following the Change of Control approval granted by the CBI on 23 May 2018. The company is to be rebranded as Aviva Life and Pensions Ireland Designated Activity Company on 29 March 2019. It is an Irish standalone entity, with a UK parent.

3.1.3. ALPI DAC is authorised to carry out Long-Term Insurance Business in Ireland and will continue to have the right to carry on such business across the EEA on a FoS and FoE basis following Brexit.

3.2. Transferred Policies

3.2.1. A product-based approach has been used to determine the scope of the policies to be transferred under the Scheme. The details of the approach are set out in the Chief Finance Actuary's Report.

3.2.2. The UKLAP Irish WPSF policyholders will transfer into a newly established sub-fund of ALPI DAC, known as the ALPI Irish WPF.

3.2.3. In addition, the Scheme will transfer a number of other policies within the with-profits funds, "Other non-UK EEA" policies, from a range of UKLAP sub-funds, see section 4.1.3, which will result in additional non-profit sub-funds being created in ALPI DAC.

3.2.4. The policies in this category will be subject to a 100% quota share reinsurance arrangement back into UKLAP including a small amount of ceding commission from UKLAP to ALPI DAC to cover ongoing oversight costs. This commission will be borne by the non-profit or shareholder fund of UKLAP.

3.2.5. It is intended that the Court will be asked to sanction the Scheme at a public Sanctions Hearing on 13 February 2019.

3.2.6. Subject to the consent of the Court, the Scheme will take effect on 29 March 2019 (the "Effective Time").

3.3. Rationale for the Scheme

3.3.1. As described in 3.1.1 above there is a substantial risk that the UK will lose EU passporting rights from March 2019.

3.3.2. If we were to delay the transfer process until the outcome of Brexit is more certain, there would not be sufficient time to implement the Scheme ahead of the UK's anticipated withdrawal from the EU on 29 March 2019.

3.3.3. Should the UK lose its rights to carry out Long-Term Insurance Business in Other non-UK EEA States on a FoS or FoE basis, UKLAP may not be able to administer such business legally from the UK. Having all EEA business established under FoE, and all business marketed in EEA states under FoS, in an Irish company, ensures that such business can continue to be legally administered.

[1] Passporting is the right of a firm registered in the European Economic Area (EEA) to do business in any other EEA state without needing further authorisation in each country

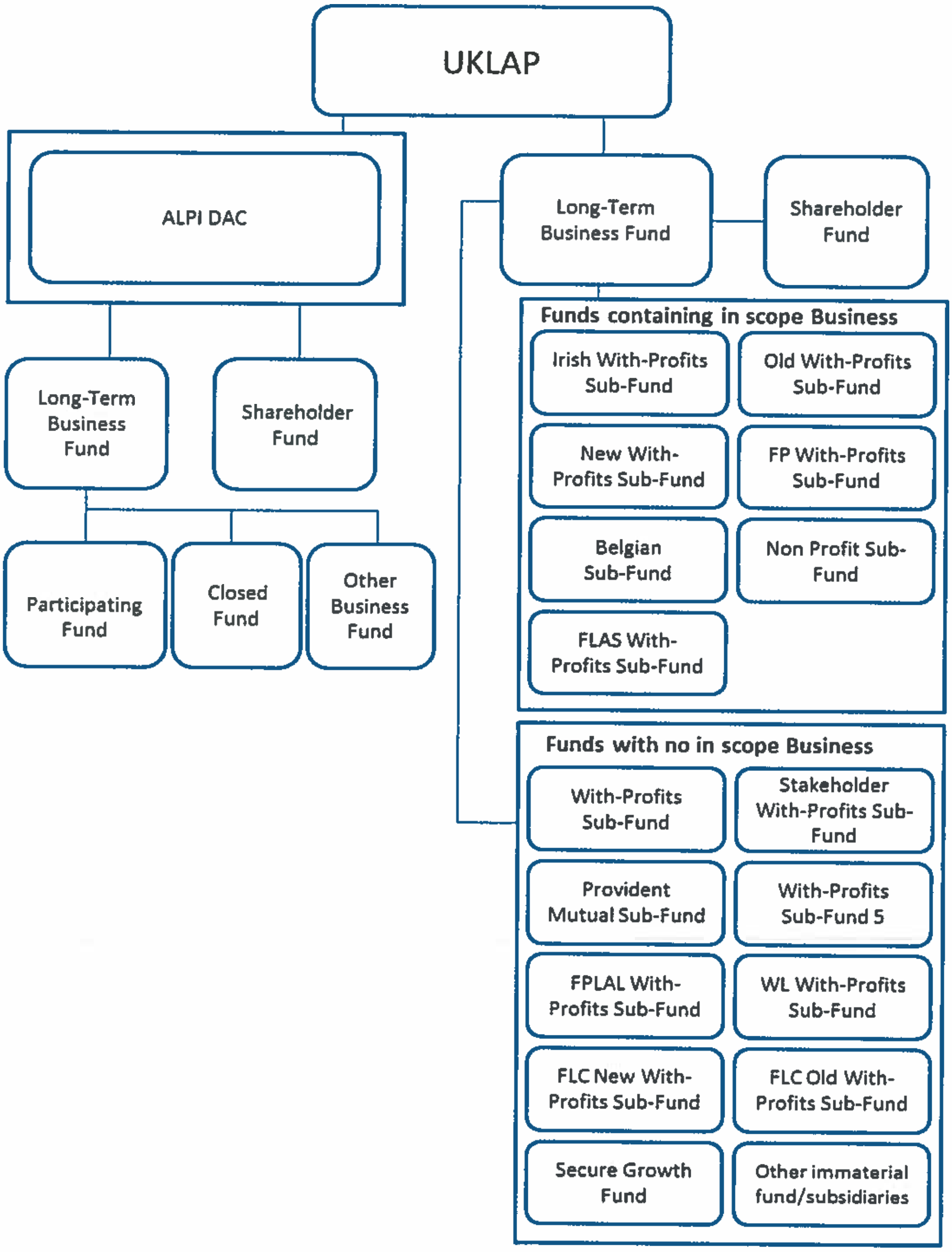
4. Overview of UKLAP

4.1. Background

4.1.1. UKLAP is a wholly owned subsidiary of Aviva plc.

4.1.2. UKLAP has holdings in a number of subsidiaries. These are not material to the transfer from the perspective of with-profits policyholders, are not being transferred, and are therefore not shown below.

4.1.3. The fund structure of UKLAP is summarised below. It shows those funds that are directly impacted by the Part VII transfer.



4.1.4. The UKLAP funds that are directly impacted by the Part VII Transfer, i.e. contain in scope business, are described in the Chief Finance Actuary's Report.

4.1.5.ALPI DAC is the target entity for the transfer. The background to ALPI DAC is provided in section 5.

4.2.Nature of business written

4.2.1.Below is a summary of the types of in scope business written by each UKLAP with-profits fund. The Chief Finance Actuary's Report further provides a breakdown by Best Estimate Liabilities of the in-scope business across all funds.

Fund	Conventional With-Profits	Unitised With-Profits	Conventional Non-Profit	Unit- Linked	Open to New Business*	In scope countries**
Irish WPSF	✓	✓			I	IE
NWPSF	✓	✓	✓		I	SE,DE,FR,IE
OWPSF	✓	✓	✓		I	SE,DE,FR,IE
FP WPSF		✓		✓	I	DE,IS
FLAS WPSF				✓	I	DE

* *I = Increments Only*
** *IE= Ireland, SE = Sweden, DE=Germany, FR=France, IS=Iceland*

4.2.2.The UKLAP Irish WPSF is closed to new business but allows increments and business written following the exercise of options on existing with-profits contracts. Irish with-profits pension policies vest in the UKLAP Irish NPSF.

4.2.3.The New With-Profits Sub-Fund (NWPSF), Old With-Profits Sub-Fund (OWPSF), FP With-Profits Sub-Fund (FP WPSF) and FLAS With-Profits Sub-Fund (FLAS WPSF) do not write in-scope new business other than increments on existing policies.

4.3.Risk profile of UKLAP's business

4.3.1. The Chief Finance Actuary's report provides a breakdown of the current risk profile of UKLAP on an undiversified basis.

4.4.Solvency position

4.4.1.The table below shows the indicative Solvency II financial position (in £ millions) of UKLAP, assuming that the UKLAP purchase of ALPI DAC had been approved, as at 31 December 2017.

£m	**31 December 2017**
	UKLAP
Own Funds (post transitional) (A)	14,154
Solvency Capital Requirements (B)	9,321
Excess Capital (C=A-B)	4,833
Solvency Cover Ratio (D=A/B)	**152%**

5. Overview of ALPI DAC

5.1.Purchase

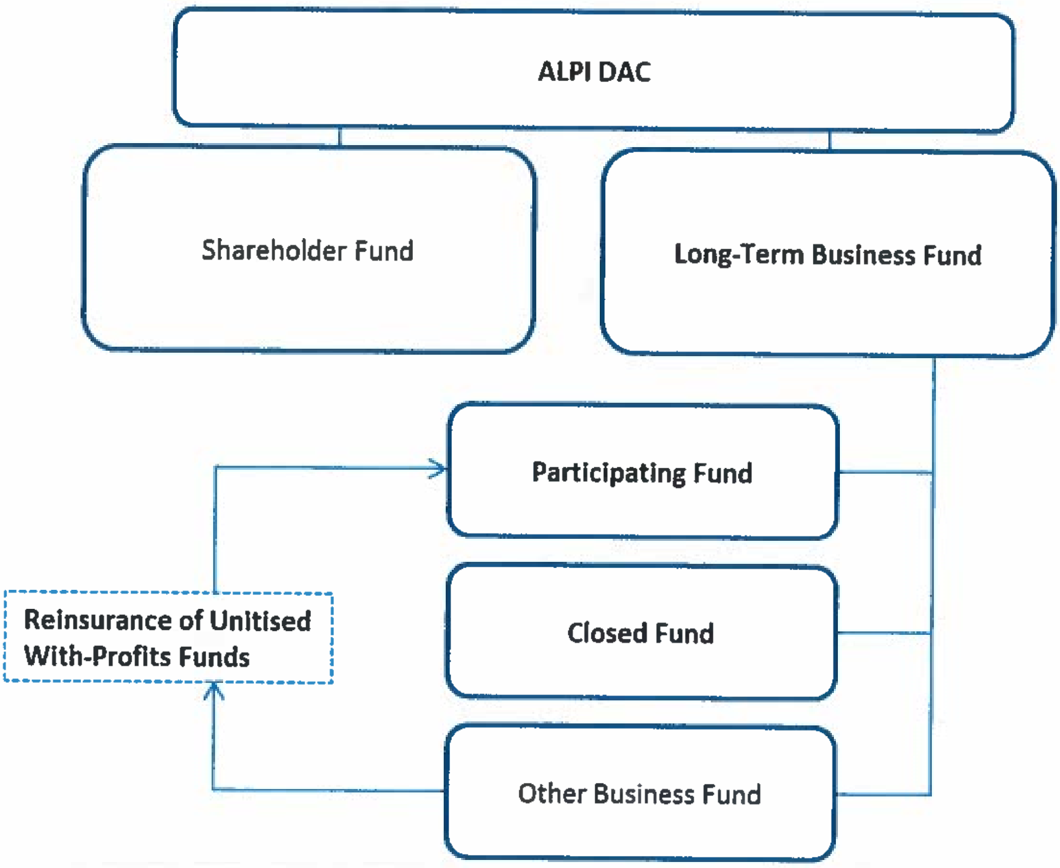
5.1.1.In November 2017, Aviva plc agreed the purchase of FFLAC. This purchase was subject to a successful Change of Control Application being granted by the CBI. This was granted on 23 May 2018.

5.1.2.The company is to be renamed as ALPI DAC on 29 March 2019 and is the target company for the Part VII transfer.

5.1.3.ALPI DAC is authorised as a Life Insurer under the European Union (Insurance and Reinsurance) Regulations 2015, by the CBI.

5.2.ALPI DAC Background

5.2.1.The fund structure of ALPI DAC (before the proposed Scheme) is summarised below:



5.2.2.Details of the funds and fund structure are given in the Chief Finance Actuary's Report which gives details of the business written and of the balance sheet.

5.3.Solvency position

5.3.1.ALPI DAC's Solvency Capital Requirement ("SCR") is assessed on a Standard Formula basis and its main components are life and health underwriting risks, market risk and a small amount of counterparty risk.

5.3.2.Future discretionary bonuses in the participating and closed funds are included in the best estimate liabilities. In a loss event these bonuses can be reduced, which reduces the SCR.

5.3.3.At the point of change of control, ALPI DAC is subject to Aviva business standards and the Solvency Risk Appetite will follow Aviva methodology. This risk appetite, together with consideration of the level of distributable reserves, determines the ability to release excess assets to the shareholder as a dividend, subject to Board approval.

5.3.4.The table below shows the indicative Solvency II financial position (in € million), before the Brexit Part VII, of ALPI DAC at 31 December 2017.

€m	**31 December 2017**
	ALPI DAC
Own Funds (A)	253
Solvency Capital Requirement (B)	160
Excess Capital (C=A-B)	92
Solvency Cover Ratio (D=A/B)	**158%**

6. The Proposed Transfer

6.1. Proposed structure of transfer

6.1.1. This section provides a general summary of the provisions of the Scheme. In the event of any conflict between this summary and the Scheme, the provisions of the Scheme shall apply.

6.1.2. The Scheme proposes to transfer with-profits 'Irish' policies in the existing with-profits sub-fund of UKLAP (UKLAP Irish WPSF), in full, to a segregated sub-fund in ALPI DAC (ALPI Irish WPF). Increments on existing policies will be written in the ALPI Irish WPF after the transfer. Vesting Guaranteed Annuity Option business arising in the ALPI Irish WPF will be written in the Other Business Fund on arms' length terms consistent with the market at the date of vesting, in line with 'Irish 2014 Scheme' provisions that have been carried into this Scheme.

6.1.3. The Scheme proposes to transfer 'Other non-UK EEA' policies in existing UKLAP with-profits sub-funds into separate sub-funds in ALPI DAC. This generates four new funds, ALPI New Fund, ALPI Old Fund, ALPI FP Fund and ALPI FLAS Fund. This business will be fully reinsured back into the UKLAP with-profits sub-funds from which it transferred (see section 6.4).

6.1.4. Any with-profits policies within the Other non-UK EEA category will continue to be with-profits policies, but within a non-profit Irish sub-fund through the reinsurance to be put in place. They will continue to participate in those original UKLAP WPSFs in respect of all claims, bonuses and estate distributions, with no changes to the substance of their policies.

6.1.5. All the direct costs of the transfer will be met by the shareholders of Aviva Group.

6.1.6. As a result of the Scheme, there will be no changes to the policy benefits of transferring policyholders. All rights and obligations of transferring business will transfer from UKLAP to ALPI DAC.

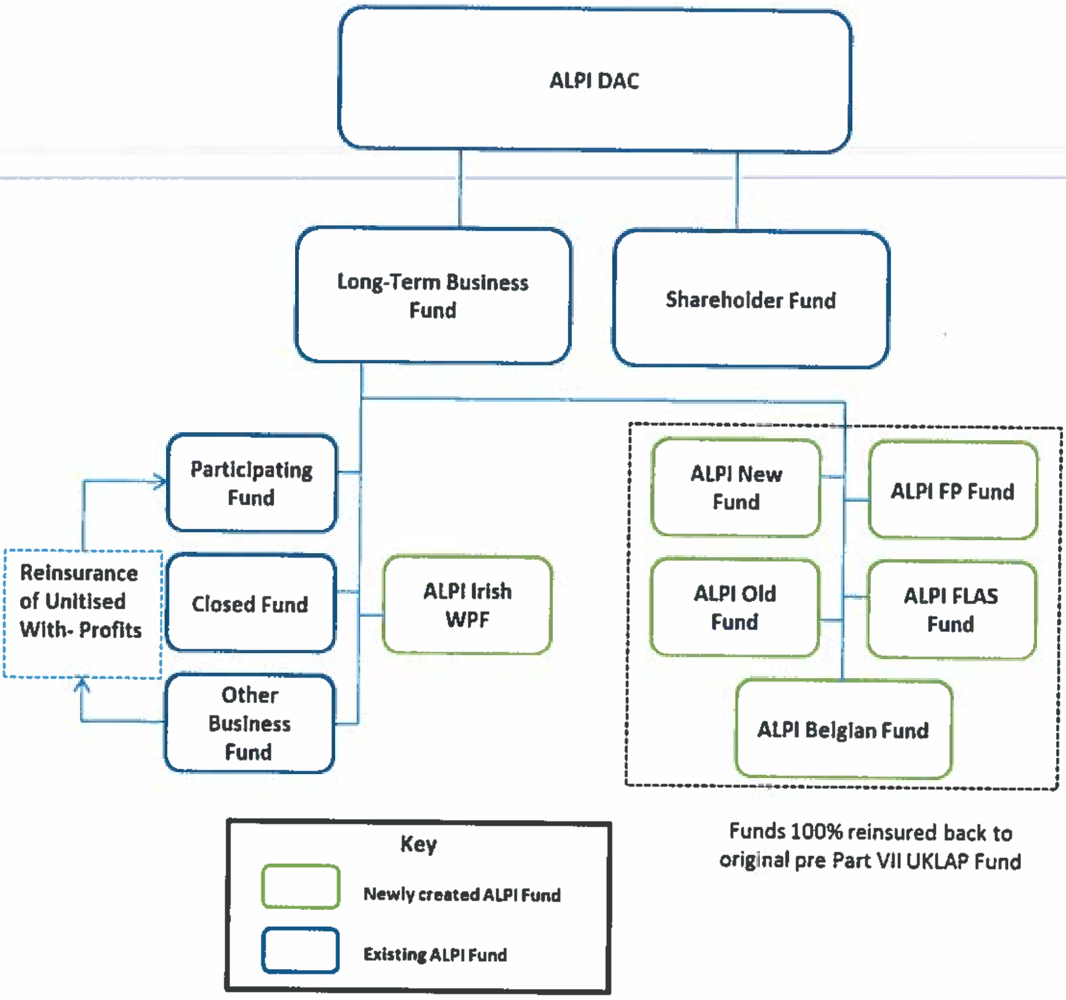
6.1.7. After the transfer a number of activities will be performed for ALPI DAC from the UK. Legal advice has been sought which confirms that after the transfer ALPI DAC is not required to seek authorisation in the UK for a third country branch.

6.2. Proposed UKLAP fund structure post transfer

6.2.1. The only change to the UKLAP fund structure presented in section 4.1.3, post transfer, is the removal of the UKLAP Irish WPSF, with the expanded ALPI DAC company remaining as a wholly owned subsidiary of UKLAP.

6.3.Proposed ALPI DAC fund structure post transfer

6.3.1.The structure of ALPI DAC immediately after the transfer will be as follows:



6.4.Reinsurance arrangements

6.4.1.If the Scheme proceeds, any external reinsurance arrangements relating solely to UKLAP Irish WPSF will continue to apply and will be transferred to ALPI DAC at the Effective Time. There will be no changes to the terms of these agreements as a result of the Scheme.

6.4.2.There is one external reinsurance arrangement covering both 'Other non-UK EEA' policies and UK policies, which may cover business in the with-profits funds. In relation to this treaty, UKLAP will arrange for a treaty variation, whereby the reinsurer will agree to reinsure the relevant 'Other non-UK EAA' business indirectly through UKLAP (following the reinsurance of the business back into UKLAP, see section 6.4.3.)

6.4.3.The Scheme will introduce an intra-group reinsurance arrangement between UKLAP and ALPI DAC. This will be a 100% quota share reinsurance of 'Other non-UK EEA' business being transferred to ALPI DAC, back into UKLAP. This includes servicing of these policies.

6.4.4.The intra group reinsurance arrangement noted above will reinsure the transferring 'Other non-UK EEA' business back into the individual UKLAP sub-funds that the business currently resides in. For example, the benefits associated with a with-profits policy currently written in UKLAP NWPSF will effectively remain in this fund through the Scheme of transfer and attaching reinsurance.

6.4.5.The change for the policyholders in scope of this arrangement is that they will cease to be direct policyholders of UKLAP and become direct policyholders of ALPI DAC.

6.4.6.Without specific action being taken, in the event of a UKLAP insolvency ALPI DAC would be a reinsurance creditor of UKLAP and rank below direct UKLAP policyholders in settling this debt. This would expose ALPI DAC policyholders, including those reinsured to UKLAP, to additional risk of loss in the event of UKLAP insolvency. To mitigate this, the reinsurance treaty will include a form of floating charge, operating over the long-term assets of UKLAP. With this charge ALPI DAC becomes a secured creditor of UKLAP.

6.4.7.There are provisions within the charge, which limit the amount of recovery ALPI DAC is entitled to on a winding-up of UKLAP. This is restricted to the amount ALPI DAC would have been entitled to recover had ALPI DAC been a direct policyholder of UKLAP.

6.4.8.This ensures that the floating charge has the effect of aligning ALPI DAC's and UKLAP's direct policyholders rights to a distribution of assets in the event of an insolvency of UKLAP.

6.4.9.I am satisfied this charge restores the protection for the transferring policyholders, in the event of UKLAP insolvency, to a similar level to that which they currently have.

6.4.10.The non-transferring UKLAP policyholders are not adversely impacted by this arrangement, as the floating charge simply achieves the outcome that ALPI DAC will have the same rights as the reinsured policies before the transfer and does not rank it above other UKLAP policyholders.

6.4.11.The Scheme sets out the conditions under which the intra-group reinsurance can be terminated. These conditions include the insolvency of UKLAP, either UKLAP or ALPI DAC leaving the Aviva Group or the Board of ALPI DAC deciding that the reinsurance is no longer necessary to protect the rights and expectations of the 'Other non-UK EEA' policyholders.

6.4.12.The Scheme specifies requirements which must be met if the reinsurance arrangement is terminated. These include notification of the CBI, obtaining the prior approval of an independent actuary and consulting with the With Profits Committee ("WPC"). I am satisfied this governance ensures policyholders would be treated fairly on termination and all issues appropriately considered, such as the establishment of new with-profits funds in Ireland.

6.4.13.On termination of the reinsurance arrangement, UKLAP must pay a 'termination amount' to ALPI DAC representing the economic value of the reinsured business, including, where relevant, a share of the undistributed surplus of the with-profits funds. The termination amount must be agreed by the Boards of both ALPI DAC and UKLAP. I am satisfied the proposed approach to the termination payment and governance around the termination payment are an appropriate way to produce an equitable split for both reinsured and remaining with-profits policyholders.

6.5.Sunset Clauses

6.5.1.Sunset Clauses define the trigger point, after which the UKLAP Board can convert with-profits policies to non-profit policies, and a trigger point when the Board must convert them.

6.5.2.The UKLAP Irish WPSF, which is being transferred in full to ALPI DAC, currently has both 'can convert' and 'must convert' triggers.

6.5.3.The Scheme proposes the removal of the must convert trigger. The rationale is that this may force the conversion of with-profits policies at a time that is disadvantageous to the with-profits policyholders in that fund, for example at a time of significant market turmoil. This is consistent with changes made to other UKLAP with-profits sub-funds as part of the '2017 Scheme'. There are no changes to the clauses for the existing UKLAP with-profits funds.

6.5.4.The ALPI DAC Board will assume responsibility for deciding whether to take action when the 'can close' trigger is met, after taking advice from the HoAF and the WPC, and having notified, and received no objections from the CBI. The 'can convert' trigger is unchanged in the Scheme.

6.5.5.This change does not give me any concerns from a policyholder protection perspective.

6.6.With-Profits fund merger provisions

6.6.1.The existing Friends First Scheme allows for the merger of any Friends First sub-funds. In the case of Friends First with-profits sub-funds, before a merger is allowed a report from an independent actuary is required to be submitted to both the Board and CBI stating that any merger is not likely to materially adversely affect the reasonable expectations of policyholders.

6.6.2.The Scheme proposes to extend the merger provision to the ALPI Irish WPF, with the additional provision that the Board take appropriate actuarial advice and consult with the WPC.

6.6.3.Given the protections offered at the point of any future merger proposal, I have no concerns about this change from a policyholder protection perspective.

6.7.Support Accounts

6.7.1.There are no proposed support accounts to be set up within ALPI DAC for the ALPI Irish WPF. This is consistent with the current position for transferring UKLAP Irish WPSF policyholders. The business reinsured back into UKLAP will continue to benefit from the support accounts in place for the respective UKLAP with-profits funds in which they participate.

6.8.With-Profits Policyholder Protections

6.8.1.The Scheme and the Principles and Practices of Financial Management ("PPFM") outline the requirement to maintain a PPFM for the ALPI Irish WPF, which will be based at outset on the existing UKLAP Irish WPSF PPFM (covered in section 10.3.2).

6.8.2.The Scheme, PPFM and WPC Terms of Reference ("ToR") outline the role of the WPC (covered in section 10.3.3) in relation to the transferring with-profits business in a number of areas involving policyholder protections. For example, it includes the requirements of the Board to consult the WPC should any changes be proposed to the Solvency Risk Appetite, the expenses to be charged to the ALPI Irish WPF or changes to the investment strategy.

6.8.3.Those policies transferred from UKLAP to ALPI DAC but reinsured back to UKLAP in full will remain subject to the same PPFM's as before the transfer and subject to continued oversight from the WPC.

6.9.Other Schemes

6.9.1.The Irish 2014 Scheme was approved under Irish law, with the effect that the former Irish business was transferred into UKLAP in 2015. Any necessary provisions from the Irish 2014 Scheme have been included within the Scheme.

7. Effect of proposed changes on security of policyholder benefits

7.1. Introduction

7.1.1.This section considers the effect of the Scheme on the security of the benefits of the with-profits policyholders transferring into ALPI DAC and the with-profits policyholders remaining in UKLAP.

7.1.2.The remaining UKLAP With-Profits Sub-Funds will continue to be maintained as separate funds following the Scheme and continue to be managed within their agreed risk frameworks. The impacts for these policyholders are considered in section 7.2.

7.1.3.The Scheme results in the creation of five new sub-funds relating to with-profits fund business as outlined in section 6. With the exception of the UKLAP Irish WPSF policyholders, the intra group reinsurance described in section 6.4.3 returns the policies within these funds to the UKLAP fund they currently reside in. The impact of the Scheme on the with-profits policyholders in these sub-funds is considered in section 7.3.

7.1.4.The ALPI Irish WPF will be maintained as a separate fund in Ireland following the Scheme and will be managed within its agreed risk framework. The Scheme results in the policies and all the assets of the UKLAP Irish WPSF moving into this fund. The impact of the Scheme on ALPI Irish WPF with-profits policyholders is considered in sections 7.4 to 7.8.

7.1.5.The impact of the change in legislation in areas such as the Financial Services Compensation Scheme ("FSCS") and the Ombudsman for all transferring policies is considered in sections 7.9 and 7.10.

7.2. Policies remaining in UKLAP

7.2.1.The solvency positions, risk profiles and management of the UKLAP with-profits sub-funds are unchanged by the Scheme.

7.2.2.The solvency coverage of UKLAP is materially unchanged, with a minor uplift in coverage, and the UKLAP Solvency Risk Appetite ("SRA") is unchanged.

7.2.3.The Chief Finance Actuary's Report covers these issues in more detail, considering all policyholders.

7.2.4.I have reviewed UKLAP's 2017 Own Risk and Solvency Assessment (ORSA). This gives a range of stress and scenario tests of UKLAP's solvency position. This showed that UKLAP's solvency position is able to withstand a wide range of adverse conditions. While the ORSA did not allow for the impact of the Part VII transfer, I do not believe this would have materially affected the ORSA outcomes because of the relatively small size of the transferring business compared to the size of UKLAP.

7.2.5.I am therefore satisfied that there is no material adverse impact on the security of benefits for those policies remaining in UKLAP.

7.3. Policies transferred but reinsured back into UKLAP

7.3.1.The reinsurance arrangement noted in section 6.4 returns these policyholders back into the existing UKLAP funds. There is therefore no direct change to the risk profiles that these policyholders are exposed to within the UKLAP with-profits sub-funds themselves, or to the strength of those with-profits sub-funds. There is a minor uplift to UKLAP solvency coverage and no change to the UKLAP SRA.

7.3.2.In the unlikely event of UKLAP insolvency, ALPI DAC has the same ranking that the policyholders covered by the reinsurance had prior to the Scheme (i.e. that of a direct policyholder of UKLAP). ALPI DAC is thus entitled to the same share of assets as had the reinsured policyholders continued to be direct policyholders, through the floating charge arrangement. The share of assets would be paid to ALPI DAC, to enable ALPI DAC to continue to service these policies, rather than directly to policyholders.

7.3.3.For more detail on the impact of UKLAP insolvency on these policyholders, see the Chief Finance Actuary's Report.

7.3.4. I am therefore satisfied that there is no material adverse impact on the security of benefits for those policies transferring and immediately being reinsured back to UKLAP.

7.4.ALPI Irish WPF Policies

7.4.1.The approach taken in comparing the security of with-profits policyholders transferred into the ALPI Irish WPF is as follows:

- Consider the solvency, risk profile and risk management framework for ALPI Irish WPF.
- Consider the exposure of the with-profits funds to the ALPI DAC legal entity by considering:
    - ALPI DAC solvency coverage;
    - ALPI DAC approach to measuring solvency;
    - ALPI DAC Solvency Risk Appetite; and
    - ALPI DAC Risk Profile.

7.5.ALPI Irish WPF Solvency, Risk Profile and Management

7.5.1.The Scheme transfers in full all the assets and liabilities in the UKLAP Irish WPSF to the ALPI Irish WPF. The underlying risk profile and financial strength of the fund are therefore unchanged by the Scheme.

7.5.2.Before the transfer, UKLAP Irish WPSF is valued using UKLAP's Internal Model basis. Following the transfer to the ALPI Irish WPF, it will be valued using the Standard Formula basis, which is less sophisticated at assessing risk. Although this means the reported solvency coverage in the fund will change, the fund is strong on both bases. The fund will, after transfer, continue to be managed on an economic basis, as it is currently, so I do not consider that the change in measurement of solvency will have a material adverse effect on policyholders in the fund.

7.5.3.The ALPI Irish WPF will continue to be managed under a Risk Appetite Framework that sets out a Preferred Management Approach for the fund together with a Preferred Range of Surplus. This framework ensures appropriate management of the fund's capital, including that discretionary distributions from the estate take into account the fair treatment of policyholders. This framework is defined in the PPFM and subject to PPFM change controls.

7.6.Capital Position of ALPI DAC at the point of transfer

7.6.1.The ALPI Irish WPF's exposure to the legal entity is twofold:

- The risk that the legal entity is unable to support the standalone with-profits sub-fund in a scenario where the with-profits sub-fund cannot meet its policyholder obligations.
- The risk that the legal entity becomes insolvent and other policyholders would therefore have recourse to the surplus assets within the with-profits sub-funds.

7.6.2.The Scheme requires ALPI DAC to be capitalised to a Solvency II coverage ratio of 150%. As such the post transfer results include an estimated capital injection from UKLAP at the point of transfer of c€113m.

7.6.3.I have reviewed ALPI DAC's interim 2018 ORSA. This gives a range of stress and scenario tests of ALPI DAC's solvency position, assuming the Scheme had been implemented. This showed that ALPI DAC's solvency position is able to withstand a wide range of adverse conditions.

7.6.4.When considering the transferring business (including non-profit business) in isolation, the Standard Formula SCR is marginally stronger than on an Internal Model basis. The Standard Formula is less onerous for sovereign risk, which generates no capital requirements but has areas of prudence, with the key item that the Standard Formula allows less credit for diversification of risks and is more penal in respect of capital held for the internal reinsurance arrangement, (i.e. the risk of UKLAP insolvency).

7.6.5.While similar quantitative analysis is not available for the full ALPI DAC entity, including pre-transfer business, the underlying risks do not give concern that the Standard Formula would be inappropriate and this is covered in the Standard Formula Appropriateness document submitted to the CBI.

7.6.6.I am therefore satisfied that the level of capital held within the ALPI DAC entity for the SCR is appropriate at the point of transfer.

7.7.ALPI DAC Solvency Risk Appetite

7.7.1.The purpose of the SRA is to hold an appropriate level of capital over and above regulatory requirements, to manage the risk of regulatory breaches.

7.7.2.The SRAs of both UKLAP and ALPI DAC follow the Aviva Group "Solvency II Risk Appetite Guidance".

7.7.3.The strength of the SRA now and in the future is the key protection for policyholders, rather than the coverage itself, provided coverage is at or above the SRA. This is because it is the SRA that restricts capital being taken out of the company as a dividend, and requires the restoration of the capital position if it falls below the SRA.

7.7.4.I consider that the current level of the ALPI DAC SRA, at 150% of SCR, gives an appropriate level of protection to maintain security of policyholder benefits.

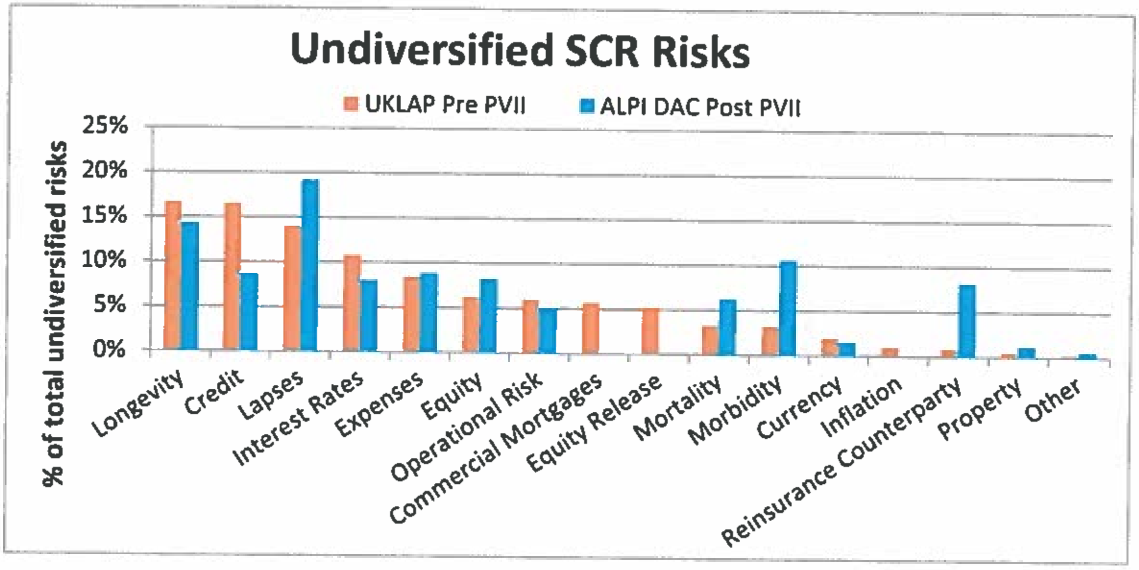
7.7.5.The Scheme includes a provision that a material weakening of the SRA in the future could only be agreed having taken advice from the HoAF, consulting with the WPC and informing the CBI. I consider this an important protection and would expect it to be challenging to get agreement to a material weakening.

7.7.6.The definition of material weakening allows the ALPI DAC Board to reduce the SRA by up to 5% to 145% without triggering this Scheme protection. I have therefore considered an SRA level of 145% when assessing the security of transferring policyholders.

7.7.7.I am satisfied that the ALPI DAC SRA at the point of transfer, including consideration of a further 5% weakening, together with the ongoing protections over weakening of the SRA, provides sufficient assurance that the security of benefits for transferring policyholders is not materially adversely affected by the Scheme.

7.8.Risk profile of ALPI DAC at the point of transfer

7.8.1.The next consideration is whether, despite a robust SRA, the underlying risk profile of ALPI DAC gives rise to any concerns. This could be the case, for example, if a particular risk was dominant, and/or the calibration of that risk had been mis-estimated so an adverse event was more likely than had been modelled. The graph below considers the undiversified risks by risk type as a proportion of the total undiversified risks for UKLAP (Pre Transfer) and ALPI DAC (Post Transfer).



7.8.2.There are changes in the risk profile to which policies transferring from UKLAP to ALPI DAC are exposed; these are described in the Chief Finance Actuary's Report. I consider that both companies are exposed to a broad, diversified range of risks.

7.8.3.I am satisfied that the change in risk profile is not excessive or inappropriate for transferring policyholders and does not result in a material adverse effect on the security of benefits for transferring policyholders.

7.8.4.UKLAP measures its risk using an internal model while ALPI DAC uses the Standard Formula. ALPI DAC has produced a document outlining the appropriateness of the use of the Standard Formula and compares this to UKLAP's Internal Model approach. I have reviewed the qualitative and quantitative analysis within this document and I note that the capital requirements on the two bases are similar at a total level, with some differences at individual risk level.

7.8.5.A full assessment of the Standard Formula appropriateness is performed on an annual basis as part of the ORSA process.

7.8.6. I am satisfied that, at the Effective Time, the Standard Formula is appropriate in aggregate and covers the key risks for ALPI DAC. I consider the Standard Formula will be appropriate going forward, as after the Transfer the risk profile of ALPI DAC is not expected to change considerably, and analysis will be performed annually to ensure the Standard Formula remains appropriate.

7.9.Financial Services Compensation Scheme ("FSCS")

7.9.1.The FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long term insurance policies, the FSCS will pay 100% of any eligible claim.

7.9.2.At the point of the Irish 2014 Scheme transfer of the Irish policies into the UK, the legal advice received, including advice from the FSCS, was that these transferring Irish policyholders would not be protected by the FSCS. The court documentation and relevant actuarial reports, made this point clear.

7.9.3.The Scheme is being implemented to ensure that the transferring policies can continue to be serviced legally. I consider this to be very important to customers, and that loss of the FSCS protection is an unavoidable consequence of the transfer.

7.9.4.It is possible that changes to the terms of Brexit could mean it would be possible to continue to service these customers in the UK, and thus maintain the FSCS protection, either for a transitional period or for the long-term. However, I consider the timescale of Brexit is such that, to ensure the legal servicing of policies can continue, it is in practice necessary to put the Scheme in place as Aviva is doing, and thus that the loss of FSCS protection is unavoidable.

7.9.5.Given the financial strength of both UKLAP and ALPI DAC that is maintained as a result of their Solvency Risk Appetites, I consider that FSCS protection would only be called on in an extremely remote event. I therefore consider that the value of the protection lost is low, and not material relative to the certainty the Transfer brings of being able to continue servicing the policies legally.

7.9.6. It is possible that the terms of Brexit would make it possible to continue servicing the policies legally without the Transfer. I consider the protections over the level of the SRA to be strong enough that it would be very unlikely the SRA could be weakened to the point where I would consider the loss of FSCS protection to be a material adverse effect.

7.10.Financial Ombudsman Service

7.10.1.The Financial Ombudsman Service ("FOS") is an independent body in the UK set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves.

7.10.2.In Ireland, the Financial Services and Pensions Ombudsman ("FSPO") performs a similar role.

7.10.3.All Irish policyholders currently have access to the FSPO and will continue to after the transfer.

7.10.4.With the exception of the Swedish and Icelandic policyholders, all other non-UK EEA policies will have access to the same Ombudsmen before and after the transfer, in their resident countries.

7.10.5.After the Scheme the Swedish and Icelandic policyholders' complaints body will change from the UK FOS to the Irish FSPO. There are some exceptions to this, these are:

- Where claims are in progress at the time of the Part VII, these will continue to be investigated by the FOS;
- Sales complaints will continue to be investigated by the ombudsmen in the territory from which the distributor / intermediary sold the product; and
- Complaints relating to the conduct of UKLAP prior to the date of the transfer, which will still be investigated by the FOS.

7.10.6.Both FOS and FSPO are independent and have been set up to deal with unresolved complaints from consumers about their individual dealings with all financial services providers, including insurers. The change for the Swedish and Icelandic policyholders is therefore not considered to result in a detriment for them.

7.11. Conclusions

7.11.1. Overall, I am satisfied that the Scheme does not have a material adverse effect on the security of benefits of UKLAP with-profits policyholders, whether transferring to ALPI DAC or remaining in UKLAP.

8. Effect of proposed changes on benefit expectations and fair treatment of UKLAP with-profits policyholders not transferring under the Scheme

8.1. Summary

8.1.1. This section considers the effect of the Scheme on the existing UKLAP with-profits policyholders, who are not being transferred within the Part VII process, with respect to their benefit expectations and fair treatment.

8.1.2. There are no changes to any of the following for those policyholders remaining within UKLAP:

- Ongoing administration and governance;
- Investment management;
- Bonus policy;
- The expenses charged to the With-Profits Funds;
- Management of the With-Profits Funds, including there being no changes of significance to published PPFMs;
- Policyholder taxation; and
- New business policy.

8.1.3. I conclude that the proposed Scheme has no impact on the benefit expectations or fair treatment of the existing with-profits policyholders of UKLAP who are not transferring under the Scheme.

8.1.4. Given the above, UKLAP is seeking a waiver to exclude these customers from the Part VII mailings, as part of the Part VII communication strategy.

9. Effect of proposed changes on the benefit expectations and fair treatment of the with-profits policyholders transferred from UKLAP to ALPI DAC but reinsured back to UKLAP in full

9.1.Purpose

9.1.1.This section considers the effect of the Scheme on the UKLAP with-profits policyholders being transferred to ALPI DAC, and immediately reinsured back into UKLAP.

9.2.Ongoing administration

9.2.1.This business is currently administered on behalf of UKLAP, either internally or through external outsourcing contracts. The policy servicing activities for this business will continue to be managed by UKLAP, with the reinsurance treaty including an obligation for UKLAP to perform, or otherwise procure the performance of, such activities, as reinsurer.

9.2.2.As such there is no change to the administration for any of these policyholders, with either the existing Aviva entity or the external outsourcers performing the same administration services as before the transfer. This means there will be no impact on the service standards or the ongoing communications received by those policyholders transferring to ALPI DAC.

9.3.Investment Management

9.3.1.As a result of the reinsurance back to UKLAP, the assets backing this business within UKLAP will continue to be covered by existing arrangements.

9.3.2.There will be no changes to the investment strategies of any of the UKLAP with-profits funds that this business is reinsured back into, or to the investment fees charged.

9.4.Benefit Expectations

9.4.1.The structure of the reinsurance is such that transferring policyholders are reinsured back into the UKLAP sub-funds that they currently reside in. The Scheme ensures the reinsurance is brought in at the same time as the Scheme Effective Time.

9.4.2.The funds these policies are in will be classified as non-profit funds in Ireland, but with reinsurance back into the UKLAP with-profits funds. The policies themselves will remain with-profits or non-profit as they are now.

9.4.3.Under the reinsurance agreement, any payments to policies, including claims, bonuses and estate distributions declared by UKLAP, will directly flow through ALPI DAC to the policyholders. There is no additional discretion introduced within ALPI DAC.

9.4.4.The benefits the reinsured policies will receive thus remain wholly dependent on the bonus policy, investment management, expenses, with-profits fund management and governance of these funds. Section 8, covering the UKLAP with-profits policyholders not transferring, outlined that none of these items are changed under the Scheme, and therefore the same conclusions are valid for this group of policyholders.

9.4.5.Under the terms of the reinsurance agreement, UKLAP will pay ALPI DAC ceding commission. This is because ALPI DAC will incur some additional costs in respect of overseeing the operation of the reinsured business, and the commercial agreement between the companies in this respect.

9.4.6.Following the transfer, additional VAT in Ireland at the rate of 23% will apply on certain administration and investment management services supplied to Ireland from overseas. It is possible that such VAT could be incurred in ALPI DAC in respect of the reinsured business, and that ALPI DAC could seek to recover this from UKLAP.

9.4.7. It has been agreed that the UKLAP shareholder will bear the cost in respect of the ceding commission. The shareholder, either UKLAP or ALPI DAC, will bear the VAT cost described above. However, it is possible that this will be reviewed in future, and that an appropriate proportion of the cost could be charged to the UKLAP with-profits funds, and thus be borne by policyholders. Such a review would be subject to appropriate governance, including advice from the WPA and consultation with the WPC.

9.4.8. It is therefore possible that there could be an adverse impact on these policyholders resulting from the Scheme, in respect of the costs of commission and VAT. I do not consider that the potential loss of value from these costs is material, relative to the requirement to transfer the policies out of UKLAP in order to be able to service them legally post Brexit, noting the protections that exist in respect of any future proposal to charge these costs to policyholders.

9.5. Communications to Policyholders

9.5.1. I have reviewed the drafts of the proposed communication to this group of policyholders. I am satisfied that the material provides sufficient information to describe the Scheme and the impact on their policies, and is consistent with the principles of fair treatment of customers.

9.6. Conclusion

9.6.1. I conclude that the proposed Scheme has no material adverse impact on the fair treatment and benefit expectations of the policyholders being transferred to ALPI DAC and immediately reinsured back into UKLAP.

10. Effect of proposed changes on the benefit expectations and fair treatment of with-profits policyholders transferred from UKLAP to ALPI DAC excluding business reinsured back to UKLAP

10.1. Introduction

10.1.1. This section considers the effect of the Scheme on the benefit expectations and fair treatment of existing UKLAP with-profits policyholders being transferred to ALPI DAC, and not subject to reinsurance back into UKLAP, in other words those in the UKLAP Irish WPSF.

10.1.2. It further covers the adequacy of the arrangements that are to be put in place for the management of this with-profits business.

10.2. ALPI Irish WPF

10.2.1. It is proposed that all of the transferred with-profits policies within the UKLAP Irish WPSF will be allocated to a newly created sub-fund, ALPI Irish WPF. The assets and liabilities of the UKLAP Irish WPSF will be allocated to this fund in full.

10.3. ALPI Irish WPF Governance

10.3.1. As the UKLAP Irish WPSF is currently managed under UK regulations, significant protection for with-profits policyholders is set out in the FCA's Conduct of Business Sourcebook (COBS 20). There are two key items of governance in these rules, the requirement to have a PPFM and the requirement to have a With Profits Committee.

10.3.2. The Principles and Practices of Financial Management of the UKLAP Irish WPSF will be retained for the ALPI Irish WPF. Given this is not a requirement under Irish regulations, future changes to this document are subject to an explicit clause within the Scheme requiring the Board to make changes only after having consulted the WPC. This clause seeks to ensure that the protections offered by the PPFM will be maintained over time.

10.3.3. The WPC will continue to provide oversight for the UKLAP Irish WPSF policyholders after the transfer to the ALPI Irish WPF, with updated terms of reference to reflect the transfer of this business to Ireland.

10.3.4. The Irish regulations do not include a regulated role specifically equivalent to the UK With Profits Actuary role, which has a statutory responsibility to report to the Board on the exercise of discretion for with-profits business, and to inform the regulator of particular concerns.

10.3.5. Within Ireland, there is a regulated Head of Actuarial Function ("HoAF") role providing some of these protections. The formal HoAF role profile has been expanded to explicitly outline the additional requirements over and above the Irish regulations that the HoAF is required to perform to maintain policyholder protections. The commitment to maintaining this role profile is included within the PPFM for the ALPI Irish WPF.

10.3.6. While there is no regulatory requirement in Ireland to establish a WPC, the PPFM and Scheme outline areas where the ALPI DAC Board must consult the WPC, and these and the WPC terms of reference together outline the relationship between the WPC, HoAF and ALPI DAC Board.

10.3.7. While a number of important aspects of COBS 20 are covered by the commitments to maintain a PPFM and WPC, a full review of these regulations has also been performed. Where a COBS 20 rule was not adequately covered by existing PPFM or Scheme commitments and the regulation was deemed to provide policyholder protection, these have been incorporated in the ALPI Irish WPF PPFM.

10.3.8. The revised PPFM contains a commitment that the annual review of the PPFM will have regard to changes in UK legislation affecting with-profits business.

10.3.9.On 22 June 2018 the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II. This consultation paper proposes amendments to the actuarial regime in Ireland relating to the governance of with-profits business. The proposal includes the requirement to produce a With-Profits Operating Principles (WPOP) document together with increased reporting. It is proposed that these additional requirements will not apply to currently authorised insurers with existing with-profits policies until 1 January 2020. Once these additional requirements come into force, they will apply to ALPI DAC. If implemented they will further reinforce the protections of the PPFM, as the consultation document introduces a number of requirements in line with COBS 20.

10.3.10.I consider that the protection for policyholders is not adversely affected by the loss of formal COBS 20 regulations, given the commitments ALPI DAC has made in this area, and the explicit requirements added within the Scheme and PPFM.

10.4.Management of the ALPI Irish WPF

10.4.1.The adoption of the existing PPFM ensures there is no material change to the management of the with-profits fund, including the approach to the use of the estate. Changes to the PPFM require a similar level of governance in ALPI DAC to the current position for this business in UKLAP.

10.5.Bonus Policy

10.5.1.The bonus policy of the UKLAP Irish WPSF is independent of the circumstances of the other funds of UKLAP. It is not proposed that any changes are made to the bonus policy of this fund as a result of the proposed transfer of business.

10.6.Administration Arrangements

10.6.1.A Memorandum of Understanding ("MoU") defines the services that will be provided to the ALPI Irish WPF. The services are unchanged from those that have been provided under the existing Management Services Agreement ("MSA") between UKLAP and Aviva Life Services Ireland Limited.

10.6.2.The exact arrangements for implementing this agreement for servicing the transferring policies are yet to be confirmed. Details will become clearer as the ALPI DAC existing business is integrated with the transferring Irish business.

10.6.3.The servicing arrangements will be based on integration principles of treating customers fairly and using a "best of both" approach across people, systems and processes.

10.6.4. Following the Transfer, the with-profits Irish business, which was previously administered by Aviva Life Services Ireland Limited ("ALSIL"), will be administered by ALPI DAC. The administration teams, processes and systems of ALPI DAC and ALSIL will be brought together using a Best of Both approach ("Best of Both" is an approach whereby the overall customer experience from the ALSIL and ALPI DAC processes are compared and the best chosen, which will define the strategy for people, systems and processes.) ALPI DAC will maintain a continued focus on its policyholders, providing clear information and quality of service. The impact on policyholders will be a key consideration in any decisions made about the integration of processes.

10.6.5.In addition, the treatment of policyholders post transfer must comply with the Aviva 'Customer Experience Standard' and follow the rules of the Consumer Protection Code in Ireland.

10.6.6.Based on the integration principles and these frameworks, although there may be changes impacting the servicing of these policies, I am satisfied that there are sufficient protections to ensure there will be no material adverse impact for policyholders in respect of the administration of the business.

10.7.Expense Charges

10.7.1.There is an MSA in place between UKLAP and Aviva Life Services Ireland Limited in respect of costs charged to the UKLAP Irish WPSF. This MSA was introduced in 2016 to ensure the UKLAP Irish WPSF was being charged a fair level of expenses, in particular as the business runs off.

10.7.2.As such, the MSA fixes the per policy charges made to the UKLAP Irish WPSF. Any excess expenses above this level of charges are allocated to non-profit or shareholder funds, through a separate MSA agreement.

10.7.3.This charging structure is being replicated in ALPI DAC through the MoU highlighted in 10.6.1, such that the level of charges remains the same and governance around future amendments to these charges is sufficient to provide ongoing protection to policyholders. An additional provision is being added to the MoU to prevent the ALPI Irish WPF having to fund the closed ALPI DAC staff pension scheme, should a deficit emerge in the future.

10.7.4.To protect policyholders further, there is a PPFM provision requiring WPC and HoAF consultation before any future changes to the level of charges within the MSA.

10.8.Sunset Clause

10.8.1.The Scheme removes the 'must convert' requirement to convert the ALPI Irish WPF with-profits policies to non-profit policies should the fund fall below €100m. The Scheme retains the 'may convert' clause, allowing conversion to non-profit once the fund falls below €250m.

10.8.2.I do not consider the removal of the 'must convert' requirement to be detrimental to policyholders, as it removes the possibility that the ALPI DAC is forced to convert the fund at a time that is adverse for policyholders.

10.9.Merging of Funds

10.9.1.As outlined in section 6.6, the Scheme extends existing Friends First merger provisions to include the ALPI Irish WPF.

10.9.2.This does not have any immediate impact on the ALPI Irish WPF policyholders and I consider that the Scheme includes sufficient provisions to protect policyholders should a future merger be proposed.

10.10.Communications to Policyholders

10.10.1.I have reviewed the drafts of the proposed communication for these policyholders. I am satisfied that the material provides sufficient information to describe the Scheme, the impact on this group of policyholders and is consistent with the principles of fair treatment of customers.

10.11.New Business

10.11.1.No new business is written in the UKLAP Irish WPSF. There are very limited volumes of incremental business, or business written following the exercise of options on existing contracts which the Scheme requires the ALPI Irish WPF to accept. Volumes and terms of new business are not expected to change as a result of the Scheme.

10.12.Tax considerations

10.12.1.The basis of charging tax to the ALPI Irish WPF and the with-profits funds of ALPI DAC is that each is charged tax on the basis that it is a stand-alone company. It is not proposed that any changes are made to this approach as a result of the Scheme. This basis is now being reflected as a Principle in the ALPI Irish WPF PPFM rather than a Practice, but this does not represent a change of how the fund is expected to be managed.

10.12.2.Following the transfer, additional VAT in Ireland at the rate of 23% will apply on certain administration and investment management services supplied to Ireland from overseas. If this additional tax were charged to with-profits policyholders, it would be likely to have a small adverse effect on their returns. In my view this might be a fair outcome for policyholders, if it was unavoidable as a consequence of Brexit, and if it was not possible to perform the equivalent services at similar cost in Ireland in order to avoid some or all of the VAT.

10.12.3.However, it has been agreed that the shareholder will bear the cost of this VAT in the period following Scheme implementation, and policyholders will thus suffer no loss of return from this VAT as a direct result of the Scheme. Any future proposal to change this arrangement would be subject to appropriate governance at that time, including consultation with the WPC and HoAF.

10.12.4.It is therefore possible that there could be an adverse impact on these policyholders resulting from the Scheme in the future from the charging of VAT. I do not consider that the potential loss of value from this is material, relative to the requirement to transfer the policies out of UKLAP in order to be able to service them legally post Brexit, noting the protections that exist in respect of any future proposal to charge this cost to policyholders.

10.12.5.Whilst the provider of the transferring policies is changing from the UK to Ireland, no significant tax impacts are expected on UK or overseas policyholders as there is no change in the terms and conditions of the policies involved. The Scheme will affect the way in which investment returns on the ALPI Irish WPF policies are taxed, with Irish double tax treaties applying on overseas investments for these policyholders, which differs from the UK treatment. This results in a c5% uplift in the tax rate applied on investment returns on c5% of Irish WPF assets. For almost all these policyholders this is a reversion to the tax position applying before the 2014 Scheme.

10.12.6.The corporation tax treatment in both UKLAP and ALPI DAC of both the transfer itself and the transfer of assets it involves is broadly neutral in the UK and Ireland. The necessary tax clearances in respect of the Scheme are expected to be received from the UK and Irish tax authorities in due course.

10.13.Conclusion

10.13.1.I conclude that the proposed Scheme has no material adverse impact on the fair treatment and benefit expectations of the UKLAP Irish WPSF policyholders transferring to ALPI DAC.

11. Conclusions

11.1.Summary

It is my view that:

11.1.1.The security of benefits for with-profits policyholders is not materially affected as a result of the Scheme. The surplus capital in UKLAP remains significantly in excess of the internal Solvency Risk Appetite. The internal Solvency Risk Appetite of ALPI DAC results in no material weakening of protection for transferring with-profits policyholders.

11.1.2.The loss of FSCS protection for some customers is an adverse impact, but not in my view a material one, relative to the importance of being able to continue to service the policies legally post Brexit, and noting the strength of the protection provided by the ALPI DAC SRA.

11.1.3.The Scheme does not directly result in any changes to the benefit expectations of with-profits policyholders of UKLAP. The circumstances under which policyholder benefits would be adversely affected are not materially changed as a result of the Scheme.

11.1.4.There is a potential loss of value to transferring with-profits policyholders if in the future it is agreed to charge a share of the additional costs of ceding commission and VAT to the with-profits funds. There is also a minor adverse impact on future returns for ALPI Irish WPF policyholders, from the Irish double tax treaties applying to overseas investments. These are not, in my view, material adverse impacts relative to the importance of being able to continue to service the policies legally post Brexit, and protections are in place to ensure any such charges are fair to customers.

11.1.5.There are no mergers of existing UKLAP with-profits sub-funds and all of the with-profits sub-funds remain separately maintained. The UKLAP Irish WPSF is being transferred in full to ALPI DAC and will continue to be managed materially in line with its current treatment.

11.1.6.There are no changes to the principles or practices by which the UKLAP with-profits funds are managed, including the methodologies for setting bonuses, so there are no changes to with-profits policyholders' benefit expectations as a result of the Scheme.

11.1.7.The administration and management of policies and treatment of policyholders are either unchanged as a result of the Scheme or will not be materially adversely impacted.

11.1.8.The arrangements being put in place for the management of the transferred with-profits policies are adequate and are expected to provide for the on-going fair treatment of those policies after the transfer.

11.2.Conclusion

11.2.1.I therefore conclude that the Scheme does not result in a material adverse impact on the financial security, benefit expectations or fair treatment of policyholders within the UKLAP with-profits funds, either those remaining or those being transferred to ALPI DAC.

Appendix: Glossary of terms and abbreviations

Where a fund name is appropriately covered in the body of the paper it is not included within this Glossary.

2017 Scheme	In April 2015, Aviva plc acquired Friends Life Group, making Aviva plc the ultimate holding company of Friends Life Ltd and Friends Life & Pensions Ltd. On 1 October 2017, the long-term business of FLL, FLP and the annuity business of Aviva Investors Pensions Ltd ("AIPL") was transferred to UKLAP.
Board	The board of directors of the relevant company from time to time.
CBI	Central Bank of Ireland, the regulator of the financial services industry in Ireland.
CFA	Chief Finance Actuary. The Chief Finance Actuary provides advice to the management and Board of Aviva UK Life on the financial management of its business, and in particular the management of its solvency position.
COBS	Conduct of Business Sourcebook, produced by the PRA, gives rules and principles that regulated financial services companies must follow in the UK.
CRA	Chief Risk Actuary. The Chief Actuary function (SIMF20) in the UK is the function of having responsibility for advising the Board on the reliability and accuracy of the technical provisions, including the appropriateness of the data, methodology, models and assumptions used.
Effective Time	The Effective Time, 29 March 2019, is the date on which, subject to the consent of the Court, the Scheme will take effect.
Estate	The excess of the assets of the fund over the liabilities
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firms, including the fairness of treatment of customers.
FoE	Freedom of Establishment is the right of an insurer located in one European Economic Area member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state
FoS	Freedom of Services is the right to provide business services on a cross-border basis within the EEA. For insurance contracts, this means that the contract can be underwritten in an EEA member state that is different from the member state where the risk is located.
FOS	Financial Ombudsman Service is an independent body set up in the UK to deal with individual complaints that consumers and financial businesses are not able to resolve themselves
FSCS	Financial Services Compensation Scheme. FSCS is a statutory "fund of last resort" which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA.
FSPO	Financial Services and Pensions Ombudsman of Ireland.
HoAF	The Head of Actuarial Function role is defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015.
Independent Expert	The individual appointed to report on the terms of an insurance business transfer and approved by the PRA and FCA pursuant to Section 109 of FSMA.

Internal Model (IM)	The approved model for determining the Solvency Capital Requirement that a firm is required to hold under Solvency II Pillar 1.
Irish 2014 Scheme	The Irish 2014 Scheme was a scheme of transfer sanctioned by the Irish High Court on 2 December 2014 to transfer business to UKLAP from Aviva Life & Pensions Ireland Limited. This became effective on 1 January 2015,
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm considering the firm's own assessment of its specific risk-profile.
PPFM	The Principles and Practices of Financial Management (PPFM) explains the nature and extent of discretion available in the management of with-profits funds and how this discretion will be applied across different groups and generations of with-profits policyholders.
PRA	Prudential Regulation Authority, the regulator of the financial services industry in the UK responsible for the safety and soundness of firms and securing an appropriate degree of protection for policyholders
Scheme	The insurance business transfer Scheme that is the subject of this transfer.
Solvency Capital Requirement (SCR)	The capital an entity is required to hold under Solvency II Pillar 1.
Solvency Risk Appetite (SRA)	The Solvency Risk Appetite specifies the amount of capital required to be held in addition to regulatory requirements.
Standard Formula	The Standard Formula is a standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II.
Technical Actuarial Standards (TAS)	Technical Actuarial Standards, the principles created by the Financial Reporting Council against which all Required or Reserved Actuarial work should be performed.
WPA	With Profits Actuary. The With Profits Actuary function (SIMF21) is the function having responsibility for advising the Board on the exercise of discretion affecting the with-profits business of the company, and whether the assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the Principles and Practices of Financial Management.
WPC	With Profits Committee. The With Profits Committee was established by UKLAP to provide independent oversight and challenge to ensure that fairness and with-profits policyholders' interest are appropriately considered in governance structures and decision making. The With Profits Committee also advises ALPI DAC.