Supplementary Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company

4 January 2019

Contents

Appendices

1 Introduction

1.1 Aviva Insurance Limited ("AIL") and Aviva Insurance Ireland Designated Activity Company ("AIIDAC") have jointly nominated Simon Sheaf ("I", "me") of Grant Thornton UK LLP ("Grant Thornton", "we", "us") to act as the Independent Expert for the proposed insurance business transfer scheme ("the Scheme") of elements of the insurance business of AIL to AIIDAC. The Scheme is intended to be effected on 00:01 on Friday 1 February 2019 ("the Effective Time").

Scope of this report

1.2 I prepared a report addressed to the Court of Session in Scotland ("the Court") dated 23 August 2018 and entitled "Report by Simon Sheaf FIA FSAI, Independent Expert, on the Proposed Transfer of a Portfolio of Policies from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company" ("the Report"). The Report set out my considerations as to the likely effects of the proposed Scheme on the policyholders of AIL and AIIDAC. This included my assessment as to whether the Scheme will result in material detriment to any policyholders affected by the Scheme relative to their current situation.

1.3 The conclusions within the Report were based on financial information as at various dates from 1 November 2016 to 31 December 2017 and other information available to me when I prepared the Report. Since submitting the Report to the Court, I have been provided with more recent information. A list of the additional information that I have been provided with is contained within Appendix A.

1.4 This report ("the Supplementary Report") provides an update to the conclusions I set out in the Report in light of this additional information. It also considers any other changes that have occurred since the Report was submitted and provides an update to the conclusions set out in the Report in the light of those changes. In addition, this report also provides my opinion on the communications received from policyholders and reinsurers of AIL and AIIDAC.

1.5 I am not aware of any changes not discussed in this report that have the potential to change the conclusions in the Report.

Layout of this report

1.6 This report is structured as follows:

- This section sets out an introduction to the Scheme and to this report.
- The second section is an executive summary, which summarises the various analyses conducted and describes my conclusion.
- Section 3 sets out significant changes to each of AIL and AIIDAC since the Report, along with any developments external to AIL and AIIDAC.
- Section 4 describes the work that I have carried out to review my conclusions in respect of the claims reserves of AIL and AIIDAC.
- Section 5 describes the work that I have carried out to review my conclusions in respect of the capital requirements of AIL and AIIDAC.
- Section 6 describes the work that I have carried out to review my conclusions in respect of policyholder security.

- Section 7 describes the work that I have carried out to review my conclusions in respect of other financial considerations.
- Section 8 describes the work that I have carried out to review my conclusions in respect of other non-financial considerations.
- Section 9 describes the work I have done to consider the communications process.
- Section 10 sets out my conclusions on the Scheme.

1.7 For ease of reference, I reproduce Appendices B and C from the Report at the end of this report. Appendix B contains definitions of technical terms used in one or both of the Report and this report, while Appendix C contains explanations of abbreviations used in one or both of the Report and this report.

Independence

1.8 I currently hold a personal motor insurance policy issued by AIL. I do not believe that this policy impairs my independence to fulfil the role of Independent Expert for this Scheme. Further, prior to accepting the role of Independent Expert, I disclosed this relationship to AIL, AIIDAC, the PRA and the FCA to consider whether they believed that the policy could impair my independence or creates a conflict of interest. None of these parties considered this insurance policy to impair my independence to fulfil the role of Independent Expert on this Scheme.

1.9 Apart from my motor insurance policy as mentioned in paragraph 1.8 above, I have no financial interest in AIL or the group of companies to which AIL belongs. I have been involved in a number of projects advising AIL and the group of companies to which AIL belongs in a professional capacity; however, I do not believe these previous assignments impair my independence to act as the Independent Expert on the Scheme. These previous assignments were disclosed to the PRA and the FCA, prior to my approval as the Independent Expert for the Scheme.

1.10 I have no financial interest in, nor have I previously advised in a professional capacity, AIIDAC.

Use of this report

1.11 This Supplementary Report should be read in conjunction with the Report as reading this report in isolation may be misleading. In particular, this report has the same scope and is subject to the same reliances and limitations as the Report. All abbreviations and technical terms used in this Supplementary Report have the same meaning as in the Report.

1.12 This report is provided for the use of the Court, the AIL Board, the AIIDAC Board, AIL's policyholders, the PRA, the FCA, the CBI, and any other relevant regulator for the sole purpose of considering the impact of the Scheme on the affected policyholders.

1.13 In addition, draft and final versions of this report may be distributed to AIL's legal advisers, AIIDAC's legal advisers, and companies within the group to which AIL and AIIDAC belong as necessary in connection with the transaction. Should this report be distributed to any of the entities listed in the previous sentence, no reliance should be placed on this report by these entities, and we do not assume any liability to these entities or any other third parties that choose to rely on this report. In addition, AIL shall be responsible for any confidentiality breach that arises from the distribution of this report to AIL's legal advisers, to companies within the group to which AIL belongs or to any other entities to which it releases this report. Similarly, AIIDAC shall be responsible for any confidentiality breach that arises from the distribution of this report to AIIDAC's legal advisers, to companies within the group to which AIIDAC belongs or to any other entities to which it releases this report.

1.14 Copies of the final version of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available at https://transfer.aviva.com, a webpage which has been developed in connection with the Scheme.

1.15 However, Grant Thornton does not accept liability to any party other than AIL, AIIDAC, or the Court who chooses to act on the basis of any of the reports we have issued in connection with the Scheme, including this one.

1.16 Judgements about the conclusions drawn in this report should only be made after considering both this report and the Report in their entirety as any part or parts read in isolation may be misleading.

1.17 The underlying figures contained in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

1.18 Unless otherwise stated, the figures used throughout this report are shown in sterling and, where necessary, have been converted at the following exchange rates:

Table 1: Exchange rates (£1 =)

	€
30 June 2018	1.1308
31 December 2017	1.1270

These are the Bank of England rates as at the nearest dates available.

Professional guidance

1.19 As an Independent Expert reporting to the Court, I am required to act in accordance with the rules of Scots law which are, in functional terms, the broad equivalent of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims. Accordingly, this report is prepared for the assistance of the Court and I confirm that I understand my duty to the Court and have complied with that duty.

1.20 This report has been prepared under the terms of the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers" and the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. In addition, in May 2018, the FCA published a guidance paper, entitled "The FCA's approach to the review of Part VII insurance business transfers". The FCA requires that this guidance paper is considered in addition to SUP18. This report has also been prepared in line with this guidance paper.

1.21 In my opinion, this report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.

1.22 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings, produced by the Institute and Faculty of Actuaries.

1.23 In addition, this report has been internally peer reviewed in line with the requirements of APS X2: Review of Actuarial Work, produced by the Institute and Faculty of Actuaries.

Statement of truth

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

2 Executive Summary

My approach

2.1 In preparing this report, I have considered relevant events and experience since completing the Report and their effect on the conclusions set out in the Report. In particular, I have sought to:

- Understand changes to AIL and AIIDAC since the Report, both financial and non-financial
- Consider the implications of these changes on the level of security provided to the affected policyholders
- Consider the potential impact of changes since the Report on levels of customer service
- Consider the changes in other factors that might affect policyholders since the Report
- Consider the implication of changes since the Report on reinsurers.

2.2 Since the Report, I have been provided with additional financial information for each legal entity, including:

- Balance sheet information based on figures as at 30 June 2018
- Estimates of the regulatory capital required for AIL and AIIDAC as at 30 June 2018
- Estimates of the reserves for AIL and AIIDAC as at 30 June 2018.

2.3 A full list of the information received for this report has been included in Appendix A.

2.4 I have also considered the correspondence with policyholders of AIL that has taken place in connection with the Scheme and responses received up to 21 December 2018.

Findings

2.5 The findings set out in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report and within the Report.

2.6 With respect to the existing policyholders of AIL, I do not expect any material adverse impact on policyholder security as a result of the Scheme as the Transferring Portfolio is immaterial in the context of AIL.

2.7 With respect to policyholders within the Transferring Portfolio, I do not expect any material adverse impact on policyholder security as a result of the Scheme. As discussed in paragraphs 9.26 and 9.27 of the Report, this conclusion is subject to AIL honouring its intention to provide financial support to AIIDAC should AIIDAC's coverage ratio against its SCR fall below a specified threshold.

2.8 Since the Report was issued, AIL has provided me with further details of this intention. I have been informed by AIL of the current Solvency Risk Appetite thresholds and how this intent might operate within them. AIL has told me that it intends to provide financial support to AIIDAC to restore its coverage ratio to at least 135% where AIIDAC notifies AIL that its coverage ratio has fallen to below 115%. I understand from AIL that there are a number of conditions attached to this intention, including that AIL's coverage ratio is in excess of AIIDAC's. In addition, as discussed in the Report, this intention is not legally binding.

2.9 In the event that AIL does not honour its intention to provide financial support to AIIDAC, this will increase the likelihood that AIIDAC's liabilities could exceed its assets and that it is therefore unable to pay all insurance claims as they fall due. However, given the results of the stress testing I have undertaken which is detailed in paragraphs 8.94 to 8.109 in the Report, I consider the probability of such a scenario to be low, even if AIL fails to honour its intention.

2.10 I do not anticipate any material adverse changes to the level of service provided to any of the groups of policyholders following the Scheme. For the Transferring Portfolio, the same people will be employed to service policies and handle claims before and after the Scheme. For the Remaining Portfolio, there will be no changes.

2.11 I do not expect any material adverse impact to any group of policyholders following the Scheme as a result of the other financial and non-financial factors considered. The other financial factors that I have considered are:

- Investment strategy implications
- Implications of the Scheme on ongoing expense levels
- Implications under insolvency
- Impact on compensation
- Liquidity position
- Tax implications
- Pension arrangements
- Impact on existing reinsurers
- Impact on new business strategy
- Impact on existing guarantees.

2.12 The other non-financial factors that I have considered are:

- EEA business remaining with AIL following the Scheme
- Changes in regulatory jurisdiction
- Claims handling
- Policy servicing
- Complaints
- 'Brexit'
- Management and governance frameworks
- Should the Scheme not become effective
- Should the application for the AIIDAC UK Branch to convert to a third country branch following Brexit not be successful
- Policyholder notifications
- Reinsurer notifications.

2.13 I expect no material adverse impact on the current and historic reinsurers of AIL as a result of the Scheme.

Conclusion

2.14 I conclude that I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

3 Developments in the Scheme

AIL

Mobile Device Insurance

3.1 I understand from AIL that AIL will not be renewing a contract to distribute Mobile Device Insurance ("MDI") business with one of its distributors which is due to expire on 28 February 2019. The policies underwritten under this distribution arrangement will not be included in the Scheme. It follows that these policies will remain with AIL following the Scheme despite covering EEA risks.

3.2 Following the expiration of the contract discussed in paragraph 3.1, I expect the period over which remaining policies and claims are run-off to be short due to the nature of MDI business. It follows that these policies will fall into the category of policies covered by the third bullet point in paragraph 2.4 of my Report.

3.3 Similar to any other policy with EEA risks that are not in the Scheme, and as discussed in paragraph 11.8 of my Report, I have been informed by AIL that it intends to continue to honour its legal obligations on all of these policies following the Scheme in all circumstances. Given this, I am comfortable that excluding these policies from the Scheme will not result in a material detriment to these policyholders.

3.4 AIL has informed me that it has underwritten 13,900 policies under the contract discussed in paragraph 3.1 with premium income in relation to these policies representing less than 0.02% of the total premium income for AIL and best-estimate liabilities of approximately £8m which represents less than 0.2% of the total reserves for AIL. As a result, I consider this development to be immaterial to the Remaining Portfolio.

Healthcare and hospitalisation cash plan policies

3.5 I understand from AIL that a portfolio of healthcare and hospitalisation cash plan policies will be commuted to another carrier or cancelled by 29 March 2019 and will therefore not be included in the Scheme. This amounts to a total of 24 policies, offering healthcare and hospitalisation benefits. These will form a category of policies remaining with AIL following the Scheme despite covering EEA risks, adding to the list in paragraph 2.4 of my Report.

3.6 I have been informed by AIL that it expects that its claim obligations relating to these policies will be fully run-off within six months of the commutation or cancellation date.

3.7 In line with other policies with EEA risks that are not included in the Scheme, and as discussed in paragraph 11.8 of my Report, I have been informed by AIL that it intends to continue to honour its legal obligations on all of these policies following the Scheme in all circumstances. Given this, I am comfortable that excluding these policies from the Scheme will not result in a material detriment to these policyholders.

3.8 As mentioned above this portfolio consists of only 24 policyholders. In addition, I understand from AIL that claim rates are very low with approximately 30 claims per year averaging less than £200 each in value. As a result, I would not expect the commutation of this portfolio to be material to the Remaining Portfolio.

French Terrorism Pool

3.9 AIL has informed me that it is currently a member of a government-backed pool providing terrorism reinsurance cover in France and that AIIDAC will become a member of the same pool following the Scheme. AIL has further informed me that from the Effective Time, AIL's participation in this pool will be nil. As AIL will no longer hold any direct policies that are exposed to property business in France following the transfer, I believe that it is appropriate that AIL will have a zero percent share of the pool following the Scheme.

3.10 AIL has informed that all of AIIDAC's premiums paid to and recoveries received from this pool will be treated in the same way as any other reinsurance contract that inures to the benefit of the AIIDAC-AIL Quota Share arrangement. In particular, the reinsurance premium under the AIIDAC-AIL Quota Share will be reduced to reflect AIIDAC's contributions to this pool. Similarly, reinsurance recoveries from AIL to AIIDAC will be reduced to allow for any recoveries paid to AIIDAC from this pool.

3.11 I also understand from AIL that should another member of this pool default as a result of a terrorism event and a recovery be due to the pool from AIIDAC, this liability will be covered under the AIIDAC-AIL Quota Share arrangement and AIIDAC will therefore be able to recover this from AIL.

3.12 Before the Scheme, the Remaining Portfolio is directly exposed to this pool as AIL is a contributing member of the pool. Furthermore, after the Scheme, the Remaining Portfolio is indirectly exposed through the AIIDAC-AIL Quota Share arrangement. As a result, I do not expect the development in respect of this pool to have a material adverse impact on the Remaining Portfolio.

Policyholder identification

3.13 Further to what I discussed in paragraph 5.22 in my Report, I have also been provided with an update on AIL's process of enhancing its policy data systems so that all policies with EEA risks can be identified.

3.14 I have been informed by AIL that there is an externally hosted system on which the policy data is held and that this is being enhanced by an external company. I have been informed by AIL that the development of the system changes is now complete and undergoing testing before being implemented in the live system. AIL has informed me that following this enhancement, it will be able to identify all risks written in the EEA.

3.15 AIL has further informed me that the output of the externally hosted system is also undergoing enhancements, with work on that expected to continue until February 2019.

3.16 As the work to identify policyholders has not yet been completed, I understand from AIL that the transferring reserves for FOS business included within this report have been estimated in the same way as those in the Report.

Subsidiaries transferring in the Scheme

3.17 I understand from AIL that a decision has been made since the Report to no longer include the investment in two subsidiaries, Aviva Direct Ireland Limited and Aviva Driving School Ireland Limited, in the Scheme. I have been further informed by AIL that the decision to not transfer the investment in the two subsidiaries will not have an impact on the value of the transferring liabilities. The impact of this on the investments shown on the balance sheet of AIIDAC is discussed in paragraph 6.20.

Other changes affecting AIL

3.18 I understand from AIL that there have been no other material changes impacting its business since the Report was issued.

AIIDAC

Mobile Device Insurance

3.19 As discussed in paragraph 3.1, I understand that AIL will not be renewing a contract to distribute MDI business with one of its distributors on 28 February 2019. Policies underwritten under this contract will therefore not be included in the Scheme.

3.20 The premium income in relation to policies underwritten by AIL under the contract discussed in paragraph 3.1 represents less than 0.1% of the total premium income for AIIDAC. As a result, I consider this development to be immaterial to the Transferring Portfolio.

Healthcare and hospitalisation cash plan policies

3.21 As discussed in paragraph 3.5, I understand from AIL that a portfolio of healthcare and hospitalisation cash plan policies will be commuted to another carrier or cancelled by 29 March 2019 and will not be included in the Scheme.

3.22 As mentioned above this portfolio consists of only 24 policyholders. In addition, I understand from AIL that claim rates are very low with approximately 30 claims per year averaging less than £200 each in value. As a result, I would not expect the commutation of this portfolio to be material to the Transferring Portfolio.

French Terrorism Pool

3.23 As discussed in paragraph 3.9, AIL has informed me that it is currently a member of a government-backed pool providing terrorism reinsurance cover in France and that AIIDAC will become a member of the same pool following the Scheme. As AIIDAC will hold policies that are exposed to property business in France following the transfer, I believe that it is appropriate for it to take up membership to this pool at the same time as the policies covered by the pool are transferred.

3.24 I do not believe that this will have a material detrimental impact on the Transferring Policyholders as these policies would have been exposed to this pool prior to the Scheme and will continue to be exposed to this pool following the Scheme.

Further transfer of business following the Scheme

3.25 I understand from AIIDAC that it is considering transferring a portfolio of mobile phone warranty policies from another entity based in Gibraltar into AIIDAC following the Scheme.

3.26 I discuss the impact of this potential transfer on the security of the Transferring Policyholders in paragraphs 6.37 to 6.42.

Subsidiaries transferring in the Scheme

3.27 As discussed in paragraph 3.17, I understand from AIL that a decision has been made since the Report to no longer include the investment in two subsidiaries, Aviva Direct Ireland Limited and Aviva Driving School Ireland Limited, in the Scheme. I have been further informed by AIL that the decision to not transfer the investment in the two subsidiaries will not have an impact on the value of the transferring liabilities. The impact of this on the investments shown on the balance sheet of AIIDAC is discussed in paragraph 6.20.

Other changes affecting AIIDAC

3.28 I understand from AIIDAC that there have been no other material changes impacting its business since the Report was issued.

Regulatory developments

Brexit

3.29 As at the time of writing this report, the future relationship of the UK with the EU remains uncertain.

3.30 It follows that there have not been any changes in relation to Brexit that give me reason to change the conclusions in the Report.

Other developments

3.31 I am not aware of any other market or financial developments since the date of the Report that would have an impact on my conclusions.

4 Claims Reserves

AIL's reserving process

4.1 I have been informed by AIL that its process for calculating its and AIIDAC's reserves and Solvency II technical provisions has not changed in any material way since the Report. I therefore see no reason to change my conclusions in the Report in respect of AIL's processes for calculating AIL's and AIIDAC's reserves and Solvency II technical provisions.

4.2 In particular, in my opinion:

- AIL continues to operate a well embedded quarterly reserving process which is subject to several layers of internal review
- AIL continues to give due consideration to ongoing uncertainties in the wider claims environment, in particular the recent change in Ogden discount rate and the passing of the Civil Liability (Amendment) Act 2017 introducing Periodic Payment Orders ("PPOs") in Ireland.
- The reserving and Solvency II technical provision processes for the Transferring Portfolio and Remaining Portfolio appear robust and I have no reason to believe that the reserves or Solvency II technical provisions lie outside a range of reasonable estimates.

AIL

Best estimate reserves

4.3 The table below sets out the claims reserves of AIL as at 30 June 2018 with a comparison against its claims reserves as at 31 December 2017.

Table 2: Actuarial best estimate claims reserves of AIL before the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	5,622.8	5,439.3
Net of primary reinsurance	4,233.8	4,090.8
Net of primary reinsurance & AII reinsurance mixer	2,126.9	2,070.5

4.4 As can be seen from the above table, the claims reserves of AIL have reduced on both gross and net bases between 31 December 2017 and 30 June 2018.

4.5 I have been informed by AIL that the movements in reserves are driven by a number of factors, including, favourable large claim settlements, case estimate reductions on a number of large claims and lower than usual new large claims notifications.

4.6 In addition, AIL has experienced a reduction in its motor reserves. AIL has informed me that it expects its motor reserves to reduce during the summer months due to seasonality in motor claims.

4.7 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's actuarial best estimate claims reserves and I have no reason to believe that the best estimate reserves lie outside a range of reasonable estimates.

4.8 The table below sets out the actuarial best estimate claims reserves of AIL as at 30 June 2018 with a comparison against its actuarial best estimate reserves as at 31 December 2017, assuming the Scheme is in place.

Table 3: Actuarial best estimate claims reserves of AIL after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	4,885.1	4,686.4
Net of primary reinsurance	3,543.9	3,401.3
Net of primary reinsurance & following AIIDAC-AIL Quota Share	4,134.3	3,992.0
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	2,077.2	2,021.1

4.9 As can be seen from the above table, the actuarial best estimate claims reserves of AIL assuming that the Scheme is in place have reduced on both gross and net bases between 31 December 2017 and 30 June 2018.

4.10 I understand from AIL that this has been driven by the same factors affecting the reserves of AIL before the Scheme, as described in paragraphs 4.5 and 4.6.

4.11 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in the actuarial best estimate claims reserves for AIL following the Scheme and I have no reason to believe that the best estimate reserves lie outside a range of reasonable estimates.

Best estimate reserves of the Remaining Portfolio

4.12 The table below sets out the actuarial best estimate claims reserves of the Remaining Portfolio after the Scheme as at 30 June 2018 with a comparison against its actuarial best estimate claims reserves as at 31 December 2017.

Table 4: Actuarial best estimate claims reserves of the Remaining Portfolio by class of business after the Scheme as at 31 December 2017 and 30 June 2018 (£m)

£m	31 December 2017		30 June 2018	
Book	**Net of primary reinsurance (£m)**	**Net of primary & AII reinsurance mixer (£m)**	**Net of primary reinsurance (£m)**	**Net of primary & AII reinsurance mixer (£m)**
UK Personal Motor	1,380.5	690.2	1,272.8	636.4
UK Personal Property	115.1	57.5	137.9	68.9
UK Personal Specialty	66.0	33.0	59.6	29.8
UK Commercial Motor	824.7	412.3	753.5	376.8
UK Commercial Property	276.0	138.0	268.5	134.3
UK Commercial Liability	738.9	369.5	759.8	379.9
UK GI Other	87.1	43.6	94.8	47.4
UK GI Total	**3,488.4**	**1,744.2**	**3,346.8**	**1,673.4**
UK Health	54.2	27.1	54.5	27.3
Total before AIIDAC-AIL Quota Share	**3,542.6**	**1,771.3**	**3,401.3**	**1,700.7**
Ireland GI Total	**560.3**	**280.1**	**556.4**	**278.2**
UK FOS MDI Business	3.0	1.5	3.4	1.7
UK FOS Other	27.0	13.5	31.0	15.5
UK FOS Total	**30.0**	**15.0**	**34.4**	**17.2**
Default Risk on AII reinsurance mixer	0.0	10.0	0.0	25.0
Total	**4,132.9**	**2,076.5**	**3,992.1**	**2,021.1**

4.13 As can be seen from the above table, the actuarial best estimate claims reserves of the Remaining Portfolio have reduced for UK commercial motor and UK personal motor between 31 December 2017 and 30 June 2018. The claims reserves for other classes have not experienced material movements.

4.14 There is a small difference between the total net of primary reinsurance and net of primary and AII reinsurance mixer reserves in Tables 3 and 4 as at 31 December 2017. Some of the information provided to me by AIL was provided in both Euros and Sterling and some was only provided in Sterling. The difference between the totals in Tables 3 and 4 is due to the exchange rate I used to convert figures provided in Euros to Sterling differing slightly from the exchange rate used by AIL.

4.15 I understand from AIL that movements in the motor reserves are driven by the same factors affecting the Actuarial Best Estimate reserves of AIL before the Scheme, as described in paragraphs 4.5 and 4.6.

4.16 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's actuarial best estimate of the claims reserves on the Remaining Portfolio following the Scheme and I have no reason to believe that the best estimate reserves lie outside a range of reasonable estimates.

IFRS booked provisions

4.17 The table below sets out the IFRS booked provisions of AIL as at 30 June 2018 with a comparison against its booked provisions as at 31 December 2017.

Table 5: IFRS booked provisions of AIL before the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	6,188.3	6,000.6
Net of primary reinsurance	4,711.2	4,564.1
Net of primary reinsurance & AII reinsurance mixer	2,365.6	2,307.1

4.18 As can be seen from the above table, the IFRS booked provisions of AIL have reduced on a gross and net basis between 31 December 2017 and 30 June 2018.

4.19 I understand from AIL that this is driven by the same factors affecting the Actuarial Best Estimate reserves of AIL before the Scheme, as described in paragraphs 4.5 and 4.6.

4.20 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's IFRS provisions and I have no reason to believe that the provisions booked on an IFRS basis lie outside a range of reasonable provisions.

4.21 The table below sets out the IFRS booked provisions of AIL as at 30 June 2018 with a comparison against its booked provisions as at 31 December 2017, assuming the Scheme is in place.

Table 6: IFRS booked provisions of AIL after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	5,398.2	5,195.5
Net of primary reinsurance	3,968.9	3,822.3
Net of primary reinsurance & following AIIDAC-AIL Quota Share	4,603.9	4,457.5
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	2,312.0	2,253.8

4.22 As can be seen from the above table, the IFRS booked provisions of AIL have reduced on a gross and net basis between 31 December 2017 and 30 June 2018.

4.23 I understand from AIL that this is driven by the same factors affecting the Actuarial Best Estimate reserves of AIL before the Scheme, as described in paragraphs 4.5 and 4.6.

4.24 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's IFRS provisions following the Scheme and I have no reason to believe that the provisions booked on an IFRS basis lie outside a range of reasonable provisions.

Solvency II technical provisions

4.25 The table below compares AIL's Solvency II technical provisions before the Scheme calculated as at 31 December 2017 and 30 June 2018.

Table 7: Technical provisions of AIL before the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	6,290.7	6,018.7
Net of primary & AII reinsurance mixer	1,809.8	1,651.5

4.26 As can be seen from the above table, the technical provisions of AIL have reduced between 31 December 2017 and 30 June 2018 on both a gross and net basis.

4.27 I understand from AIL that this is partially driven by the same factors affecting the Actuarial Best Estimate reserves of AIL before the Scheme, as described in paragraphs 4.5 and 4.6.

4.28 In addition, changes in the economic environment have driven a reduction in the technical provisions in relation to PPO claims. In particular, the market implied discount rate moved favourably between 31 December 2017 and 30 June 2018. AIL has also revised its view of the future inflation in respect of PPO claim costs favourably in light of changes in the economic environment. I am comfortable with AIL's changes to these assumptions.

4.29 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's Solvency II technical provisions and I have no reason to believe that the estimated technical provisions lie outside a range of reasonable provisions.

4.30 The table below sets out the technical provisions of AIL as at 30 June 2018 with a comparison against its technical provisions as at 31 December 2017, assuming the Scheme is in place.

Table 8: Technical provisions of AIL after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	5,453.1	5,166.6
Net of primary reinsurance	4,099.0	3,882.5
Net of primary reinsurance & following AIIDAC-AIL Quota Share	4,832.5	4,625.4
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	1,816.3	1,676.2

4.31 As can be seen from the above table, the technical provisions of AIL have reduced between 31 December 2017 and 30 June 2018 on both a gross and net basis.

4.32 I understand from AIL that this has been driven by the same factors affecting the technical provisions before the Scheme, as described in paragraphs 4.5, 4.6 and 4.28.

4.33 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's Solvency II technical provisions following the Scheme and I have no reason to believe that the estimated technical provisions lie outside a range of reasonable provisions.

Solvency II risk margin

4.34 The table below sets out the Solvency II risk margins of AIL before and after the Scheme, as at 30 June 2018, with a comparison against its Solvency II risk margins as at 31 December 2017.

Table 9: Solvency II risk margins of AIL before and after the Scheme as at 31 December 2017 and 30 June 2018 (£m)

£m	31 December 2017 AIL pre-Scheme	31 December 2017 AIL post-Scheme	30 June 2018 AIL pre-Scheme	30 June 2018 AIL post-Scheme
Risk Margin	242.6	241.4	226.4	225.1

4.35 As can be seen from the table above, the risk margin has reduced between 31 December 2017 and 30 June 2018.

4.36 I have been informed by AIL that this is largely driven by increases to real and nominal interest rates between 31 December 2017 and 30 June 2018.

4.37 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's Solvency II risk margin and I have no reason to believe that the estimated risk margins lie outside reasonable ranges.

AIIDAC

Best estimate reserves

4.38 A number of tables were included in the Report to show the reserves of AIIDAC prior to the Scheme. This position has not changed since the Report with reserves remaining at zero. Hence, I have not repeated these tables in this report.

4.39 The table below sets out the claims reserves of AIIDAC as at 30 June 2018 with a comparison against its claims reserves as at 31 December 2017, assuming the Scheme is in place.

Table 10: Actuarial best estimate claims reserves of AIIDAC after the Scheme as at 31 December 2017 and 30 June 2018 (£m)

£m	31 December 2017	30 June 2018
Gross	737.4	752.9
Net of primary reinsurance	689.6	754.5
Net of primary reinsurance & following AIIDAC-AIL Quota Share	99.4	98.8
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	99.4	98.8

4.40 As can be seen from the table above, the gross claims reserves of AIIDAC have increased slightly between 31 December 2017 and 30 June 2018, however the net of primary reinsurance reserves have increased to above the gross level.

4.41 This is largely driven by two changes between 31 December 2017 and 30 June 2018 as detailed in the following two paragraphs.

4.42 I have been informed by AIL that the calculation of the reserves as at 31 December 2017 incorrectly assumed that the primary reinsurance on Freedom of Services ("FOS") business would transfer to AIIDAC following the Scheme. However the primary reinsurance on FOS business will remain with AIL following the Scheme and will cover the FOS business assumed by AIL under the AIIDAC-AIL Quota Share arrangement. I understand from AIL that this has been corrected in the latest reserve calculation which has resulted in an increase in net of primary reinsurance reserves in the 30 June 2018 reserve calculation in comparison to the position as at 31 December 2017. The correction however has not driven a change in the final net reserves for AIIDAC (i.e. the actuarial best estimate reserves net of primary reinsurance and following the AIIDAC-AIL Quota Share), as shown in paragraph 4.39.

4.43 I have also been informed by AIL that recoveries are expected on the gross claims from the Cork floods in 2009. In particular, AIL believes that a third party is liable to AIL's policyholder on a large claim arising from this event and is seeking to recover its claim payments from this third party. However, the recovery from the third party will benefit AIL's reinsurers and not AIL. AIL therefore holds a negative reinsurance reserve in relation to this which has resulted in the net of primary reinsurance reserves being higher than the gross reserves. A negative reinsurance reserve was also held in relation to this event as at 31 December 2017, however the FOS business moving from AIL to AIIDAC hid the full effect of this.

4.44 I have been informed by AIL that its estimate of the recovery from the third party has reduced to £19m as at 30 June 2018 from £34m as at 31 December 2017. I have been further informed by AIL that the value of the reserve in relation to this recovery is probability-weighted based on the estimated probability that the outcome of an ongoing court case in relation to this is favourable to AIL. AIL has reduced its estimate of this probability between 31 December 2017 and 30 June 2018, following a recent court ruling.

4.45 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIIDAC's actuarial best estimate claims reserves following the Scheme and I have no reason to believe that the best estimate reserves lie outside a range of reasonable estimates.

Best estimate reserves of the Transferring Portfolio

4.46 The table below sets out the claims reserves of AIIDAC by class as at 30 June 2018 with a comparison against its claims reserves as at 31 December 2017, assuming the Scheme is in place.

Table 11: Actuarial best estimate claims reserves of AIIDAC by class as at 31 December 2017 and 30 June 2018 (£m)

	31 December 2017		30 June 2018	
Class	**Net of primary reinsurance (£m)**	**Net of primary reinsurance & following AIIDAC-AIL Quota Share (£m)**	**Net of primary reinsurance (£m)**	**Net of primary reinsurance & following AIIDAC-AIL Quota Share (£m)**
Ireland Personal Motor	289.8	43.5	294.6	44.2
Ireland Personal Property	21.4	3.2	22.3	3.3
Ireland Commercial Motor	85.4	12.8	80.7	12.1
Ireland Commercial Property	17.2	2.6	12.5	1.9
Ireland Commercial Liability	238.3	35.7	235.8	35.4
Ireland Commercial Specialty	7.1	1.1	8.7	1.3
Ireland GI Total	659.1	98.9	654.5	98.2
UK FOS MDI Business	3.5	0.5	4.0	0.6
UK FOS Commercial Property	22.0	0.0	91.0	0.0

UK FOS excl MDI and Commercial Property	5.0	0.0	5.0	0.0
UK FOS Total	30.5	0.5	100.0	0.6
Total	689.6	99.4	754.5	98.8

4.47 As can be seen from the table above, the net of primary reinsurance reserves for Ireland GI classes have not changed significantly between 31 December 2017 and 30 June 2018, however the net of primary reinsurance reserves for FOS business have increased significantly.

4.48 This is largely driven by the change to treatment of primary reinsurance for FOS business detailed in paragraph 4.42.

4.49 The net of quota share reserves show insignificant movements in the table above, as the majority of FOS business will be ceded to AIL via the quota share arrangement.

4.50 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in the actuarial best estimate of AIIDAC's reserves following the Scheme and I have no reason to believe that the best estimate reserves lie outside a range of reasonable estimates

IFRS booked provisions

4.51 The table below sets out the IFRS booked provisions of AIIDAC as at 30 June 2018 with a comparison against its booked provisions as at 31 December 2017, assuming the Scheme is in place.

Table 12: IFRS booked provisions of AIIDAC after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	789.8	805.1
Net of primary reinsurance	742.0	806.7
Net of primary reinsurance & following AIIDAC-AIL Quota Share	107.2	106.6
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	107.2	106.6

4.52 As can be seen from the table above, the IFRS gross booked provisions of AIIDAC have not changed materially between 31 December 2017 and 30 June 2018, however the net of primary reinsurance booked provisions have increased to above the gross level.

4.53 This is largely driven by the factors discussed in paragraphs 4.42 to 4.44.

4.54 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIIDAC's IFRS provisions following the Scheme and I have no reason to believe that the provisions booked on an IFRS basis lie outside a range of reasonable provisions.

Solvency II technical provisions

4.55 The table below sets out the technical provisions of AIIDAC as at 30 June 2018 with a comparison against its technical provisions as at 31 December 2017, assuming the Scheme is in place.

Table 13: Technical provisions of AIIDAC after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Gross	837.0	852.2
Net of primary reinsurance	789.8	856.8
Net of primary reinsurance & following AIIDAC-AIL Quota Share	56.5	48.9
Net of primary reinsurance, following AIIDAC-AIL Quota Share & net of AII reinsurance mixer	56.5	48.9

4.56 As can be seen from the table above, the gross technical provisions of AIIDAC have not changed materially between 31 December 2017 and 30 June 2018, however the net of primary reinsurance provisions have increased to above the gross level.

4.57 This is largely driven by the factors discussed in paragraphs 4.42 to 4.44.

4.58 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIIDAC's Solvency II technical provisions and I have no reason to believe that the estimated technical provisions lie outside a range of reasonable provisions.

Solvency II risk margin

4.59 The table below sets out the Solvency II risk margin of AIIDAC after the Scheme, as at 30 June 2018, with a comparison against its Solvency II risk margin as at 31 December 2017.

Table 14. Solvency II risk margins of AIIDAC after the Scheme as at 31 December 2017 and 30 June 2018

£m	31 December 2017	30 June 2018
Risk Margin	10.4	9.9

4.60 As can be seen from the table above, the risk margin has not changed materially between 31 December 2017 and 30 June 2018.

4.61 I am comfortable that AIIDAC's Solvency II risk margin has not changed materially and I have no reason to believe that the estimated risk margin lies outside a reasonable range.

Conclusion

4.62 Based on my consideration of the sizes of the impacts of the business developments discussed in paragraphs 3.1, 3.5, 3.9, 3.19, 3.21, 3.23 and 3.25, I am comfortable that they will not significantly impact the figures included within this section.

4.63 It follows from the preceding paragraphs of this section that I have no reason to change any of my conclusions set out in the Report in respect of the reserve strength of AIL prior to the Scheme or the reserve strengths of AIL and AIIDAC following the Schemes.

5 Capital Requirements

AIL

Own Funds

5.1 The table below sets out the Eligible Own Funds for AIL as at 30 June 2018 with a comparison against its Eligible Own Funds as at 31 December 2017.

Table 15: Eligible Own Funds for AIL as at 31 December 2017 and 30 June 2018 (£m)

	31 December 2017		30 June 2018	
£m	SCR	MCR	SCR	MCR
Tier 1	2,194.0	2,194.0	1,870.3	1,870.3
Tier 2	283.0	77.0	276.4	75.2
Tier 3	65.0	-	76.8	-
Total Eligible Own Funds	2,542.0	2,271.0	2,223.5	1,945.5

5.2 As can be seen from the table above, the eligible own funds to meet the SCR and the MCR have reduced between 31 December 2017 and 30 June 2018.

5.3 I have been informed by AIL that dividends of approximately £392 million were paid between 31 December 2017 and 30 June 2018 and this has largely driven the reduction in tier 1 capital over the period.

5.4 There has been a reduction in tier 2 capital of approximately £7 million. I have been informed by AIL that a loan from Aviva Group Holdings ("AGH") has been reduced which has driven this reduction. It should be noted that this is a different loan to the loan discussed in paragraph 5.33; it is a loan from AGH to AIL.

5.5 I have been informed by AIL that its net deferred tax asset has increased due to the fact that it is now expecting higher profits as a result of the release of some of the Ogden provision. This leads to more of the tax losses being able to be recognised for deferred tax and hence the higher tax asset. This has driven the change in tier 3 capital.

5.6 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's Own Funds.

Capital requirements and coverage

5.7 The table below sets out the MCR and SCR coverage ratios of AIL as at 30 June 2018 with a comparison against its coverage ratios as at 31 December 2017.

Table 16. MCR and SCR coverage ratios for AIL as at 31 December 2017 and 30 June 2018 (£m)

£m	31 December 2017	30 June 2018
MCR	386.1	376.1
Eligible Own Funds to Meet the MCR	2,271.0	1,945.5
MCR Coverage ratio	588.2%	517.3%
SCR	1,283.1	1,201.0
Eligible Own Funds to Meet the SCR	2,542.0	2,223.5
SCR Coverage Ratio	198.1%	185.1%

5.8 As can be seen from the table above, the coverage ratios have reduced between 31 December 2017 and 30 June 2018.

5.9 This has been largely driven by reductions in eligible own funds to meet the MCR and SCR which have only been partially offset by smaller reductions to the MCR and SCR.

5.10 The underlying reasons for the changes in eligible own funds are discussed in paragraphs 5.3 to 5.6.

5.11 I have been informed by AIL that the reduction to the SCR between 31 December 2017 and 30 June 2018 is largely driven by changes to economic conditions and business planning assumptions.

5.12 In particular, UK interest and inflation rate curves have reduced over the period and expected profits for new business have increased over the period.

5.13 I have been informed by AIL that the reduction to the MCR between 31 December 2017 and 30 June 2018 is largely driven by the decrease in the technical provisions over the period. The underlying reasons for the decrease in technical provisions over the period are discussed in section 4 of this report.

5.14 The table below sets out the coverage ratio for ORSA capital for AIL as at 30 June 2018 with a comparison against its coverage ratio as at 31 December 2017.

Table 17: Coverage ratio for AIL as at 31 December 2017 and 30 June 2018 against AIL's ORSA capital requirement (£m)

£m	31 December 2017	30 June 2018
ORSA capital requirement	1,659.1	1,560.3
Eligible Own Funds	2,542.0	2,223.5
Coverage ratio	153.2%	142.5%

5.15 As can be seen from the table above, the coverage ratio has reduced between 31 December 2017 and 30 June 2018.

5.16 This has been driven by changes to the SCR, Risk Margin and Own Funds discussed in paragraphs 5.3 to 5.6, 5.8 to 5.13 and section 4 of this report.

5.17 The table below sets out the capital coverage ratios for AIL as at 30 June 2018 assuming that the Scheme is in place with a comparison against its capital coverage ratios as at 31 December 2017.

Table 18: Capital coverage ratios for AIL as at 31 December 2017 and 30 June 2018 (£m) assuming that the Scheme is already in effect on that date

£m	31 December 2017	30 June 2018
MCR	376.2	366.2
Eligible Own Funds to Meet the MCR	2,310.6	1,936.0
MCR Coverage ratio	614.2%	528.7%
SCR	1,291.2	1,204.7
Eligible Own Funds to Meet the SCR	2,516.6	2,216.0
SCR Coverage ratio	194.9%	183.9%
ORSA capital requirement	1,666.5	1,562.9
Eligible Own Funds to Meet the ORSA capital requirement	2,516.6	2,216.0
ORSA Coverage ratio	151.0%	141.8%

5.18 As can be seen from the table above, the coverage ratios have reduced between 31 December 2017 and 30 June 2018.

5.19 This has been driven by the same changes affecting the capital requirements and own funds for AIL prior to the Scheme.

5.20 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIL's MCR, SCR and ORSA capital requirement and coverage ratios.

5.21 I have considered the reduction in AIL's Eligible Own Funds and coverage ratio and have updated a number of the stress tests from the Report based on the latest position. I discuss this stress testing in paragraphs 5.22 to 5.34 below. Based on the results of these stress tests, I am comfortable that the change in AIL's Eligible Own Funds does not change my conclusion in the Report in respect of AIL's capital position.

Stress Testing

5.22 As shown in Table 16 above, AIL had £2,224m of Eligible Own Funds to meet its SCR of £1,201m as at 30 June 2018. As a result there was an excess of £1,023m in AIL's Eligible Own Funds above its SCR as at 30 June 2018.

5.23 There was an excess of £1,259m in AIL's Eligible Own Funds above its SCR as at 31 December 2017. In order to test the sufficiency of AIL's Own Funds in light of the reduced excess above the SCR, I have re-visited a number of the stress tests that were undertaken for the Report.

5.24 Specifically, I have re-visited the following scenarios:

- Deterioration of AIL's net best estimate technical provisions
- Deviation of AIL's underwriting performance from its business plan

- Default of reinsurance recoverable from AIL's internal and external reinsurance providers
- Financial losses from significant catastrophe events
- Deterioration in the value of AIL's investment portfolio
- Deterioration in the value of AIL's loan to its parent company.

5.25 AIL's net technical provisions (excluding the Solvency II risk margin) as at 30 June 2018 are £1,652m. In order to reduce its SCR coverage ratio to 100% or below, AIL would need to experience a deterioration in the region of 61.9% of its net best estimate technical provisions, or £1,023m. The probability of AIL experiencing a reserve deterioration in excess of £1,023m over the 12 month period following 31 December 2017 has been calculated by AIL's Partial Internal Model as at 31 December 2017 to be less than 0.01%. Given the remoteness of this scenario, I am comfortable that AIL has sufficient Own Funds to cover it against the risk of a reserve deterioration in all but extremely remote circumstances.

5.26 In its 2017 Year-End ORSA Report, AIL projected a combined loss ratio of 93.6% for the 2018 accounting year. In order to reduce AIL's SCR coverage ratio to 100% or below, its combined ratio would need to deteriorate to a level around 138.4%. Based on my experience and the historical performance of AIL's business, I consider the likelihood of a deterioration of this magnitude to be remote. In addition, based on outputs from AIL's Partial Internal Model, the probability of AIL experiencing a combined ratio in excess of 138.4% over the 12 month period following 31 December 2017 is less than 0.01%. Given the remoteness of this scenario, I am comfortable that AIL has sufficient Own Funds to protect it against the risk of deterioration in its underwriting performance in all but extremely remote circumstances.

5.27 The reinsurance recoverables of AIL as at 30 June 2018 are £4,368m. In order to reduce AIL's SCR coverage ratio to 100% or below, AIL would need to experience a default in the region of 23.4% of its total recoveries, or £1,023m. I consider the likelihood of a default of this magnitude to be remote. The probability of AIL experiencing reinsurance defaults in excess of this over the 12 month period following 31 December 2017 has been calculated by AIL's Partial Internal Model to be less than 0.01%. I am comfortable that this is a sufficiently remote scenario.

5.28 Based on the above, coupled with the detailed analysis of the reinsurance portfolio conducted for and documented in the Report, I believe that AIL has sufficient Own Funds to protect it against reinsurance credit defaults in all but extremely remote circumstances. I have not found it necessary to re-visit the more detailed analysis of the reinsurance portfolio conducted for the Report since AIL's reinsurance programme has not changed significantly and, therefore, if I was to re-visit this analysis, I would not expect my conclusions to change.

5.29 In AIL's 2017 year end ORSA, it assessed the loss arising as a result of a significant catastrophe event, namely a 1-in-500 year UK windstorm coinciding with the loss of the reinsurance recoveries in respect of this event from the external reinsurance party with the largest share of these exposures. The loss estimated in relation to this scenario is £1,125m. No update of this figure is available and, therefore, the loss estimated in the 2017 year end ORSA is still the most recent estimate to which I can compare the £1,023m excess of Eligible Own Funds above the SCR as at 30 June 2018. A loss of this magnitude would result in AIL having an SCR coverage ratio below 100% but in excess of 91%. While this is below 100%, I consider this scenario remote. In addition, a loss of this magnitude would still result in AIL having an MCR coverage ratio in excess of 100%.

5.30 Based on the above, coupled with the results of the PRA's General Insurance Stress Testing for 2017 which are discussed in the Report, I am comfortable that AIL has sufficient Own Funds to protect it against severe and remote catastrophe events.

5.31 In order to reduce AIL's coverage ratio to 100% or below, it would need to experience a reduction in the value of its investments in excess of £1,023m. The probability of AIL experiencing investment losses in excess of this over the 12 month period following 31 December 2017 has been calculated by AIL's Partial Internal Model to be less than 0.01%.

5.32 Based on the above, coupled with AIL's relatively cautious investment strategy, I believe that AIL has sufficient Own Funds to protect it against investment losses in all but remote circumstances.

5.33 AIL entered into a loan to its parent company, AGH, in 2013. The outstanding value of AIL's loan to AGH as at 31 December 2017 was £1,369m. We have been informed that the value of this loan has reduced by approximately £25m between 31 December 2017 and 30 June 2018, taking it to approximately £1,344m. In order to reduce AIL's SCR coverage ratio to 100% or below, AIL would need to experience a reduction in the value of this loan in the region of 76.1% based on the coverage ratio and loan value as at 30 June 2018. I have been informed by AIL that the loan is fully collateralised, and that the current value of the collateral is in excess of the outstanding value of the loan. In addition, the rated entities within the Aviva Group have been awarded credit ratings of A+(Positive) by S&P, Aa3 (Stable) by Moody's, A (Stable) by A.M.Best and AA- (Stable) by Fitch. On the basis of the collateral held and Aviva Group's credit ratings, I consider the likelihood of a reduction of more than 76.1% of the value of this loan to be remote.

5.34 From the results of my analysis described in paragraphs 5.22 to 5.33 above, I am comfortable that the conclusion in my report in respect of AIL's capital position still apply and that AIL has substantial Own Funds in comparison to its regulatory capital requirements.

AIIDAC

Own Funds

5.35 The table below sets out the available own funds of AIIDAC as at 30 June 2018 with a comparison against its available own funds as at 31 December 2017.

Table 19: Available Own Funds for AIIDAC as at 31 December 2017 and 30 June 2018 (£m)

£m	31 December 2017	30 June 2018
Tier 1	76.3	89.5
Tier 2	0.0	0.0
Tier 3	13.3	0.0
Total Available Own Funds	89.6	89.5

5.36 As can be seen from the table above, the total available own funds for AIIDAC has not changed materially between 31 December 2017 and 30 June 2018.

5.37 However all available own funds are classified as tier 1 as at 30 June 2018, whereas a proportion of available own funds was classified as tier 3 as at 31 December 2017.

5.38 The tier 3 available own funds as at 31 December 2017 related to a net deferred tax asset transferring from AIL to AIIDAC.

5.39 I have been informed by AIL that AIIDAC has changed its view of the treatment of the deferred tax asset since 31 December 2017. The view as at 31 December 2017 was that part of the deferred tax asset in AIL pre transfer would move to AIIDAC post transfer. I understand from AIL that its revised view is that the deferred tax asset should not form part of the transferring assets because the transfer should be tax neutral.

5.40 I have taken advice from the tax experts at Grant Thornton who specialise in the insurance sector. Based on this advice I am comfortable with the approach of not including the deferred tax asset in the transfer from AIL to AIIDAC.

5.41 As a result of the tax asset no longer being expected to transfer as part of the Scheme, the reconciliation reserve has increased as the balancing item for total available own funds.

5.42 I am comfortable that the explanations that AIIDAC has provided satisfactorily explain the changes in AIIDAC's own funds.

Capital requirements and coverage

5.43 As discussed in paragraph 8.74 of the Report, I have been informed by AIL that AIIDAC will initially use the Standard Formula to calculate its SCR. I have also been informed that AIIDAC will potentially consider applying for Internal Model approval in the future.

5.44 The table below sets out the MCR and SCR coverage ratios of AIIDAC as at 30 June 2018 assuming that the Scheme is in effect, with a comparison against its coverage ratios as at 31 December 2017. The MCRs and SCRs shown in this table have been calculated using the Standard Formula.

Table 20: Capital coverage ratios for AIIDAC as at 31 December 2017 and 30 June 2018(£m) assuming that the Scheme is in effect

£m	31 December 2017	30 June 2018
MCR	14.9	14.9
Eligible Own Funds to Meet the MCR	76.3	89.5
MCR Coverage ratio	455.0%	602.1%
SCR	59.4	59.5
Eligible Own Funds to Meet the SCR	89.6	89.5
SCR Coverage ratio	150.9%	150.4%

5.45 As can be seen from the table above, the MCR and SCR have not changed materially between 31 December 2017 and 30 June 2018.

5.46 It should be noted that the MCR as at 31 December 2017 has been revised since the Report. AIL has informed me that the MCR of £17m that it provided to me for in the Report was incorrect and that this figure should have been £14.9m as shown in the table above.

5.47 The SCR coverage ratio has not changed materially between 31 December 2017 and 30 June 2018.

5.48 The MCR coverage ratio has increased due to an increase in eligible own funds to meet the MCR between 31 December 2017 and 30 June 2018.

5.49 The increase in eligible own funds to meet the MCR has arisen as a result of the change discussed in paragraphs 5.37 to 5.41.

5.50 The table below sets out the capital coverage ratio of AIIDAC's unapproved Internal Model SCR, as at 30 June 2018 with a comparison against its coverage ratio as at 31 December 2017 assuming that the Scheme is in effect.

Table 21: Capital coverage ratios for AIIDAC as at 31 December 2017 and 30 June 2018 (£m) assuming that the Scheme is in effect

£m	31 December 2017	30 June 2018
AIIDAC's unapproved Internal Model SCR	37.9	35.2
Eligible Own Funds to Meet the SCR	89.6	89.4
SCR Coverage ratio	236.4%	254.4%

5.51 As can be seen from the table above, the internal model SCR coverage ratio has increased due to a decrease in the internal model SCR.

5.52 I have been informed by AIL that the reduction in the unapproved Internal Model SCR has been driven by changes to business planning assumptions, in particular, the expected profits on Irish business have increased. I have been further informed by AIL that this increase in expected profits has been largely due to improvements in AIL's expected written claims ratios for motor business which has resulted in an improvement in AIL's business plan claim ratio.

5.53 The table below sets out the capital coverage ratios for ORSA capital of AIIDAC as at 30 June 2018 with a comparison against its coverage ratios as at 31 December 2017.

Table 22: Capital coverage ratios for AIIDAC as at 31 December 2017 and 30 June 2018 (£m) assuming that the Scheme and the AIIDAC-AIL Quota Share were in effect against its ORSA capital requirement

£m	31 December 2017	30 June 2018
ORSA capital requirement	48.3	45.1
Eligible Own Funds	89.6	89.5
Coverage ratio	185.6%	198.5%

5.54 As can be seen from the table above, the coverage ratio has increased due to a reduction in the ORSA capital requirement. This reduction has been largely driven by movements in AIIDAC's unapproved Internal Model SCR detailed in paragraph 5.52.

5.55 I am comfortable that the explanations that AIL has provided satisfactorily explain the changes in AIIDAC's MCR, SCR, internal model SCR and ORSA capital requirement and coverage ratios.

5.56 Given that AIIDAC's coverage ratio against its SCR on a Standard Formula basis (shown in Table 20) has only reduced fractionally between 31 December 2017 and 30 June 2018, I have not revisited any of the stress testing, as I am comfortable that my findings and conclusions would not change.

5.57 Given that AIIDAC's coverage ratios against its MCR, internal model SCR and ORSA capital requirements have all increased between 31 December 2017 and 30 June 2018 and that its coverage ratio against its SCR has only reduced fractionally, I am comfortable that my conclusion in the Report in respect of AIIDAC's capital position still applies and that AIIDAC has substantial Own Funds in comparison to its regulatory capital requirements.

Conclusion

5.58 As discussed in paragraphs 7.3 and 7.4, below, AIIDAC has informed me that it has made a change to its investment strategy which is not reflected in the capital figures provided to me in this report. Paragraphs 7.5 to 7.7, below, discuss the estimated impact of this change on AIIDAC's SCR and coverage ratio.

5.59 Based on my consideration of the impact of the investment strategy change above and on the sizes of the impacts of the business developments discussed in paragraphs 3.1, 3.5, 3.9, 3.19, 3.21, 3.23 and 3.25, I am comfortable that none of these will significantly impact the figures included within this section.

5.60 It follows from the preceding paragraphs of this section that I have no reason to change any of my conclusions set out in the Report in respect of the capital strength of AIL prior to the Scheme or the capital strengths of AIL and AIIDAC following the Scheme.

6 Policyholder Security

Impact of the Scheme on the balance sheets of the affected companies

Changes in AIL's IFRS and Solvency II Balance Sheets

6.1 The table below sets out the simplified IFRS and Solvency II balance sheets of AIL, both before and after the Scheme, as at 31 December 2017. This table was also shown in the Report.

Table 23. IFRS and Solvency II balance sheets for AIL as at 31 December 2017 (£m)

	Prior to Scheme		After Scheme	
	IFRS basis	Solvency II basis	IFRS basis	Solvency II basis
Assets:				
Cash	485	109	483	107
Investments	4,803	5,219	4,976	5,007
Loan and mortgage assets	1,864	1,922	1,864	1,922
Reinsurers' share of technical provisions	5,151	4,480	5,161	4,370
Investments in group entities and participations	2,469	1,093	2,538	1,175
Other assets	3,196	714	2,793	677
Total assets	**17,968**	**13,537**	**17,815**	**13,258**
Liabilities:				
Technical provisions (excluding risk margin)	8,648	6,291	8,449	6,187
Risk Margin	0	242	0	241
Deposits from reinsurers	3,237	3,237	3,321	3,194
Other liabilities	2,033	1,508	1,987	1,402
Total liabilities	**13,918**	**11,278**	**13,757**	**11,025**
Excess of assets over liabilities	**4,050**	**2,259**	**4,058**	**2,234**
Subordinated liabilities		283		283
Solvency II Own Funds		**2,542**		**2,517**

6.2 Since the Report, AIL has informed me that there has been a re-categorisation of some of the underlying balance sheet assets and liabilities. The re-categorisation has resulted in the transfer of assets and liabilities between IFRS balance sheet items, but this has not resulted in a material change in AIL's excess of assets over liabilities and there is no impact on its Solvency II Own Funds.

6.3 The table below sets out the simplified IFRS balance sheet of AIL, both before and after the Scheme, as at 31 December 2017, restated for the changes discussed in paragraph 6.2, with a comparison to the simplified IFRS balance sheet of AIL as at 30 June 2018.

Table 24: Restated IFRS balance sheets for AIL as at 31 December 2017 compared to the position as at 30 June 2018 (£m)

	Prior to Scheme			After Scheme		
	31 December 2017	**30 June 2018**	**Difference**	**31 December 2017**	**30 June 2018**	**Difference**
Assets:						
Cash	485	371	-114	483	371	-112
Investments	4,803	4,554	-249	4,629	4,378	-251
Loan and mortgage assets	1,864	1,822	-42	1,864	1,822	-42
Reinsurers' share of technical provisions	5,151	5,101	-50	5,161	5,034	-127
Investments in group entities and participations	2,469	2,194	-275	2,538	2,375	-163
Other assets	3,208	3,341	133	3,144	3,107	-37
Total assets	**17,980**	**17,382**	**-598**	**17,819**	**17,086**	**-733**
Liabilities:						
Technical provisions (excluding risk margin)	8,648	8,607	-41	8,449	8,467	18
Risk Margin	0	0	0	0	0	0
Deposits from reinsurers	3,237	3,256	19	3,321	3,192	-129
Other liabilities	2,045	2,092	47	1,999	2,004	5
Total liabilities	**13,930**	**13,955**	**25**	**13,769**	**13,663**	**-106**
Excess of assets over liabilities	**4,050**	**3,428**	**-622**	**4,050**	**3,423**	**-627**

6.4 The table below sets out the simplified Solvency II balance sheet of AIL, both before and after the Scheme, as at 31 December 2017, restated for the changes discussed in paragraph 6.2, with a comparison to the simplified Solvency II balance sheet of AIL as at 30 June 2018.

Table 25: Restated Solvency II balance sheets for AIL as at 31 December 2017 compared to the position as at 30 June 2018 (£m)

	Prior to Scheme			After Scheme		
	31 December 2017	30 June 2018	Difference	31 December 2017	30 June 2018	Difference
Assets:						
Cash	109	63	-46	107	54	-53
Investments	5,219	4,903	-316	5,007	4,702	-305
Loan and mortgage assets	1,922	1,844	-78	1,922	1,843	-79
Reinsurers' share of technical provisions	4,480	4,368	-112	4,370	4,298	-72
Investments in group entities and participations	1,093	1,074	-19	1,175	1,161	-14
Other assets	714	774	60	677	776	99
Total assets	**13,537**	**13,025**	**-512**	**13,258**	**12,835**	**-423**
Liabilities:						
Technical provisions (excluding risk margin)	6,291	6,019	-272	6,187	5,974	-213
Risk Margin	242	226	-16	241	225	-16
Deposits from reinsurers	3,237	3,256	19	3,194	3,010	-184
Other liabilities	1,508	1,576	68	1,402	1,686	284
Total liabilities	**11,278**	**11,078**	**-200**	**11,024**	**10,895**	**-129**
Excess of assets over liabilities	**2,259**	**1,947**	**-312**	**2,234**	**1,940**	**-294**
Subordinated liabilities	**283**	**276**	**-7**	**283**	**276**	**-7**
Solvency II Own Funds	**2,542**	**2,224**	**-318**	**2,517**	**2,216**	**-301**

6.5 As can be seen from the tables above, the re-categorisation has not resulted in material movements in the total assets or liabilities on an IFRS basis, either before or after the Scheme. Furthermore, there is no impact on a Solvency II basis, either before or after the Scheme.

6.6 As can be seen from the tables above, the most significant changes in individual balance sheet items between 31 December 2017 and 30 June 2018 are in respect of cash, investments, reinsurers' share of technical provisions, investments in group entities and participations and deposits from reinsurers. The reasons for the differences in these items are described in the paragraphs below.

6.7 I understand from AIL that the change in cash is largely driven by business as usual cash inflows as well as the dividend payments during the period (as discussed in paragraph 5.3). This has impacted the IFRS balance sheet to a greater extent than the Solvency II balance sheet due to the differences in how cash and deposits are allocated on IFRS and Solvency II bases.

6.8 I understand from AIL that the change in investments is largely driven by the payment of the AIL dividend to its parent company in February 2018, which required some divestment of AIL's bond portfolio.

6.9 I understand from AIL that the change in reinsurers' share of technical provisions is largely due to the same reasons as discussed in paragraphs 4.5 and 4.6.

6.10 I understand from AIL that the change in investments in group entities and participations under the IFRS basis is largely driven by a revaluation of AIL's investment in its principal subsidiary, Aviva Canada Inc. This has not affected the Solvency II balance sheet to the same extent due to the differences in how participations are valued under Solvency II.

6.11 I understand from AIL that the change in deposits from reinsurers is largely due to business as usual activities over the period, the effect of exchange rate movements, payments settled over the period and movements in profits over the period, after the AIIDAC-AIL Quota Share arrangement is taken into account.

6.12 AIL has informed me that there have been other small movements in the AIL balance sheet post Scheme due to a change of basis in the calculation of the assets to be transferred from AIL to AIIDAC at the Effective Time ("Day 1 premium").

6.13 Previously, the Day 1 premium was calculated by considering the net present value of future expected cashflows and allowing for the future cost of capital ("Economic Basis").

6.14 This calculation has been revised to be on a basis that is more consistent with the IFRS accounting basis.

Changes in AIIDAC's IFRS and Solvency II Balance Sheets

6.15 The table below sets out the simplified IFRS balance sheets of AIIDAC, both before and after the Scheme, as at 31 December 2017 and 30 June 2018, together with comparisons between the figures at the two dates.

Table 26: IFRS balance sheets for AIIDAC as at 31 December 2017 and 30 June 2018 (£m)

	Prior to Scheme			After Scheme		
	31 December 2017	30 June 2018	Difference	31 December 2017	30 June 2018	Difference
Assets:						
Cash	4	4	0	6	4	-2
Investments	0	0	0	239	176	-63
Loan and mortgage assets	0	0	0	0	0	0
Reinsurers' share of technical provisions	0	0	0	893	900	7
Investments in group entities and participations	0	0	0	12	0	-12
Other assets	0	0	0	124	243	118
Total assets	**4**	**4**	**0**	**1,273**	**1,323**	**50**
Liabilities:						
Technical provisions (excluding risk margin)	0	0	0	1,041	1,042	1
Risk Margin	0	0	0	0	0	0
Deposits from reinsurers	0	0	0	0	0	0
Other liabilities	0	0	0	154	96	-59
Total liabilities	**-**	**-**	**0**	**1,195**	**1,138**	**-57**
Excess of assets over liabilities	**4**	**4**	**0**	**78**	**185**	**107**

6.16 The table below sets out the simplified Solvency II balance sheets of AIIDAC, both before and after the Scheme, as at 31 December 2017 and 30 June 2018, together with comparisons between the figures at the two dates.

Table 27: Solvency II balance sheets for AIIDAC as at 31 December 2017 and 30 June 2018 (£m)

	Prior to Scheme			After Scheme		
	31 December 2017	30 June 2018	Difference	31 December 2017	30 June 2018	Difference
Assets:						
Cash	4	4	0	6	4	-2
Investments	0	0	0	239	176	-63
Loan and mortgage assets	0	0	0	0	0	0
Reinsurers' share of technical provisions	0	0	0	781	803	23
Investments in group entities and participations	0	0	0	12	0	-12
Other assets	0	0	0	12	29	18
Total assets	**4**	**4**	**0**	**1,049**	**1,013**	**-36**
Liabilities:						
Technical provisions (excluding risk margin)	0	0	0	837	852	15
Risk Margin	0	0	0	11	10	-1
Deposits from reinsurers	0	0	0	0	0	0
Other liabilities	0	0	0	112	62	-50
Total liabilities	**0**	**0**	**0**	**959**	**924**	**-35**
Excess of assets over liabilities	**4**	**4**	**0**	**90**	**89**	**0**
Subordinated liabilities	**0**	**0**	**0**	**0**	**0**	**0**
Solvency II Own Funds	**0**	**0**	**0**	**0**	**0**	**0**

6.17 As can be seen from the tables above, the largest changes in individual balance sheet items between 31 December 2017 and 30 June 2018 are in respect of investments, reinsurers' share of technical provisions, investments in group entities and participations, other assets and other liabilities. The reasons for the differences in these items are described in the paragraphs below.

6.18 I understand from AIIDAC that the change in investments is largely driven by a change in the transferring liabilities. In particular, AIIDAC's other liabilities have decreased between 31 December 2017 and 30 June 2018, as discussed in paragraph 6.22. The level of AIIDAC's investments following the Scheme has been updated in order to achieve a similar SCR coverage ratio following the Scheme based on the 30 June 2018 position.

6.19 I understand from AIIDAC that the change in reinsurers' share of technical provisions is largely due to the same reasons as discussed in paragraph 4.43.

6.20 I also understand from AIIDAC that the movement of £12m in investments in group entities and participations is entirely driven by a decision made during the period to no longer include the investment in two subsidiaries, Aviva Direct Ireland Limited and Aviva Driving School Ireland Limited, in the transfer. I have been informed by AIIDAC that the decision to not transfer the investment in the two subsidiaries will not have an impact on the value of the transferring liabilities.

6.21 I further understand from AIIDAC that the movement in other assets within the simplified balance sheet above is largely driven by the changes to the treatment of goodwill and deferred tax over the period. At the time of my Report, AIL and AIIDAC assumed that none of the goodwill on AIL's balance sheet would be transferred to AIIDAC following the Scheme. However, AIL and AIIDAC have informed me that they now plan to transfer AIL's goodwill to AIIDAC under the Scheme. In respect of deferred tax, this will no longer form a part of the transferring assets as discussed in paragraph 5.39. In addition, AIIDAC has informed me that there has also been an increase in prepayments and other accrued income driven largely by a prepayment for sponsorship of the Aviva Stadium in Ireland.

6.22 In addition, I understand from AIIDAC that the movement in other liabilities is driven by small movements in a number of liability items, largely due to business as usual activities. This includes a movement due to a dividend paid from Aviva Undershaft Three SE ("AUTSE"). AUTSE was formerly known as Aviva Insurance Europe SE and it transferred its general insurance business to AIL in 2012. AIL's Irish branch was set up at the time of this transfer to transact the transferred business.

6.23 AIIDAC has informed me that there have been other small movements due to a change of basis in the calculation of Day 1 premium from an Economic Basis to an IFRS basis, as discussed in paragraph 6.13.

Conclusion

6.24 I am comfortable with the changes in the balance sheets of both AIL and AIIDAC between 31 December 2017 and 30 June 2018.

6.25 From the AIL balance sheets above, I conclude that the excess of assets over liabilities of AIL has reduced since the Report. This reduction is similar on both the prior to Scheme and after Scheme bases. This reduction is largely due to the payment of a dividend over the period, as discussed in paragraph 5.3. After this reduction, AIL still has £2,216m in Solvency II Own Funds and, as discussed in paragraph 6.34 below, it still has significant Own Funds in excess of its SCR. Given this, I have not changed my conclusions based on the updated information.

6.26 From the AIIDAC balance sheets above, I conclude that the financial strength of AIIDAC has not changed materially since the Report, with the most significant change being due to the change in the treatment of a goodwill asset as part of the transfer. As a result, I have not changed my conclusions based on the updated information.

6.27 It should be noted that the actual balance sheets before and after the Scheme will be different to those represented in the tables in this section due to the actual experience of the companies between 30 June 2018 and the Effective Time. However, I believe that the information included in this section gives the best available indication as to how the two companies will be affected by the Scheme.

Impact of the Scheme on the solvency positions of AIL and AIIDAC

6.28 The changes to the capital requirements of AIL and AIIDAC since the Report are discussed in Section 5 of this report.

6.29 I have shown below the solvency positions for AIL and AIIDAC before and after the Scheme in relation to regulatory capital requirements as at 31 December 2017. This information was included in the Report.

Table 28: Regulatory and ORSA capital requirements for AIL and AIIDAC as at 31 December 2017 (£m)

£m	Prior to Scheme		Post Scheme	
	AIL	AIIDAC	AIL	AIIDAC
MCR	386.1	3.3	376.2	14.9
SCR	1,283.1	3.3	1,291.2	59.4
ORSA capital requirement	1,659.1	3.3	1,666.5	48.3
Eligible Own Funds to meet the MCR	2,271.0	4.4	2,310.6	76.3
Eligible Own Funds to meet SCR and ORSA	2,542.0	4.4	2,516.6	89.6
Excess of Own Funds over the SCR	1,258.9	1.2	1,225.4	30.2
MCR Coverage ratio	588.2%	135.1%	614.2%	513.7%
SCR Coverage ratio	198.1%	135.1%	194.9%	150.9%
ORSA Coverage ratio	153.2%	135.1%	151.0%	185.6%

6.30 The table below shows the analogous position as at 30 June 2018.

Table 29: Regulatory and ORSA capital requirements for AIL and AIIDAC as at 30 June 2018 (£m)

£m	Prior to Scheme		Post Scheme	
	AIL	AIIDAC	AIL	AIIDAC
MCR	376.1	3.3	366.2	14.9
SCR	1,201.0	3.3	1,204.7	59.5
ORSA capital requirement	1,560.3	3.3	1,562.9	45.1
Eligible Own Funds to meet the MCR	1,945.5	4.4	1,936.0	89.5
Eligible Own Funds to meet SCR and ORSA	2,223.5	4.4	2,216.0	89.5
Excess of Own Funds over the SCR	1,022.5	1.1	1,011.3	30.0
MCR Coverage ratio	517.3%	135.1%	528.7%	602.1%
SCR Coverage ratio	185.1%	135.1%	183.9%	150.4%
ORSA Coverage ratio	142.5%	135.1%	141.8%	198.5%

6.31 The table below sets out the differences between the 31 December 2017 and 30 June 2018 positions for AIL and AIIDAC. In other words, it shows the differences between Table 29 and Table 28.

Table 30: Change in the Regulatory and ORSA capital requirements for AIL and AIIDAC as at 30 June 2018 (£m)

£m	Prior to Scheme		Post Scheme	
	AIL	AIIDAC	AIL	AIIDAC
MCR	-10.0	0.0	-10.0	0.0
SCR	-82.1	0.0	-86.5	0.1
ORSA capital requirement	-98.8	0.0	-103.6	-3.5
Eligible Own Funds to meet the MCR	-325.5	0.0	-374.6	13.2
Eligible Own Funds to meet SCR and ORSA	-318.5	0.0	-300.7	-0.2
Excess of Own Funds over the SCR	-236.4	0.0	-214.2	-0.3
MCR Coverage ratio	-70.9%	0.0%	-85.5%	88.4%
SCR Coverage ratio	-13.0%	0.0%	-11.0%	-0.5%
ORSA Coverage ratio	-10.7%	0.0%	-9.2%	14.0%

6.32 The table above shows that, since the Report, there has been a reduction in AIL's MCR coverage ratio, both before and after the Scheme. However, both of these coverage ratios remain above 500% as at 30 June 2018. As a result, these reductions do not change my conclusion that AIL has substantial Own Funds in comparison to its regulatory capital requirements following the Scheme.

6.33 The table above also shows that, since the Report, there has been a reduction in the SCR coverage ratios for AIL, both before and after the Scheme.

6.34 However, as AIL's coverage ratios remain very high both prior to and following the Scheme, the reductions in these coverage ratios do not change my conclusion that AIL has substantial Own Funds in comparison to its regulatory capital requirements following the Scheme.

6.35 Also, as AIL's coverage ratio following the Scheme is slightly higher than that before the Scheme, and AIL continues to maintain substantial Own Funds in excess of its SCR, I see no reason to change my conclusion from the Report that the Scheme will not materially change the likelihood of AIL being able to meet policyholder obligations.

6.36 The MCR and ORSA coverage ratios for AIIDAC following the Scheme have improved since my Report while the SCR coverage ratio has not changed materially. The impact of AIIDAC's investment strategy change discussed in paragraph 5.58 is also immaterial to the SCR coverage ratio. I therefore see no reason to change my conclusion from the Report that AIIDAC will have substantial coverage over its regulatory and ORSA capital requirements following the Scheme.

Potential further transfer of business following the Scheme

6.37 As discussed in paragraph 3.25, a portfolio of policies from another entity based in Gibraltar may be transferred into AIIDAC following the Scheme.

6.38 I have been informed by AIIDAC that it has estimated the impact of the potential further transfer discussed in paragraph 3.25 on AIIDAC's SCR. The estimated increase in AIIDAC's SCR as a result of the further transfer is approximately £0.5m.

6.39 I understand from AIIDAC that this estimated impact has been determined through a full recalculation of AIIDAC's SCR, to include the potential portfolio transfer from Gibraltar. As discussed in paragraph 8.79 of the Report, I have reviewed the approach taken to the calculation of AIIDAC's SCR and I am comfortable with that approach. I am therefore comfortable that the approach taken by AIIDAC to estimate the impact of the potential further transfer on the SCR is appropriate and proportionate.

6.40 I understand from AIIDAC that the impact of the potential further transfer on AIIDAC's Own Funds has not been determined; however, I would not expect the impact of this to reduce AIIDAC's Own Funds.

6.41 Assuming the prudent case where there is no increase in AIIDAC's Own Funds and there is a £0.5m increase in AIIDAC's SCR, I have estimated that AIIDAC's SCR coverage ratio would reduce from 150.4% to 149.2% as a result of the potential further transfer. As the impact is relatively minor, I do not believe that this would materially affect AIIDAC's ability to meet its policyholder obligations.

6.42 Given the above, I conclude that this potential further transfer would not materially change the likelihood of AIIDAC being able to meet policyholder obligations.

7 Other Financial Considerations

7.1 In addition to the points discussed in the sections above, I considered the following additional financial aspects in the Report:

- Investment strategy implications
- Implications of the Scheme on ongoing expense levels
- Implications under insolvency
- Impact on compensation
- Liquidity position
- Tax implications
- Pension arrangements
- Impact on existing reinsurers
- Impact on new business strategy
- Impact on existing guarantees.

7.2 Based on my discussions with AIL and AIIDAC, I understand that there have been no material changes since the Report with respect to the financial aspects listed under paragraph 7.1 other than changes in AIIDAC's investment strategy, changes in the impact on compensation and tax implications. I discuss these changes below.

Investment strategy implications

7.3 At the time of the Report, AIIDAC was assuming a simplistic investment strategy of 100% investment in government bonds. Since the Report, AIIDAC has informed me that it has conducted detailed analysis in relation to the investment strategy and updated its assumptions to an investment mix consisting of 60% government bonds, 20% AAA-rated covered corporate bonds and 20% collective investment undertakings. AIIDAC has informed me that the investment in collective investment undertakings is expected to comprise of cash and liquidity funds as well as investments in the Aviva Investors Multi-Strategy Fund ("AIMS").

7.4 AIIDAC has informed me that, although the increased investment in collective investment undertakings has been reflected in the financial and capital information and projections provided for this report, the increased investment in corporate bonds has not been fully reflected in that information. The financial and capital information and projections provided for this report reflected an increase in the investment in corporate bonds to 10% mixed rated bonds instead of to 20% AAA-rated covered bonds.

7.5 I have been informed by AIIDAC that it has estimated the impact of the increased investment in corporate bonds on its SCR and that the estimated increase to AIIDAC's SCR as a result of the change is approximately £0.3m. This increase arises because, under the Standard Formula, AAA-rated covered corporate bonds incur a higher market risk charge than government bonds.

7.6 I have been further informed by AIIDAC that this change will not have any impact on the Own Funds or the simplified balance sheet figures shown in this report.

7.7 It follows that this change in investment strategy will not have a significant impact on either AIIDAC's SCR or its coverage ratio. As a result, I am comfortable that AIIDAC's increased investment in corporate bonds will not materially increase the risk of AIIDAC being unable to meet its policyholder obligations.

7.8 Turning to the increased investment in collective investment undertakings, I have been informed by AIIDAC that the AIMS fund is a global unconstrained total return fund that aims to provide a positive return with less than half the volatility of global equities over a three-year rolling period. I have been further informed that the fund is made up of approximately 86.8% derivatives, 3.6% cash and 9.6% physical assets. AIIDAC has informed me that as at 29 June 2018, there was a 1% probability of a reduction in the value of the fund over a one-year time horizon in excess of 13.92%. AIIDAC estimated this figure by using a market standard modelling approach and applying a standard approximation to convert from a one-week to one-year time horizon. While I have not reviewed AIIDAC's calculations, I am comfortable that the approach, as described to me, is appropriate.

7.9 Given the above and that less than 13% of AIIDAC's investment portfolio is expected to be invested in AIMS, I am comfortable that AIIDAC's investment in AIMS will not materially increase the risk of AIIDAC not being able to meet its policyholder obligations.

7.10 It follows from my conclusions in paragraphs 7.7 and 7.9 that I believe that AIIDAC's updated investment strategy is appropriate given AIIDAC's insurance liabilities. Whilst the updated investment strategy assumes more risk than the previously assumed investment strategy, as discussed in paragraph 6.36, AIIDAC will have substantial coverage over its capital requirements following the Scheme and therefore the additional risk from the updated investment strategy will not materially disadvantage the transferring policyholders. In addition, I would anticipate that the higher expected returns resulting from the updated investment strategy will benefit AIIDAC's coverage ratio.

7.11 I understand from AIL that it has made a change to its investment strategy which is due to take effect by January 2019. The updated strategy will increase AIL's investment in equities and introduce small increases in investment in the Aviva Investors Multi-Strategy funds and in property investments.

7.12 I believe that AIL's updated investment strategy is appropriate given AIL's insurance liabilities. Whilst the updated investment strategy assumes more risk than the previously assumed investment strategy, as discussed in paragraph 6.34, AIL will have substantial coverage over its capital requirements following the Scheme and therefore the additional risk from the updated investment strategy will not materially disadvantage the remaining policyholders. In addition, I would anticipate that the higher expected returns resulting from the updated investment strategy will benefit AIL's coverage ratio.

Impact on compensation

7.13 In respect of compensation schemes, the PRA has recently issued a consultation paper (CP 26/18) in which it discusses the changes to the PRA's rules as a result of UK's withdrawal from the EU. The consultation paper also sets out the PRA's proposed stance in respect of the compensation available to the transferring policyholders of insurance portfolio transfers from UK entities into entities in the EEA.

7.14 In respect of the transferring policyholders that were eligible for FSCS protection prior to the Scheme, should the proposed rules come into force then:

- Policies in the Transferring Portfolio that will become part of AIIDAC's UK Branch will continue to benefit from FSCS protection irrespective of when the relevant claim events occur.

- Policies in the Transferring Portfolio that will not become part of AIIDAC's UK Branch will continue to benefit from FSCS protection in respect of claims events that occur prior to the Effective Time. However, they will not benefit from FSCS protection in respect of claims events that occur after the Effective Time.

7.15 It follows that the impact of these proposals will be to reduce the size of the group of policyholders that might lose access to the FSCS. However, it will not eliminate this group of policyholders entirely.

7.16 Based on this, I have no reason to change the conclusion set out in paragraphs 10.40 and 10.41 of the Report. As a result, I am satisfied that that the Scheme will not create any material adverse impact to the remaining policyholders' access to compensation. Given the remoteness of the scenario where compensation is required by the transferring policyholders, I believe the actual detriment to transferring policyholders from losing access to the FSCS to be less material than the potential impact to these policyholders should the Scheme not go ahead.

Tax implications

7.17 I have been informed by AIL that AIIDAC has changed its view of the treatment of the deferred tax asset since 31 December 2017. The view as at 31 December 2017 was that part of the deferred tax asset in AIL pre-transfer would move to AIIDAC post transfer. I understand from AIL that its revised view is that the deferred tax asset should not form part of the transferring assets because the transfer should be tax neutral.

7.18 I have taken advice from the tax experts at Grant Thornton who specialise in the insurance sector. Based on this advice I am comfortable with the approach of not including the deferred tax asset in the transfer from AIL to AIIDAC.

7.19 After consideration of this issue, I am comfortable that it does not change my conclusion in the Report that there are no material tax implications that affect the Scheme.

Conclusion

7.20 I follows from the above that I am comfortable that there are no changes to the items listed under paragraph 7.1 that change my conclusions in the Report in respect of these aspects of the Scheme.

8 Other Non-Financial Considerations

8.1 In addition to the points discussed in the sections above, I considered the following additional non-financial aspects in the Report:

- EEA business remaining with AIL following the Scheme
- Changes in regulatory jurisdiction
- Claims handling
- Policy servicing
- Complaints
- 'Brexit'
- Management and governance frameworks
- Should the Scheme not become effective
- Should the application for the AIIDAC UK Branch to convert to a third country branch following Brexit not be successful

8.2 Based on my discussions with AIL and AIIDAC, I understand that there have been no material changes since the Report with respect to the non-financial aspects listed under paragraph 8.1 other than an increase in amount of the EEA business remaining with AIL following the Scheme and changes in AIIDAC's management and governance framework.. I discuss these issues below.

8.3 I also provide below an update on the status of AIIDAC's application for its UK Branch and additional information in relation to policy servicing.

EEA business remaining with AIL following the Scheme

8.4 As discussed in paragraph 3.1, I understand from AIL that it will not be renewing a contract to distribute Mobile Device Insurance ("MDI") business with one of its distributors which is due to expire on 28 February 2019. The policies underwritten under this distribution arrangement will not be included in the Scheme. It follows that these policies will remain with AIL following the Scheme despite covering EEA risks.

8.5 As discussed in paragraph 3.5, I understand from AIL that a portfolio of healthcare and hospitalisation cash plan policies will be commuted to another carrier or cancelled by 29 March 2019 and will therefore not be included in the Scheme. These policies offer healthcare and hospitalisation benefits. It follows that these policies will remain with AIL following the Scheme despite covering EEA risks.

8.6 Following the Scheme, these policyholders will therefore be in an analogous position to those discussed in paragraph 11.2 of the Report. In line with what it had told me about those policies, AIL has informed me that it intends to continue to honour its legal obligations on the policies discussed in paragraphs 8.4 and 8.5 following the Scheme in all circumstances.

8.7 It follows that, for the reasons discussed in paragraphs 11.8 and 11.9 of the Report, I am comfortable that excluding the policies described in paragraphs 8.4 and 8.5 above from the Scheme will not result in material detriment to these policyholders.

Management and governance frameworks

8.8 I have been informed by AIIDAC that, since the Report, the Chief Risk Officer and the approved Head of Actuarial Function have left the organisation. AIIDAC has informed me that it has identified a candidate for the role of Chief Risk Officer and that this individual is currently going through the CBI approval process. AIIDAC has also informed me that an interim Head of Actuarial Function has been appointed. Further, AIIDAC has informed me that it is in the process of identifying a candidate to fulfil the role of Head of Actuarial Function on a permanent basis, however the new candidate is not expected to be appointed prior to the Effective Time of the Scheme. The interim Head of Actuarial Function is expected to remain in this position until a permanent candidate is appointed.

8.9 I have also been informed by AIIDAC that, following discussion with the CBI, it has identified alternative candidates for the roles of Head of Finance and Head of Underwriting. AIIDAC is also intending to appoint a Branch Manager in the UK and has also identified a candidate for this role. AIIDAC has informed me that the identified candidate for the role of Branch Manager in the UK is currently going through the CBI approval process and that it is in the process of proposing the candidates for the Head of Finance and Head of Underwriting roles to the CBI.

8.10 AIIDAC has provided me with the criteria required for these five roles and I am satisfied that these criteria are appropriate. AIIDAC has also provided me with CVs for the identified candidates for the roles of Branch Manager in the UK and Chief Risk Officer and I am satisfied that these identified candidates are suitable. I do not expect these personnel changes to alter my conclusions, as set out in the Report, regarding management and governance frameworks.

8.11 I have also been informed by AIIDAC that the CBI has challenged the independence of two of its proposed independent non-executive directors, in particular, the Board Chairperson and Audit Committee Chairperson. I understand from AIIDAC that it is in the process of identifying suitable alternative candidates for these appointments.

8.12 I further understand from AIIDAC that the CBI has also requested it to appoint an additional executive director. AIIDAC has informed me that it has since appointed an additional executive director and that this individual's appointment has been approved by the CBI. AIIDAC has provided me with the CV for the individual and I am satisfied that the individual is suitable for the role.

8.13 I have been informed by AIIDAC that selection of the appointments above are expected to be resolved prior to the Effective Time of the Scheme.

8.14 From my discussions with AIIDAC, I do not expect the three new appointments to change my conclusions as set out in the Report regarding management and governance frameworks.

Application for AIIDAC UK Branch

8.15 As discussed in paragraph 2.19 of the Report, AIIDAC applied to the CBI to establish a branch in the UK.

8.16 I have been informed by AIIDAC that the CBI has now authorised the UK Branch.

Policy Servicing

8.17 I discussed AIL and AIIDAC's approach to policy servicing in paragraphs 11.24 to 11.29 of the Report. There have been no changes to the approach to policy servicing since the Report. However I have included additional details to explain AIL and AIIDAC's position in the context of Brexit in the following paragraphs.

8.18 I understand from AIL and AIIDAC that consideration has been given to the ability of AIL and AIIDAC to service policies in the context of Brexit.

8.19 In particular, AIIDAC has informed me of its intention to make use of the temporary permissions regime announced by the UK government to allow inwards Solvency II branches to continue to operate following Brexit, pending the submission and acceptance of applications to the PRA for third country branches. The use of this temporary permissions regime will allow AIIDAC to continue to service policies through its UK branch prior to the branch's approval as a third country branch.

8.20 AIIDAC has further informed me that any UK risks written by AIIDAC will be allocated to the UK branch to allow them to be serviced in the event of loss of passporting rights.

8.21 In respect of business written on an FOS basis, the passporting rights of AIIDAC will, under Solvency II, contain no geographical constraints on where that passport may be exercised. It follows that AIIDAC will be able to service FOS business from any of its branches, including its UK branch.

Conclusion

8.22 It follows from the above that I am comfortable that there are no changes to the items listed under paragraph 8.1 that change my conclusions in the Report in respect of these aspects of the Scheme.

9 The Communications Process

EEA regulator notifications

9.1 I understand from AIL that 30 EEA regulators have been notified of the Scheme and that ten have responded to the notification. Of the ten EEA regulators that have responded, none have objected to the transfer, however a number of regulators have posed questions. AIL has informed me that it has provided responses to these questions to the PRA. I understand that AIL has provided the PRA with responses to every question posed by EEA regulators.

Policyholder notifications

9.2 I understand from AIL and AIIDAC that the approach to policyholder notifications set out in the Report is proceeding as planned and in line with the Court Order.

9.3 I understand from AIL that as at 21 December 2018, 1,192,626 customers had been mailed. This includes customers mailed by AIL directly or by third parties on AIL's behalf. AIL has told me that it is confident that all policyholders who were expected to be mailed have been mailed.

9.4 AIL has informed me that it has received notification that 424 mailings have not been received by policyholders due to a change of address and AIL is in the process of remailing the customers for which they have been able to obtain a new address. It will not however be possible for AIL to contact the policyholders where there has been a change of address and AIL is unable to obtain a new address.

9.5 I understand from AIL that, as at 21 December 2018, all policyholders whose policies are administered through brokers have been notified of the Scheme by either the broker or by AIL.

9.6 I further understand from AIL and AIIDAC that, as at 21 December 2018, they had received 2,770 calls from policyholders, of which 1,736 related to the transfer. In addition, 330 non-call related contacts (including website referrals and letters) have been received from policyholders in relation to the transfer.

9.7 I understand from AIL that it has identified 126 letters to Belgian policyholders containing an incorrect contact telephone number and incorrect opening hours. I further understand from AIL that it has identified 270 letters to Irish broker customers containing incorrect broker details and 940 letters to Irish broker customers containing an incorrect telephone number for their broker.

9.8 I understand from AIL that it has sent apology letters to these customers with the errors corrected. As a result, I am satisfied that the affected policyholders will not have been materially adversely affected by this issue.

9.9 AIL has provided me with a summary of the correspondence from policyholders up to 21 December 2018 relating to the Scheme. In addition, it has provided me with copies of the relevant correspondence in respect of the five objections received from policyholders to date.

9.10 I understand from AIL that correspondence received can be categorised as follows:

- Requests relating to business as usual operations
- Requests for copies of documentation
- General enquiries relating to the Scheme
- Technical enquiries relating to the Scheme
- Complaints
- Objections to the Scheme

9.11 I have been informed by AIL that all queries from policyholders relating to the Scheme have been responded to.

9.12 I understand from AIL that five complaints have been received as at 21 December 2018 as follows:

- Two complaints that the communication in relation to the Scheme did not include policy numbers meaning that it was difficult to identify the policy that the Scheme related to
- One complaint that the policyholder was not made aware of the transfer on renewal of their policy
- One complaint relating to being unable to get through to the call centre
- One complaint that the communication in relation to the Scheme did not include policy numbers and that the telephone number stated is not a local cost number

9.13 I understand from AIL that it has responded to each complaint and it has provided me with copies of this correspondence.

9.14 In response to the two complaints that the communication in relation to the Scheme did not include policy numbers, AIL has explained to the policyholders who made the complaints that this was to meet anti-fraud requirements.

9.15 In response to the complaint that the policyholder was not made aware of the transfer on renewal, AIL has explained that the renewal date was prior to the confirmation from the courts that enabled it to start to contact its customers and, as a result, it was legally unable to share any information regarding the transfer at that time.

9.16 In response to the complaint in relation to being unable to get through to the call centre, AIL has checked the telephone number for the call centre that was provided to the policyholder in question and has been unable to find a fault. Nevertheless, AIL has also provided the policyholder with an alternative telephone number for the call centre.

9.17 In response to the complaint that the communication in relation to the Scheme did not include policy numbers and that the telephone number stated on the letter was not a local cost number, AIL has explained to the policyholder who made the complaint that the absence of a policy number was to meet anti-fraud requirements. It has also confirmed that calls to the phone number provided are charged at the same rate as the policyholder's usual service and that any cost incurred during the transfer of the call to the UK call centre is borne by the Aviva Group.

9.18 In my view, these responses are appropriate and proportional.

9.19 I have considered the complaints raised by the policyholders and confirm that I see no reason to alter the conclusions set out in the Report and in this report.

9.20 I understand from AIL that five objections have been received as at 21 December 2018 as detailed in the following paragraphs. I have reviewed the correspondence received by AIL in respect of these five objections, as well as AIL's response to these objections.

9.21 One objection was received on 17 October 2018 from a policyholder with Home Insurance for a home in Ireland. This policyholder objected on the basis that, although the communication that the policyholder received in relation to the Scheme stated that the policyholder may qualify for protection under the Insurance Compensation Fund in Ireland, it did not state whether or not the policyholder actually qualified for this protection.

9.22 I understand from AIL that the policyholder in question will qualify for protection under the Insurance Compensation Fund in Ireland. Furthermore, I understand from AIL that it has replied to the policyholder to confirm this. I am therefore satisfied that this objection gives me no reason to change my conclusions from those in the Report and in this report.

9.23 A second objection was received on 2 November 2018 from a policyholder with Motor Insurance. This policyholder objected on the basis that they will no longer qualify for protection under FSCS or the Insurance Compensation Fund in Ireland.

9.24 I understand from AIL that the policyholder in question will qualify for protection under the Insurance Compensation Fund in Ireland, provided that their car is registered in Ireland. Furthermore, I understand from AIL that it has replied to the policyholder to confirm this. Furthermore, I understand from AIL that the policyholder's car is registered in Ireland. I am therefore satisfied that this objection gives me no reason to change my conclusions from those in the Report and in this report.

9.25 A third objection was received on 4 November 2018 from a policyholder with Mobile Device Insurance. This policyholder asked whether the proposed business transfer was normal.

9.26 I understand from AIL that it has replied to the policyholder to explain that the proposed transfer is in preparation for the anticipated changes as a result of the UK's expected withdrawal from the European Union. It has confirmed that the transfer process being followed is in accordance with European Law. I am therefore satisfied that this objection gives me no reason to change my conclusions from those in the Report and in this report.

9.27 A fourth objection was received on 27 November 2018 from a policyholder with Mobile Device Insurance. This policyholder stated that they did not want to have their personal data transferred or used for any other purpose.

9.28 I understand from AIL that it has replied to the policyholder to explain that the transfer of data to AIIDAC will provide the same level of assurance as AIL as it is part of the Aviva Group. It has further informed the policyholder that AIIDAC will become the data controller for personal information for policies that are transferring and that AIIDAC will have the same duty to respect the confidentiality and privacy of that information as AIL had before the transfer. In addition, it has informed the policyholder that AIIDAC is governed by the General Data Protection Regulation in terms of its rights and responsibilities in relation to data protection. Having considered this response, I am satisfied that this objection gives me no reason to change my conclusions from those in the Report and in this report.

9.29 A fifth objection was received on 30 November 2018 from a policyholder with Mobile Device Insurance. This policyholder stated that they did not agree with the amendment and intended to cancel the policy.

9.30 I understand from AIL that it has replied to the policyholder to confirm that it has passed on the information to the insurance provider who will get in touch to confirm the cancellation. I further understand from AIL that the policyholder has now cancelled this policy. This policyholder has not provided details of the reasons for their objection. I am therefore satisfied that this objection gives me no reason to change my conclusions from those in the Report and in this report.

9.31 I have considered the objections raised by the policyholders and confirm that I see no reason to alter the conclusions set out in the Report and in this report.

Policyholder notifications in respect of changes to the Scheme since the Report

9.32 As discussed in paragraphs 3.1 and 3.5, since the Report I have been informed by AIL that the policies described in these paragraphs will not form part of the Scheme.

9.33 As with the policyholders discussed in paragraph 11.112 of the Report, AIL has informed me that it intends to advise these policyholders that the Scheme is taking place, but that their policy will not be included, along with the reason for not including it. AIL has informed me that the third party administrator of these policies has agreed to notify its customers of this and it has received confirmation that the policies described in paragraph 3.5 have been notified. It is awaiting confirmation from the third party administrator that the policies described in paragraph 3.1 have been notified. In my opinion, it is appropriate to notify these policyholders about the Scheme in this manner.

9.34 As discussed in paragraphs 3.13 to 3.15, since the Report additional policies written on a FOS basis have been identified through system enhancements.

9.35 AIL has informed me that these policyholders have been notified that the Scheme is taking place, applying the same approach it has taken to notify other transferring policyholders.

9.36 In my opinion, it was appropriate to notify these policyholders about the Scheme in this manner.

Reinsurer notifications

9.37 I understand from AIL and AIIDAC that the approach to reinsurer notifications set out in the Report has proceeded as planned and in line with the Court Order.

9.38 I understand from AIL that the reinsurance broking teams for its eight major placements have sent notifications of the transfer to the reinsurers on each placement. This represents 211 notifications in total.

9.39 One reinsurer initially raised concerns that the transfer was broadening the scope of cover. I have been informed by AIL that, following discussion with the reinsurer that raised the concern, this has been resolved. The reinsurer has confirmed that it has no further issues with the transfer and I have been provided with this confirmation in writing.

9.40 I have considered the correspondence with reinsurers and, based on this, I see no reason to alter the conclusions set out in the Report and in this report.

10 Conclusions

10.1 I have further considered the effect of the proposed Scheme on the different groups of policyholders. I confirm that my overall opinion and conclusions as set out in the Report are unchanged. For ease of reference, I restate them in the following paragraphs.

10.2 I have concluded that there will be some loss of cover for a subgroup of the transferring policyholders with regards to compensation cover. To the extent that the Scheme does create an adverse impact on the transferring policyholders' access to compensation, I have concluded that this will be less detrimental to them than the impact should the Scheme not go ahead.

10.3 Other than this, I have concluded that there will be no material change to the service provided to the transferring policyholders and, subject to the intention in paragraph 9.26 of the Report being honoured if necessary, no material adverse impact on the security provided to them.

10.4 In addition, I have concluded that there will be no material change to the security or service provided to the policyholders remaining in AIL. Therefore, I do not expect that the policyholders remaining in AIL would be materially adversely affected by the Scheme.

10.5 In addition, I have concluded that reinsurers of AIL will not be materially adversely affected by the Scheme.

10.6 Prior to the Scheme, AIIDAC will have no reinsurers and as a result the Scheme does not impact any existing reinsurers of AIIDAC.

10.7 Given the above, I do not expect any group of policyholders or reinsurers to be materially adversely affected by the Scheme and therefore I see no reason why the Scheme should not proceed.

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

10.9 As required by the rules of Scots law which are, in functional terms, the broad equivalent of Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

Simon Sheaf FIA, FSAI

Head of General Insurance Actuarial and Risk, Grant Thornton UK LLP

A Additional Information

Information provided by AIL

- Financial statements for AIL as at 30 June 2018
- Management accounts for AIL as at 30 June 2018
- Memo to the AIL Board discussing the management accounts as at 30 June 2018
- Solvency II balance sheet for AIL as at 30 June 2018
- Quarterly QRTs for AIL as at 30 June 2018
- Details of policyholder, broker and reinsurer notifications
- Memos summarising the developments to the Scheme since the Report

Information provided by AIIDAC

- Financial statements for AIIDAC as at 30 June 2018
- Management accounts for AIIDAC as at 30 June 2018
- Solvency II balance sheet for AIIDAC as at 30 June 2018
- Quarterly QRTs for AIIDAC as at 30 June 2018
- Memos summarising developments to the Scheme since the Report
- Draft Investment Management Agreement

Information provided by AIL and AIIDAC's legal advisors

- Revised Deed of Charge
- Revised Scheme Document
- Revised Quota-Share Reinsurance Agreement
- Petition to the Court for the Directions Hearing
- Minute of amendment for the Petition

Other

I also relied on information arising from correspondence and discussions with AIL, AIIDAC and their legal advisers.

I have checked that all of the above information has been supplied by persons appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information

B Definitions

AIM model	The 'Actuarial Insight Model', AIL's internally developed in-house reserving tool.
AIIDAC-AIL Quota Share arrangement	The proportional reinsurance that will be provided by AIL to AIIDAC following the Scheme.
AIIDAC's Capital Coverage Target	The minimum capital coverage which AIIDAC aims to maintain. The calculation of this target is broadly equivalent to the calculation of AIL's Capital Coverage Target, as described below.
AIL's Capital Coverage Target	The minimum capital coverage which AIL aims to maintain, as set out in its ORSA. This is calculated as AIL's Internal Model SCR plus a 1-in-5 year stress.
AIIDAC's Standard Formula SCR	AIIDAC's capital requirement, as calculated using the Standard Formula.
AIIDAC's unapproved Internal Model SCR	AIIDAC's capital requirement, as calculated using AIL's partial Internal Model.
AIIDAC's ORSA Capital Requirement	AIIDAC's capital requirement calculated on an equivalent basis to AIL's own view of capital requirements. This is calculated as the sum of AIIDAC's unapproved Internal Model SCR and its Solvency II Risk Margin.
AIIDAC UK Branch	The insurance branch that AIIDAC will establish in the UK.
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Assignee	The proceeds of a policy may be transferred by the holder of the policy to a lender (the assignee) as collateral for a loan.
Available capital	Total assets less total liabilities.
Available Own Funds	The portion of Own Funds that can be used to meet capital requirements after taking account of any restrictions.
Aviva Group	Aviva plc is a public limited company incorporated under the laws of England and Wales, which is the ultimate holding company of a group of companies referred to in this report as "the Aviva Group".
Binding Authority	A Binding Authority is an agreement whereby an insurer delegates underwriting authority to another party known as the Coverholder. The Coverholder is usually an insurance broker or underwriting agent.
Booked reserve	The claims reserve shown in the financial statements.
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold. This requirement may be stipulated by the regulator or else imposed internally based on the undertaking's own assessment of the risks to which it is exposed.

Chain Ladder Method	This reserving method can be applied to both paid and incurred claims data. The method is based upon the assumption that the relative change in a given accident year's paid or incurred claims from one evaluation point to the next is similar to the relative change in prior accident year's paid or incurred claims between the same evaluation points.
Claims reserve	Funds held for the payment of future claims.
Counterparty default risk	The risk that the counterparty of a contract will not fulfil its contractual obligations.
Coverage ratio	The quantum of assets an insurer has to meet its capital requirements, expressed as a percentage of its capital requirements.
Credit rating	A measure of the financial security of a company provided by a third party agency.
Cut-off Date	15 August 2018. Policyholders from the policyholder groups included in AIL's policyholder communications on the Scheme with a policy that is in effect or with an open claim on this date will be included in AIL's policyholder communications.
Direct policyholders	Policyholders of an insurance undertaking who are not themselves insurers or reinsurers.
Diversification	A risk-management technique employed by a business entity, to widen the variety of investments it holds or business in which it participates, in order to reduce the overall risk to which it is exposed.
Effective Time	The date and time at which the Scheme becomes legally binding.
Excess of Loss	This is a type of reinsurance contract, whereby cover is provided by the reinsurer above a certain amount, up to a certain limit.
FIN-NET	A network of EEA national organisations responsible for settling consumers' complaints in the area of financial services out of court. The network covers all EEA countries.
Freedom of Establishment business	It is possible for an insurance undertaking authorised in one EEA state ("the home state") to conduct business in another EEA state ("the host state") by establishing a branch operation in the host state and conducting business on a "Freedom of Establishment" basis. An insurance undertaking intending to write Freedom of Establishment business must notify the regulator of its home state of its intention to exercise its Freedom of Establishment passporting rights.
Freedom of Services ("FOS") business	It is possible for an insurance undertaking authorised in one EEA state ("the home state") to conduct business in another EEA state ("the host state") by writing business directly from the home state to the host state on a "Freedom of Services" basis. An insurance undertaking intending to write Freedom of Services business must notify the regulator of its home state of its intention to exercise its Freedom of Services passporting rights.
Gross	Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting reinsurance assets.

Incurred but not reported ("IBNR")	The estimate of the claims made by the claims handling team of an insurer for claims relating to events that have transpired, but which have not yet been reported.
Incurred claims	The sum of the paid and outstanding claims.
Independent Expert	The suitably qualified person that produces an independent report on the Scheme, in accordance with FSMA.
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II and which is required to be approved by the relevant regulator. All insurers are required to calculate their Solvency Capital Requirement using either an approved Internal Model or the Standard Formula.
Inwards reinsurance	Reinsurance coverage provided by a reinsurance undertaking to other insurance or reinsurance undertakings.
Ireland GI branch	The business currently written by the Irish branch of AIL on a Freedom of Establishment basis.
Large claims	Individual claims with a relatively high value, which may be modelled at an individual level for reserving and capital modelling purposes.
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
Loss ratio	A loss ratio of an insurance or reinsurance undertaking is a ratio of claims to premiums.
Minimum Capital Requirement ("MCR")	The lower level of regulatory capital requirements under the Solvency II regime.
Net	Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.
Ogden discount rate	The discount rate used to calculate lump sum settlements on personal injury claims.
ORSA capital requirement	The 'own view' capital requirement of either AIL or AIIDAC, as set out in their respective ORSA documents.
Outstanding claims	The estimate of the claims made by the claims handling team of an insurer for claims that have been reported but not yet been paid.
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Own Risk and Solvency Assessment ("ORSA")	The insurance or reinsurance undertaking's own assessment of the risks to which it is exposed and its solvency, as required under Solvency II.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on).
Remaining Portfolio	The policyholders remaining in AIL based on the scope of the Scheme. This portfolio consists of all existing AIL business except for the business being transferred, which is set out in detail in paragraphs 2.2 to 2.9 of the Report.
Reserve strength	A measure of the likelihood that the claims reserve will be sufficient to meet future claims.

Return period	A statistical measurement denoting the average recurrence interval of a given event over an extended period of time.
Reverse Flow Business	General insurance risks written by AIL's Ireland GI branch and situated in the UK.
Risk Margin	Under Solvency II, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to safely wind-up and transfer its obligations to a third party.
Run-off	A class of insurance business or an insurance undertaking that no longer accepts new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on policies that have expired.
Sales Partner	A sales intermediaries other than a broker (e.g. a retailer) that also act as a sales channel for insurance products.
Solvency II	A regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.
Solvency Capital Requirement ("SCR")	The higher level of regulatory capital requirement under the Solvency II regime.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an approved Internal Model.
State of Risk	If the policyholder is an individual, the EEA State in which that policyholder has habitual residence at the date the contract is entered into. If the policyholder is not an individual, the EEA State in which the establishment of the policyholder to which the policy relates is situated at the date the contract is entered into.
Stress and scenario testing	An analysis to test the robustness of a financial quantity by varying a number of underlying assumptions (either one at a time or in various combinations) and observing the resulting change in the quantity of interest.
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of more than 50 percent of its voting stock.
Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
The Provision	The Provision is a legal mechanism that is used in insurance portfolio transfers involving a significant intra-group

	reinsurance following the transfer. It is designed to ensure that transferring and remaining policyholders are aligned in relation to a distribution of the assets of the reinsurer (in this case AIL) in the event of the insolvency of the reinsurer.
Transferring Portfolio	The transferring AIL policyholders based on the scope of the Scheme. This portfolio forms a subset of the existing AIL business and is set out in detail in paragraphs 2.2 to 2.9 of the Report.
Valuation date	The date on which AIL's reserving team completes its reserving exercise each quarter.

C Abbreviations

AGH	Aviva Group Holdings
AGSIL	Aviva Group Services Ireland Limited
AII	Aviva International Insurance Limited
AIL	Aviva Insurance Limited
AME	Actuarial Mean Estimate
AIIDAC	Aviva Insurance Ireland Designated Activity Company
CBI	Central Bank of Ireland
CHE	Claims Handling Expense
Court	the Court of Session in Scotland
EEA	European Economic Area
ENID	Events Not In Data
EU	European Union
FCA	UK Financial Conduct Authority
FIA	Fellow of the Institute and Faculty of Actuaries
FOS	Freedom of Services
FOSUK	UK Financial Ombudsman Service
FRC	UK Financial Reporting Council
FSA	UK Financial Services Authority
FSCS	UK Financial Services Compensation Scheme
FSAI	Fellow of the Society of Actuaries in Ireland
FSMA	Financial Services and Markets Act 2000, as amended
FSPO	Financial Services and Pensions Ombudsman in Ireland
GBP	British Pound
Grant Thornton	Grant Thornton UK LLP
GWP	Gross Written Premium
IBNR	Incurred But Not Reported
ICF	Insurance Compensation Fund
IFoA	Institute and Faculty of Actuaries
LifeCo	Aviva Ireland Life Insurance Company

MCR	Solvency II Minimum Capital Requirement
MDI	Mobile Device Insurance
ORSA	Own Risk and Solvency Assessment
PRA	UK Prudential Regulation Authority
PPO	Periodic Payment Order
QC	Queen's Counsel
RPI	Retail Price Index
SCR	Solvency II Solvency Capital Requirement
SUP18	Chapter 18 of the Supervision Manual from the FCA Handbook
TAS	Technical Actuarial Standards
the Bill	The General Scheme of the Insurance (Amendment) Bill 2017
the Provision	The Provision is a legal mechanism that is used in insurance portfolio transfers involving a significant intra-group reinsurance following the transfer. It is designed to ensure that transferring and remaining policyholders are aligned in relation to a distribution of the assets of the reinsurer (in this case AIL) in the event of the insolvency of the reinsurer.
the Scheme	Insurance Business Transfer Scheme of a portfolio of policies from AIL to AIIDAC
UK	United Kingdom
UPR	Unearned Premium Reserve
USPs	Undertaking specific parameters