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

Nick Rowley

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5 October 2018

Table of Contents

1. Executive Summary

This report, made in my capacity as Chief Finance Actuary, is addressed to the Directors of Aviva Life & Pensions UK Limited ("UKLAP") and concerns a Scheme of Transfer, ("the Scheme") under Part VII of the Financial Services and Markets Act 2000. It is proposed that certain long-term business of UKLAP is transferred to Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC"), the rebranded name of Friends First Life Assurance Company ("FFLAC"). All references to the receiving company throughout the remainder of this document will make use of the end state company name, ALPI DAC.

This report describes the business covered under the Scheme, the assets and liabilities to be transferred and operational aspects of managing the business once it has been transferred. In particular, the report considers how the Scheme impacts the benefit security and the fair treatment of:

- UKLAP policyholders transferring to ALPI DAC under the Scheme; and
- Policyholders remaining in UKLAP.

I conclude that:

- The financial security of the policyholders of UKLAP transferring to ALPI DAC will not be materially adversely affected by the transfer;
- The financial security of the policyholders of UKLAP remaining in UKLAP will not be materially adversely affected by the transfer;
- The Scheme will have no material adverse impact on the expected benefits or the fair treatment of the policyholders of UKLAP transferring to ALPI DAC; and
- The Scheme will have no material adverse impact on the expected benefits or the fair treatment of the policyholders of UKLAP remaining in UKLAP.

Nicholas Mark Rowley

Nick Rowley, FIA

Date: 5 October 2018

2. Introduction

2.1. Purpose of the report

2.1.1. As the Chief Finance Actuary ("CFA") for UKLAP, I have been asked to comment on the proposals for the transfer of a subset of the business currently written within UKLAP to ALPI DAC under Part VII of the Financial Services and Markets Act 2000. The proposals are set out in the Scheme. If approved, the Scheme will come into effect on the "Effective Time", which is expected to be 22.59 GMT on 29 March 2019.

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

- The effect of the Scheme on the financial security of UKLAP policyholders transferring under the Scheme;
- The effect of the Scheme on the financial security of UKLAP policyholders remaining in UKLAP;
- The effect of the Scheme on the fair treatment of policyholders of UKLAP transferring under the Scheme, including their legal rights and expected benefits; and
- The effect of the Scheme on the fair treatment of policyholders of UKLAP remaining in UKLAP, including their legal rights and expected benefits.

2.1.3.The With Profits Actuary ("WPA") of UKLAP has prepared a separate report on the effect of the transfer on the with-profits business of UKLAP.

2.1.4.The Head of Actuarial Function ("HoAF") of ALPI DAC has prepared his own report on the effect of the Scheme on the financial security and benefit expectations of policyholders of ALPI DAC, including those transferring in from UKLAP.

2.1.5.The Chief Risk Actuary of UKLAP has provided me with his opinion on the Scheme which is set out in section 2.8.

2.2. Independent Expert

2.2.1.Mr T Roff of Grant Thornton UK LLP has been retained by the Board of UKLAP in the capacity of Independent Expert and has been approved as such by the Prudential Regulation Authority ("PRA") in consultation with the Financial Conduct Authority ("FCA"). I have read a draft of his report on the terms of the Scheme and considered his conclusions. A copy of this report has also been provided to Mr Roff who has had the opportunity to review earlier draft versions.

2.3. Guidance on Usage of this Report

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

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

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

  UKLAP Irish NPSF and UKLAP Irish WPSF include business that was previously transferred into UKLAP from Aviva Life & Pensions Ireland Limited in 2015, pursuant to a scheme of transfer sanctioned by the Irish High Court on 2 December 2014 ("the Irish 2014 Scheme"), which became effective on 1 January 2015, and any new Irish business written since 1 January 2015.

- **"Other non-UK EEA"** policies: This relates to all other in scope business, namely policies written in non-UK EEA territories currently in UKLAP.

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

2.4. Independence

2.4.1.I am a Fellow of the Institute of Actuaries, having qualified in 1989.

2.4.2.I am an employee of Aviva Employment Services Limited, a wholly owned subsidiary of Aviva plc. I have shares in Aviva plc and am a member of the Aviva Staff Pension Scheme. I do not hold any insurance policies issued by UKLAP or ALPI DAC. My wife has a life insurance policy with UKLAP.

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

2.5. Scope

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

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

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

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

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

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

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

2.6. Reliances

2.6.1.I have read the report prepared by Mr S Lowry, the With Profits Actuary of UKLAP. I have considered his comments on the effect of the Scheme on the various with-profits policyholders of UKLAP.

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

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

2.6.4.Other economic capital information has been provided to me. This information is confidential and has not been reproduced in this report. Nevertheless, I have reviewed this information in detail.

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

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

2.7.Actuarial Standards

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

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

2.8.Chief Risk Actuary Opinion

2.8.1.I have considered the impact of the proposed Scheme on the benefit security, benefit expectations and the fair treatment of all UKLAP policyholders, both those transferring and those remaining. In doing so I have considered various information I have been provided with, my knowledge of the companies involved and also the opinions of the Chief Finance Actuary, the With Profits Actuary and the Independent Expert, though I have not relied on these opinions.

2.8.2.I am satisfied that the Scheme should not have a material adverse effect on benefit security, benefit expectations or the fair treatment of policyholders. There is one consequence of the Scheme that may have an adverse impact on transferring policyholders; the loss of Financial Services Compensation Scheme protection for certain transferring policyholders. However, I do not consider the potential loss of value to be material relative to the need to be able to legally service these policies after the UK's expected loss of EU passporting rights.

2.8.3.I see no reason why the Scheme should not proceed.

3. Background

3.1. Overview

3.1.1. Aviva plc is the ultimate holding company for UKLAP, which transacts long-term insurance business predominantly in the UK. CGNU plc was formed on 30 May 2000 following the merger of CGU plc and Norwich Union plc (originally CGNU plc) and renamed Aviva plc in 2002. CGU plc itself was formed on 2 June 1998 following the merger of General Accident plc ("General Accident") and Commercial Union plc. Aviva plc also owns the life assurance business of Friends Life Limited and Friends Life and Pensions Limited, which was transferred into UKLAP under the Friends Life Part VII Scheme ("2017 Scheme")" on 1 October 2017.

3.1.2. On 1 January 2015, Aviva Life and Pensions Ireland Limited, the original Aviva owned Irish life company, transferred its life assurance business to UKLAP under the Irish 2014 Scheme and was subsequently de-authorised.

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

3.1.4. On 14 November 2017, Aviva Group Holdings Limited announced that it had agreed the terms for the purchase of an Irish life assurance company, Friends First Life Assurance Company. This company was transferred from Aviva Group Holdings to UKLAP on 31 May 2018 following the Change of Control granted by the CBI on 23 May 2018. The company is to be renamed ALPI DAC on 29 March 2019. It is an Irish standalone entity, with a UK parent. (See section 5.)

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

3.2. The Transferred Policies

3.2.1. A product based approach has been used to determine the scope of the policies to be transferred under the Scheme, with two criteria being used to determine policies that would be impacted by the loss of passporting:

1. All products effected and carried out on a FoE basis, through a branch in another EEA country; and;
2. All products marketed exclusively to local nationals resident within their home (non-UK EEA) country, on a FoS basis (invariably with documentation and customer support being provided in the appropriate local language).

3.2.2. Products meeting one of these criteria will be transferred to ALPI DAC under the Scheme. A list of in scope products is included in an appendix to the Scheme.

3.2.3. The scope of the transfer excludes policies that were not actively marketed to EEA nationals, but may have been sold to EEA nationals who were not habitually resident in the UK (e.g. a UK citizen who moves to the EEA before vesting their pension). Under UK legislation implementing the Solvency II Directive, these policies would not be considered as being written under FoS.

3.2.4. There is no intention to exclude any policies from the transfer that fall under the defined scope.

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

3.2.5.The Scheme will transfer, in full, the "Irish" policies.

- The UKLAP Irish WPSF policyholders will transfer into a newly established sub-fund of ALPI DAC, known as the ALPI Irish WPF; and
- The UKLAP Irish NPSF policies currently held in the UKLAP NPSF will transfer into the Other Business Fund of ALPI DAC.

3.2.6.In addition, the Scheme will transfer a number of other policies, "Other non-UK EEA", as described in section 2.3.2, from a range of UKLAP sub-funds, which will result in additional sub-funds being created in ALPI DAC.

3.2.7.The policies in the "Other non-UK EEA" category will be subject to a 100% quota share reinsurance arrangement back into UKLAP, which will include a small amount of ceding commission from UKLAP to ALPI DAC to cover ongoing oversight costs.

3.2.8.The Belgian branch business is included in the "Other non-UK EEA category and is therefore subject to the 100% quota share reinsurance arrangement back to UKLAP. The 100% external reinsurance treaty provided by NN Insurance Belgium SA/NV ("NN Insurance Belgium") will remain in place with UKLAP on the Belgian branch business.

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

3.2.10.Subject to the consent of the Court, the Scheme will take effect at 22.59 on 29 March 2019, the Effective Time.

3.3.Rationale for the Scheme

3.3.1.As described in 3.1.3 above, there is a substantial risk that the UK will lose EU passporting rights from March 2019.

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

3.3.3.If UKLAP deferred the transfer process until the outcome of Brexit was more certain, there would not be sufficient time to implement the Scheme ahead of the UK's anticipated withdrawal from the EU on 29 March 2019. If this scenario emerges, there is a risk that UKLAP would not have a legal mandate to administer its non-UK EEA business.

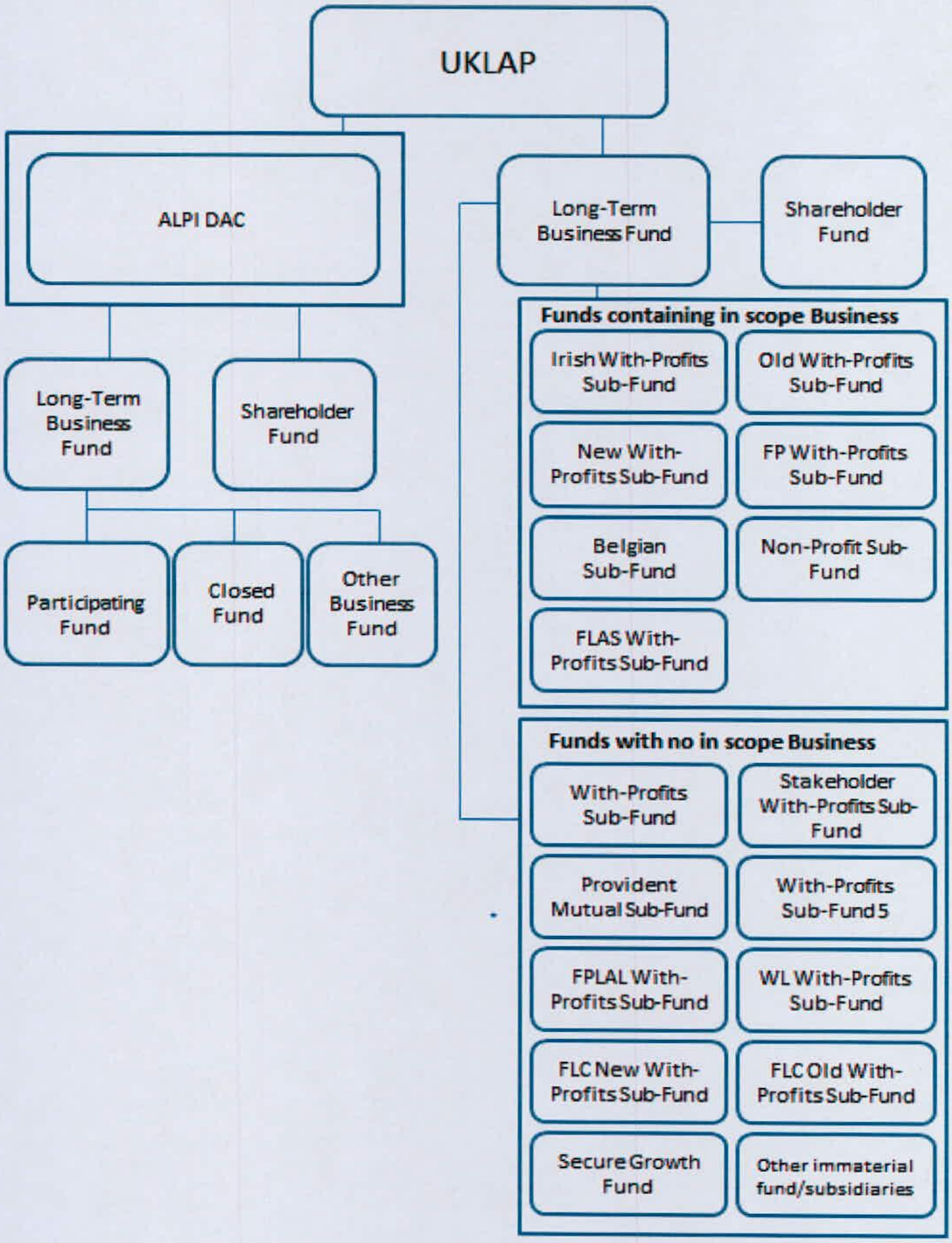
4. Overview of UKLAP

4.1. Background

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

4.1.2. UKLAP has holdings in a number of subsidiaries. These are not relevant to the transfer and are therefore not shown below.

4.1.3. The following shows the UKLAP fund structure prior to the Part VII Transfer.



4.1.4. The following sections provide brief descriptions of the UKLAP funds that are directly impacted by the Part VII Transfer i.e. contain in scope business. Section 4.5 provides a breakdown of the best estimate liabilities ("BEL") by sub-fund for the transferring policies.

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

4.1.6.The New With-Profits Sub-Fund ("NWPSF") of UKLAP was created as a result of the Reattribution Scheme in 2009 and contains:

- Remaining in-force policies of policyholders who opted to take the Policyholder Incentive Payment (PIP) and give up rights to future distributions from the estate;
- 88.25% (The "New WPSF Proportion") of each policy that was ineligible for the PIP and is still in force;
- 88.25% of each with-profits policy written after the Reattribution Scheme and is still in-force; and
- The Reattributed Inherited Estate External Support Account ("RIEESA") is held in the NPSF but provides capital support for the NWPSF. As such for reporting purposes the NWPSF is often presented taking into account the RIEESA.

4.1.7.The Old With-Profits Sub-Fund ("OWPSF") was created as a result of the Reattribution Scheme in 2009 and contains;

- Remaining in-force policies of policyholders who did not take up the PIP and still have rights to future distributions from the estate of the OWPSF;
- 11.75% (The "Old WPSF Proportion") of each policy that was ineligible for the PIP and is still in force; and
- 11.75% of each with-profits policy written after the Reattribution Scheme and is still in force.

4.1.8.The Belgian Sub-Fund contains policies that were written through the Belgian Branch of General Accident. All the business is wholly reinsured to NN Insurance Belgium.

4.1.9.The UKLAP Irish WPSF originated from the transfer of the with-profits business of Aviva Life and Pensions Ireland Limited to UKLAP under the Irish 2014 Scheme. The with-profits business consists of both conventional with-profits ("CWP") and unitised with-profits ("UWP") life and pensions business. Other than contractual increments and business written following the exercise of options on existing with-profits contracts, the fund was closed to new CWP life business in 2001 and was closed to all new CWP pensions business and new UWP business in 2009.

4.1.10.At the time of the transfer to UKLAP, the Segregated Support Fund to which the UKLAP Irish WPSF had access was transferred to the NPSF as the Irish Segregated Support Account ("ISSA"). Subsequently, based on year end 2015 financials, the requirements for these funds to be released to the shareholder were met, with the ISSA being paid down in full during 2016 and it therefore no longer exists.

4.1.11.The NPSF contains a wide range of non-profit business, including protection, unit-linked, healthcare, pensions business and annuities. The NPSF includes Irish branch non-profit business, which is segregated from an operational standpoint, within the UKLAP Irish NPSF (although this has no legal status and is therefore not shown within the graphic in section 4.1.3.)

4.1.12.The FLAS With-Profits Sub-Fund ("FLAS WPSF") originated from the transfer of the with-profits business from Friends Life Limited in the 2017 Scheme and contains business that was originally written by Sun Life Assurance Society Limited. The main types of business written in this fund are UWP and CWP life and pensions policies, together with unit-linked business and other non-profit business. It is closed to new business, and there are restrictions on the transfer of assets and liabilities to and from the other funds within UKLAP. Therefore, while the sub-fund can potentially draw capital from the NPSF or the Shareholder Fund, surplus can only be released to the shareholder under certain circumstances. The specified capital support was £126m at 31 December 2017, running off in a defined pattern until 2033, and thereafter in line with the run-off of regulatory assets as agreed under the 2017 Scheme.

4.1.13.The FP With-Profits Sub-Fund ("FP WPSF") originated from the transfer of the with-profits business from Friends Life Limited in the 2017 Scheme and contains business written by Friends Provident Life Office prior to its demutualisation, and also by UK Provident Institution and London and Manchester Assurance. The main types of business written in this fund are CWP and UWP policies together with significant volumes of unit-linked and non-profit policies (primarily immediate pension annuities). It is closed to new with-profits business, other than increments to existing policies and new members of group schemes. There are restrictions on the transfer of assets and liabilities to and from the other funds within UKLAP. Therefore, while the fund can potentially draw capital from the NPSF or the Shareholder Fund, surplus can only be released to the shareholder under certain circumstances. The specified capital support comprises:

- A Support Account that was £38.7m as at 31 December 2017, and runs off according to a fixed scale to zero at 31 December 2031, as agreed under the 2017 Scheme; and
- A Support Account in respect of the post demutualisation business, originally designed to fund the writing of new business, that was £19m as at 31 December 2017 and runs off in a defined pattern until 2040 and £1m thereafter for so long as the FP WPSF is maintained as a separate UKLAP Sub-Fund.

4.2. Nature of business written

4.2.1. Below is a summary of the types of in scope business written by each UKLAP sub-fund.

Fund	Conventional With-Profits	Unitised With-Profits	Conventional Non-Profit	Unit-Linked	Open to New Business*	In scope countries**
Irish WPSF	✓	✓			I	IE
NWPSF	✓	✓	✓		I	SE,DE,FR,IE
OWPSF	✓	✓	✓		I	SE,DE,FR,IE
FP WPSF		✓		✓	I	DE,IS
FLAS WPSF				✓	I	DE
Belgian Sub-Fund	✓***				N	BE
UKLAP NPSF****			✓	✓	Y(IE only) I	IE,SE, DE,IS

** Y = Open, N = Closed, I = Increments Only*
*** IE= Ireland SE = Sweden DE=Germany FR=France IS=Iceland, BE = Belgium*
**** This is European style participating business.*
***** Includes the UKLAP Irish NPSF.*

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

4.2.3. The NWPSF, OWPSF and the FP WPSF and FLAS WPSF do not write new business other than increments on existing policies.

4.2.4. The Belgian Sub-Fund is closed to new business and fully reinsured to NN Insurance Belgium.

4.2.5. The in scope NPSF business is open to new Irish non-profit business; the largest components being pensions, individual annuities and bulk purchase annuities.

4.3. Risk profile of UKLAP's business

4.3.1. For management purposes, UKLAP is subdivided between a Long-Term Business Fund ("LTBF") and a Shareholder Fund ("SHF"). The LTBF contains all the assets and liabilities relating to insurance policies written by UKLAP.

4.3.2. The Shareholder Fund contains capital attributable to shareholders which is used to support all of the sub-funds of the LTBF. It can also be used to support any deficits that may arise in the subsidiaries held by the Shareholder Fund. Under Solvency II there is no requirement for a shareholder fund and capital can move freely between the LTBF and the SHF.

4.3.3. In aggregate, UKLAP's main risks are:

- Market risks such as interest rate risk, equity risk, equity release mortgages, commercial mortgages risk and credit risk for assets under management;
- Life insurance risks such as expense risk, lapse risk, mortality risk and longevity risk; and
- Operational risk arising from inadequate or failed internal processes, personnel or systems, or from external events.

4.3.4. The table below shows the top 10 risks in UKLAP as at 31 December 2017 on a Solvency II basis before and after diversification.

Pre-Diversification		Post Diversification	
Risk	**Proportion of total Risk**	**Risk**	**Proportion of total Risk**
Longevity	17%	Credit	29%
Credit	16%	Longevity	16%
Lapses	14%	Lapses	14%
Interest Rates	11%	Equity	13%
Expenses	8%	Expenses	8%
Equity	6%	Operational Risk	7%
Operational Risk	6%	Equity Release	5%
Commercial Mortgages	6%	Commercial Mortgages	3%
Equity Release	5%	Interest Rates	3%
Mortality	3%	Mortality	1%

4.3.5. Below is a summary of the assets (in £ millions) held by each fund of UKLAP at 31 December 2017. The assets are shown prior to any internal reinsurance.

£m	Gov. and Corp Bonds	Property	Equity	Derivatives	Cash	Mortgages and Loans	Unit Linked	Total
NPSF (Incl. SHF)	33,834	63	20	(463)	5,614	21,791	122,422	**183,281**
Irish NPSF	1,119	0	0	(1)	98	191	4,055	**5,462**
Irish WPSF	536	4	4	51	378	2	0	**975**
NWPSF/RIEESA	6,563	1,282	4,873	387	2,005	975	68	**16,154**
OWPSF	1,119	253	896	11	391	93	9	**2,772**
WPSF	6,737	927	3,536	406	2,661	374	0	**14,641**
PMSF	1,187	55	197	(174)	396	1	0	**1,662**
FLC NWPSF	1,531	579	1,470	156	943	5	0	**4,685**
FLC OWPSF	399	135	364	51	323	1	0	**1,273**
FLAS WPSF	2,284	179	974	107	798	78	0	**4,420**
FP WPSF	4,640	319	1,791	122	1,883	34	0	**8,788**
FPLAL WPSF	127	3	68	4	57	0	0	**259**
WL WPSF	260	4	120	16	186	0	0	**586**
SGF WPSF	479	0	126	0	26	10	0	**641**
Total	**60,815**	**3,803**	**14,439**	**672**	**15,760**	**23,555**	**126,554**	**245,599**

4.4. Solvency position

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

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

4.5. Summary of in scope business

4.5.1. The following table outlines the gross of reinsurance best estimate liabilities (BEL) of the in scope business (in £ millions), as at year end 2017, split by the sub-fund that it currently resides within.

<table>
<tr><th>Country</th><th>Product Types</th><th>BEL / £m FY17</th><th>NPSF</th><th>Irish WPSF/ NPSF</th><th>NWPSF</th><th>OWPSF</th><th>FP WPF</th><th>FLAS WPF</th></tr>
<tr><td>Ireland</td><td>NP</td><td>5,165</td><td>26</td><td>5,139</td><td>0</td><td>0</td><td>-</td><td>-</td></tr>
<tr><td>Ireland</td><td>WP</td><td>748</td><td>-</td><td>731</td><td>12</td><td>5</td><td>-</td><td>-</td></tr>
<tr><td>Germany</td><td>NP</td><td>683</td><td>683</td><td>-</td><td>-</td><td>-</td><td rowspan="2">80</td><td>32</td></tr>
<tr><td>Germany</td><td>WP</td><td>116</td><td>-</td><td>-</td><td>2</td><td>2</td><td>-</td></tr>
<tr><td>France</td><td>NP</td><td>52</td><td>-</td><td>-</td><td>46</td><td>6</td><td>-</td><td>-</td></tr>
<tr><td>France</td><td>WP</td><td>65</td><td>-</td><td>-</td><td>53</td><td>12</td><td>-</td><td>-</td></tr>
<tr><td>Sweden</td><td>NP</td><td>47</td><td>47</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Sweden</td><td>WP</td><td>3</td><td>-</td><td>-</td><td>3</td><td>0</td><td>-</td><td>-</td></tr>
<tr><td>Iceland</td><td>NP</td><td>25</td><td>25</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Iceland</td><td>WP</td><td>3</td><td>-</td><td>-</td><td>-</td><td>-</td><td>3</td><td>-</td></tr>
<tr><td>Belgium</td><td>NP*</td><td>117</td><td>117</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td></td><td>7,024</td><td>898</td><td>5,870</td><td>116</td><td>25</td><td>83</td><td>32</td></tr>
</table>

** This is European style participating business.*

5. Overview of ALPI DAC

5.1. Purchase

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

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

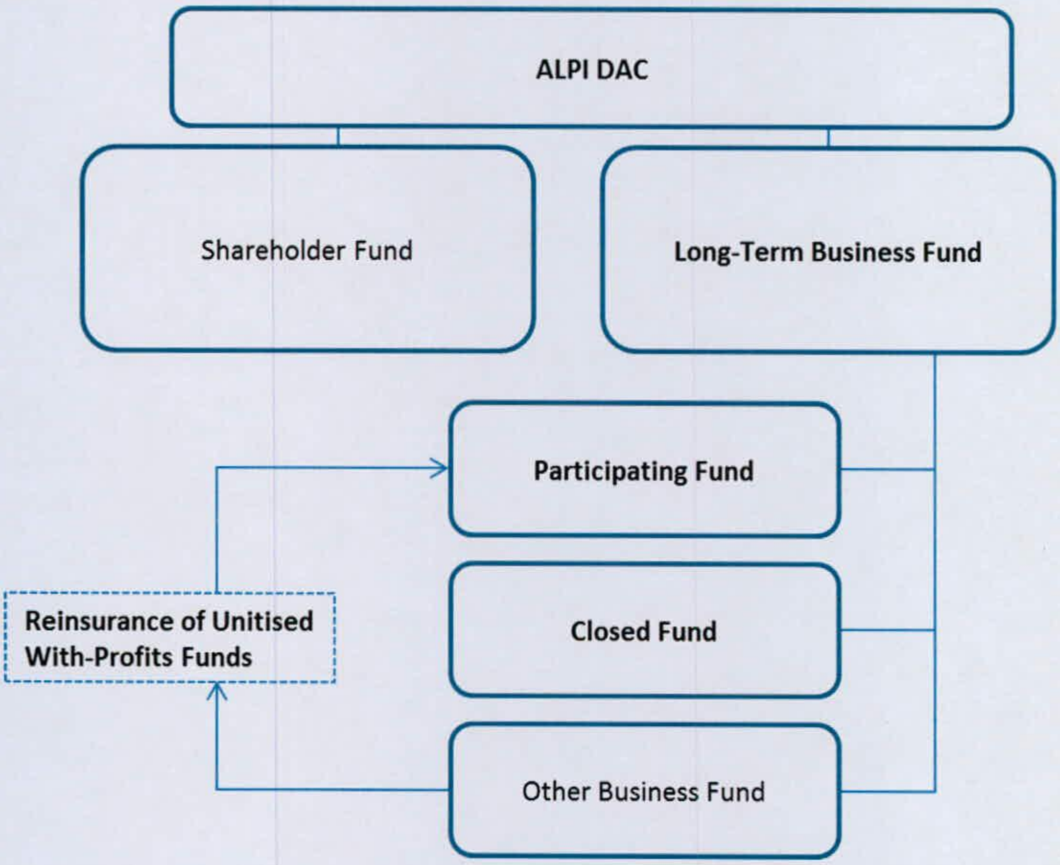
5.1.3. ALPI DAC is authorised by the CBI as a Life Insurer under the European Union (Insurance and Reinsurance) Regulations 2015.

5.1.4. It is a wholly owned subsidiary of UKLAP.

5.2. ALPI DAC Background

5.2.1. Friends Provident Life Office ('FPLO') was established in 1832 as a UK mutual life company. It wrote business in Ireland through an Irish Branch. In 1990, Friends Provident Life Assurance Company ('FPLAC') was established to acquire the Irish Branch business of FPLO under a Scheme of transfer approved by the High Court (the "Friends First Scheme"). In 1993, FPLAC acquired NM Life Assurance Ireland Limited ('NMLAIL'). In 1994 FPLAC became part of the Eureko Group and ceased to be part of the Friends Provident Group and in 1995 the business of NMLAIL was transferred into FPLAC following High Court approval. In 1998, FPLAC was renamed Friends First Life Assurance Company ('FFLAC'). FFLAC was a wholly owned subsidiary of Friends First Holding ('FFH').

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



5.3.Nature of business written

5.3.1.Below is a summary of the types of business written by each ALPI DAC fund:

Fund	Conventional With-Profits	Unitised With-Profits	Conventional Non-Profit	Unit-Linked	Annuities	Open to new business*
Participating Fund	✓	✓	✓		✓	Y
Closed Fund	✓		✓		✓	N
Other Business Fund			✓	✓	✓	Y

** Y = Open, N = Closed, I = Increments Only*

5.3.2.The Participating Fund shares profits/losses between policyholders and shareholders: policyholders receive 90% and shareholders 10%. The fund consists of CWP business (life and pensions), non-profit non-linked life assurance business and pension business (written prior to March 1996) and UWP business. Non-profit immediate annuities (largely driven by vesting Guarantee Annuity Options ("GAO") and closed fund pension accumulation products) continue to be written into the Participating Fund and it is also open to increments on group life and pensions schemes, but no new conventional with-profits business is written.

5.3.3.The UWP business consists of unit-linked policies written in the Other Business Fund which have the option to invest in a UWP fund. This business is reinsured into the Participating Fund.

5.3.4.Any expenses that arise from the sale and administration of UWP business, other than expenses that arise as a result of the business being reinsured to the Participating Fund (e.g. investment manager expenses), are met by the Other Business Fund. Hence such expenses are not charged to the asset shares of UWP business. Any profit or loss on such expenses arises in the Other Business Fund.

5.3.5. Some conventional with-profits business includes a GAO on retirement. The rates guaranteed are generally better than current market rates.

5.3.6.In the Closed Fund, 100% of the profits and losses accrue to policyholders. The fund consists of the non-linked NMLAIL business (including both non-profit and with-profits business) that was transferred into FFLAC (then FPLAC) in 1995. The Closed Fund is closed to new business, except for some business relating to options arising from policies with the Closed Fund.

5.3.7.The Closed Fund does not have to be maintained as a separate fund if the number of with-profits policies falls below 1,000 and must cease to operate as a separate fund if the number of with-profits policies falls below 500.

5.3.8.As at 31 December 2017 the fund had 1,821 with-profits policies and the number is projected to fall below 1,000 in February 2026 and below 500 in December 2030.

5.3.9.There are only 3 annuity policies in the Closed Fund, any policies that give rise to annuities in the Closed Fund vest in the Participating Fund.

5.3.10.The Other Business Fund consists of conventional life and pension non-profit business written after March 1996, unit-linked business and conventional income protection insurance. For unit-linked policies that choose to invest in a UWP fund, the premium is 'reinsured' into the Participating Fund. The fund includes directly written unit-linked pension business and new life assurance business.

5.4. Risk profile of ALPI DAC's business

5.4.1. For management purposes, ALPI DAC is subdivided between a Long-Term Business Fund ("LTBF") and a Shareholder Fund ("SHF"). The LTBF contains all the assets and liabilities relating to insurance policies written by ALPI DAC. The Shareholder Fund contains capital attributable to shareholders.

5.4.2. The top 5 shareholder risks (i.e. excluding risks entirely within the ring fenced with-profits funds, and defined benefit pension scheme) on an undiversified Standard Formula basis are:

- Lapse;
- Healthcare disability;
- Expense;
- Catastrophe (a large increase in death benefits driven by catastrophe event); and
- Equity.

5.4.3. Below is a summary of the investment assets (in € million) held by each fund of ALPI DAC at 31 December 2017. The assets are shown prior to any internal reinsurance.

Assets 31 December 2017 (€m)	**Participating Fund**	**Closed Fund**	**Other Business Fund**	**Shareholder Fund**	**Total**
Land & Property	33	6	0	1	**40**
Government Fixed Interest	677	41	258	89	**1,065**
Other Fixed Interest	253	0	97	0	**350**
Listed Equities	35	25	1	0	**61**
Unlisted Equities	3	0	0	0	**3**
Deposits/Cash	9	1	27	5	**42**
Unit-linked assets	0	0	2,907	0	**2,907**
Other Assets	0	0	0	0	**0**
Total	**1,010**	**72**	**3,288**	**95**	**4,466**

5.5. Solvency position

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

5.5.2. The table below shows the Solvency II financial position (in € million), before the proposed Scheme, of ALPI DAC at 31 December 2017.

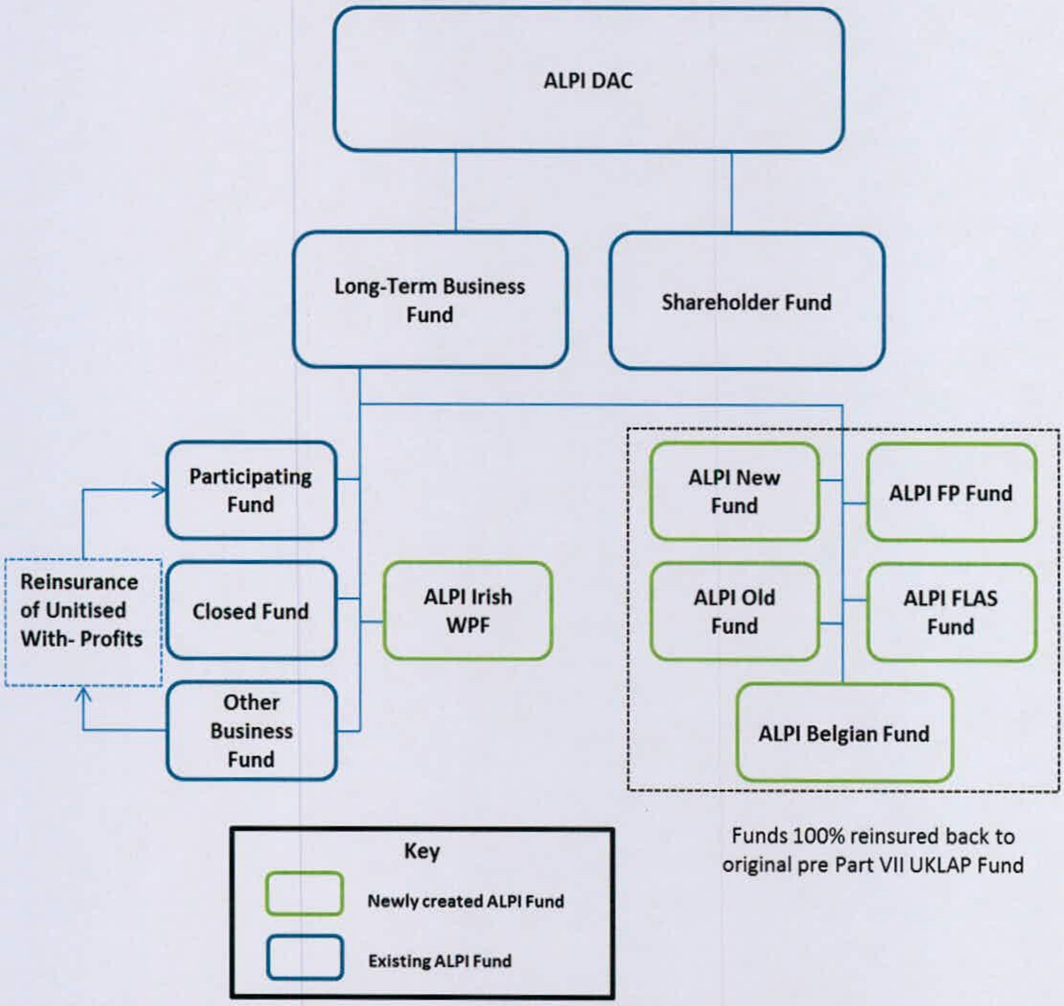
€m	**31 December 2017**
	ALPI DAC
Own Funds (A)	253
Solvency Capital Requirement (B)	160
Excess Capital (C=A-B)	92
Solvency Cover Ratio (D=A/B)	**158%**

5.6. Solvency Risk Appetite

5.6.1. ALPI DAC has a Solvency Risk Appetite ("SRA") which was introduced when it became part of the Aviva Group in May 2018, in line with Aviva standards. The SRA, together with consideration of the level of distributable reserves, is the primary mechanism used by ALPI DAC to determine the ability to release excess assets to the shareholder as a dividend, subject to Board approval. The capital requirements of the with-profits funds can be covered by the surplus in the with-profits funds and, to the extent necessary, the shareholder funds.

6. The Proposed Transfer

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



6.2. Proposed structure of transfer

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

6.2.2. The Scheme proposes to transfer non-profit 'Irish' policies in the existing non-profit sub-fund of UKLAP into the non-profit sub-fund of ALPI DAC ("Other Business Fund"). Any subsequent new Irish non-profit business that would previously have been written in UKLAP will be written into this fund from the point of transfer.

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

6.2.4. The Scheme proposes to transfer 'Other non-UK EEA' policies in the UKLAP NPSF to the Other Business Fund of ALPI DAC, but immediately reinsure this business back into the UKLAP NPSF.

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

6.2.6.The UKLAP Belgian Sub-Fund will be transferred into a fifth new fund in ALPI DAC (ALPI Belgian Fund) and reinsured back into the UKLAP NPSF. The existing 100% quota share reinsurance, outsourcing and loan arrangements with NN Insurance Belgium will remain in place.

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

6.2.8.The Scheme includes a provision that UKLAP will make a capital contribution to ALPI DAC such that the solvency cover ratio of ALPI DAC immediately after the transfer is 150%, level with its Solvency Risk Appetite requirement, and thereafter managed in line with its Solvency Risk Appetite (see section 6.7). This capital contribution will be estimated at the point of transfer, with a formal true-up within 12 months based on year end 2018 results.

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

6.2.10.Following the Scheme UKLAP will continue to be responsible for certain activities relating to the management of the business transferred into ALPI DAC and then fully reinsured back to UKLAP. These activities include premium collection, claims payment, investment management, complaints governance and oversight. The terms governing UKLAP's responsibility for these activities are set out in a Side Letter to the reinsurance agreement between UKLAP and ALPI DAC.

6.2.11.In the light of the number of activities performed on behalf of ALPI DAC, by UKLAP, consideration has been given to whether ALPI DAC should seek authorisation in the UK as a third country branch after Brexit. After taking advice from external legal counsel, UKLAP and ALPI DAC do not believe that there is a legal requirement for ALPI DAC to seek authorisation as third country branch in the UK.

6.3. Proposed UKLAP fund structure post transfer

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

6.4. Reinsurance arrangements

6.4.1.If the Scheme proceeds, any external reinsurance arrangements which UKLAP has entered into, which relate solely to in scope Irish business will continue to apply and will be transferred to ALPI DAC on the Effective Time. There will be no changes to the terms of these agreements as a result of the Scheme.

6.4.2.There is one external reinsurance arrangement that covers both 'Irish' policies and UK policies within a single treaty. UKLAP will enter into a supplemental agreement between ALPI DAC and the reinsurer, whereby the reinsurer agrees to continue to reinsure the relevant Irish policies, on UK rates, but directly with ALPI DAC.

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

6.4.4.There is one external reinsurance arrangement that covers waiver of premium benefits on German pensions. Again, UKLAP will arrange for a treaty variation, whereby the reinsurer will agree to reinsure this 'Other non-UK EEA' business indirectly through UKLAP following the reinsurance of this business back into UKLAP.

6.4.5.There are two external reinsurance arrangements covering together, all contracts of life assurance entered into by UKLAP's Belgian branch. The method of dealing with these treaties will be to arrange for their variation, whereby NN Insurance Belgium will agree to reinsure the business indirectly through UKLAP following the reinsurance of this business back into UKLAP.

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

6.4.7.This intra group reinsurance will include a floating charge against UKLAP's assets to ensure that ALPI DAC's claims against UKLAP rank equally with the claims of UKLAP's unsecured direct policyholder should UKLAP become insolvent. The details of this arrangement are described in section 7.10.

6.5. Sunset clauses

6.5.1.Sunset Clauses define the trigger point after which the UK Life Board <u>can</u> convert the with-profits policies to non-profit policies and a trigger point when the Board <u>must</u> convert the with-profits policies to non-profit policies.

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

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

6.5.4.The ALPI DAC Board will assume responsibility for deciding whether to take action when the can convert trigger is met, after receiving advice from the HoAF and the With Profits Committee ("WPC") and having notified and received no objections from the CBI. The can convert trigger is unchanged in the Scheme.

6.5.5. I am satisfied that this change will not materially reduce policyholder protections.

6.6. With-profits fund merger provisions

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

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

6.6.3.Given the protections offered by the Scheme at the point of any merger proposal, I am satisfied that policyholder protections are not materially adversely affected.

6.7. Solvency Risk Appetite

6.7.1.The ALPI DAC SRA is defined as holding a capital buffer above the Solvency II Pillar 1 capital requirements such that after a 1 in 5 year adverse event, including allowance for risks not adequately covered by the Standard Formula, there is still sufficient capital left to at least cover 100% of the Solvency Capital Requirement. The SRA was set to 150% on receipt of a successful Change of Control Application and this level is unchanged by the Scheme.

6.7.2. The Scheme introduces additional protection for future changes, specifying that any material weakening to ALPI DAC's SRA requires approval by the ALPI DAC Board after it has taken appropriate actuarial advice and consulted the HoAF and the WPC. The CBI must also be informed.

6.7.3.The definition of material weakening allows the ALPI DAC Board to reduce the SRA by 5% without triggering these Scheme requirements. I have therefore considered an SRA level of 145% (150% less 5%) when assessing the security of transferring policyholders.

6.7.4.Should solvency coverage fall below 150%, no dividends are payable and plans must be presented to senior management outlining how the company can increase the solvency coverage to meet the SRA. These actions could include an injection of shareholder capital from UKLAP.

6.8. Support Accounts

6.8.1.There are no proposed support accounts to be set up within ALPI DAC for any of the with-profits sub-funds. The business reinsured back into UKLAP will continue to benefit from any support accounts in place for the respective UKLAP with-profits funds that they participate in.

6.9. With-profits Policyholder Protections

6.9.1.The Scheme outlines the requirement to maintain a set of with-profits principles and practices for the ALPI Irish WPF, which will be based at outset on the existing UKLAP Irish WPSF Principles and Practices of Financial Management ("PPFM"), which is covered in section 10.4.2.

6.9.2.The Scheme, PPFM and WPC Terms of Reference outline the role of the WPC in relation to the ALPI Irish WPF in a number of areas involving policyholder protection. For example, it includes the requirements of the Board to consult the WPC should any changes be proposed to the Solvency Risk Appetite, the expenses to be charged to the ALPI Irish WPF, or the PPFM itself.

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

6.10. Other Schemes

6.10.1.The Irish 2014 Scheme was approved under Irish law, with the effect that the Aviva Life & Pensions Ireland business was transferred into UKLAP in 2015. Any necessary provisions from the Irish 2014 Scheme have been included within the Scheme.

6.10.2.The Friends First Schemes are unchanged by the introduction of the Scheme and remain in force, with no restrictive clauses that conflict with the intentions of the new Scheme.

7. Effect of proposed changes on security of policyholder benefits

7.1. Introduction

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

7.1.2. The Scheme results in the creation of six new sub-funds in ALPI DAC as outlined in section 6.1. The only change to the UKLAP fund structure is the removal of the UKLAP Irish WPSF.

7.1.3. The remaining UKLAP WPSFs will continue to be maintained as separate funds following the Scheme and will be managed within their agreed risk appetite frameworks.

7.2. Risk Profile

7.2.1. I have reviewed the risk profile of UKLAP before the transfer and compared this to the risk profile of UKLAP and ALPI DAC after the transfer.

7.2.2. The Solvency Capital Requirements for UKLAP and ALPI DAC are produced using different calculation approaches (Internal Model and Standard Formula respectively). This, and the significantly different sizes of the companies, makes direct comparisons of risk profiles difficult.

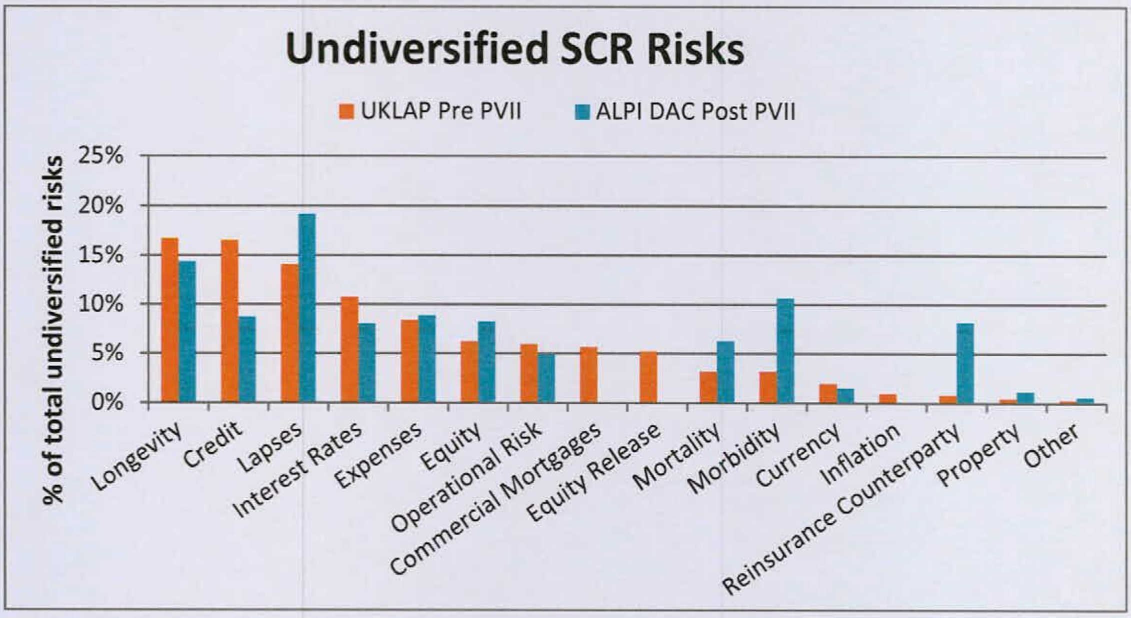
7.2.3. Taking this into account, the approach taken in assessing the impact on the security of policyholders of this Part VII is as follows:

- Consider the relative change (as a proportion of total risk) in risk profiles for transferring policyholders by comparing the risk profiles of UKLAP pre transfer and ALPI DAC post transfer;
- Consider the change in risk profile for non transferred policyholders by comparing the risk profile of UKLAP before and after the transfer;
- Consider the SII coverage levels for UKLAP and ALPI DAC, before and after the transfer; and
- Compare the Solvency Risk Appetites for UKLAP and ALPI DAC.

7.3. UKLAP vs. ALPI DAC Risk Profiles

7.3.1. As outlined above, UKLAP is a much larger entity than ALPI DAC and the companies use different methods for determining their capital requirements under Solvency II. To examine the impact of the Scheme I have compared the undiversified solvency capital requirements by risk type, as a proportion of the total.

7.3.2.Undiversified Capital Requirements as at 31 December 2017.



7.3.3.The two entities have broadly consistent risk profiles, but there are differences which are explored in more detail below. The discussion relates only to the non-profits funds as none of the with-profits funds currently require any additional capital support from the shareholder fund and therefore do not contribute to the shareholder risk profile.

7.3.4.The annuity business generates exposure to increases in life expectancy; 'longevity risk'. The proportionate exposure is lower in the post part VII position because there is minimal exposure to annuities within the current ALPI DAC non-profit fund.

7.3.5.Lapse risk is a material exposure in both companies. In ALPI DAC, the major component of this risk is an exposure to a large number of policyholders lapsing their policies over a one year period, a 'mass lapse' event. For UKLAP, the risk is spread across a combination of a mass lapse event and an increase in the number of expected lapses in each future year.

7.3.6.To support policyholder payouts for annuity contracts, insurers invest in assets that provide a fixed stream of income to meet these payments as they fall due. In UKLAP this includes assets such as government bonds, corporate bonds, commercial mortgages and equity release mortgages (ALPI DAC has no exposure to equity release mortgages). UKLAP has lent money to companies or individuals, in return for regular repayments and a final repayment at maturity. The risk for the insurer is that the money is not repaid; 'credit risk'.

7.3.7.'Credit' risk capital requirements are more significant for UKLAP than for ALPI DAC. The main driver of this arises because, unlike the Internal Model, the Standard Formula treats investments in government bonds as being risk free and requires the company to hold no capital against this risk. Therefore despite ALPI DAC, both through existing assets and transferring assets, having a large proportion of investments in government bonds, the capital requirements for credit are much lower.

7.3.8.Morbidity is more significant for ALPI DAC than for UKLAP, because a significant proportion of the existing ALPI DAC business is healthcare business. While the exposure to this risk increases for transferring policies, it is a well understood risk for insurers, does not dominate the risk profile, and provides some additional diversification benefit for transferring policyholders.

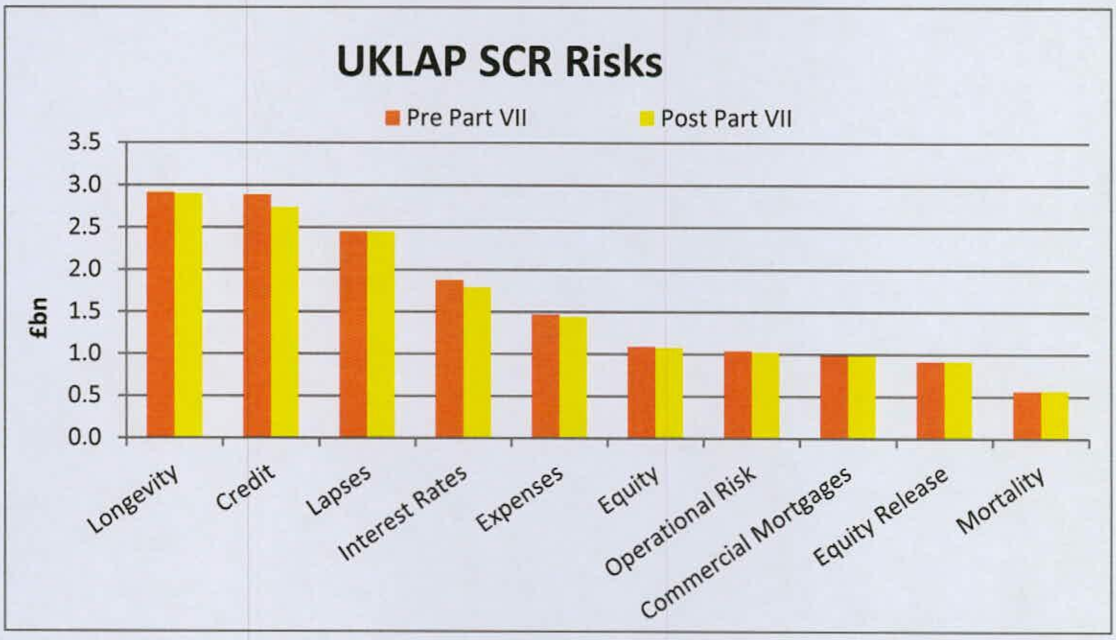
7.3.9.Reinsurance counterparty risk relates to the risk that the reinsurers fail to make payments to the insurer as they fall due. The relatively large proportionate exposure in ALPI DAC is mainly driven by the intra group reinsurance back into UKLAP. The floating charge gives appropriate protection against the risk of UKLAP insolvency, but can not be used to reduce capital requirements.

7.3.10.While the Scheme transfer does change the risk profile for policies transferring to ALPI DAC from UKLAP, I am satisfied that these changes are not inappropriate or excessive.

7.4.UKLAP Risk Profile

7.4.1.There is limited change to the risk profile of UKLAP following the implementation of the Scheme. This is largely because the business transferred is a small proportion of the overall UKLAP company, the reinsurance of the 'Other non-UK EEA' business and because UKLAP retains indirect exposure to the underlying risks in ALPI DAC given ALPI DAC is a wholly owned subsidiary.

7.4.2.UKLAP Internal Model SCR Components as at 31 December 2017.



7.4.3.The only changes observed within the capital requirements reflect the fact that the risks within the UKLAP Irish NPSF are calculated on an Internal Model basis before the transfer and on a Standard Formula basis after the transfer and that the transferring Irish business is treated as an equity participation after the transfer and aggregated within UKLAP before the transfer. These are methodology differences, not a change in the underling risk exposures.

7.4.4.I am satisfied that there are no underlying changes to the UKLAP risk profile.

7.5. Solvency II Capital Position (ALPI DAC)

7.5.1. This section provides an analysis of the ALPI DAC Solvency II coverage before and after the transfer.

7.5.2. Solvency II financial positions (in € million) as at 31 December 2017.

ALPI DAC (€m)	Pre Transfer	Post Transfer
Own Funds	253	559
SCR	160	372
Surplus Capital	**92**	**186**
Solvency Cover Ratio	**158%**	**150%**[2]

7.5.3. The post transfer coverage ratio shows that the solvency position of ALPI DAC is well in excess of the regulatory capital requirements, and equal to the current Solvency Risk Appetite requirement.

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

7.5.5. I have also considered the solvency position of ALPI DAC post transfer in a range of scenarios, including some relatively extreme scenarios, and I am satisfied that the Scheme does not adversely affect the security of different groups of policyholders.

7.6. Solvency II Capital Position (UKLAP)

7.6.1. Solvency II financial positions (in £ million) as at 31 December 2017.

UKLAP (£m)	**Pre Transfer**			**Post Transfer**		
	UKLAP (excl ALPI DAC)	ALPI DAC	UKLAP (incl ALPI DAC)	UKLAP (excl ALPI DAC)	ALPI DAC	UKLAP (incl ALPI DAC)
Own Funds	13,930	224[3]	14,154	13,589	496	14,084
SCR	9,219	142	9,321	8,985	330	9,206
Surplus Capital	**4,711**	**82**	**4,833**	**4,603**	**165**	**4,878**
Solvency Cover Ratio	**151%**	**158%**	**152%**	**151%**	**150%**	**153%**

7.6.2. ALPI DAC is consolidated into UKLAP, both pre and post transfer, using a Standard Formula participation approach. This treats ALPI DAC as an equity holding of UKLAP (based on ALPI DAC Own Funds) and applies the Standard Formula equity stress of c49%. This treatment is more beneficial for UKLAP than holding the business directly under the Internal Model, driving the reduction in UKLAP consolidated SCR.

7.6.3. The fall in UKLAP consolidated own funds is driven by the switch from an Internal Model to Standard Formula basis for the transferred business, including the loss of diversification

[2] The SRA allows a weakening of 5%, to 145% from its current level, which would allow ALPI DAC to distribute excess capital as dividends. I have therefore considered whether 145% would still provide adequate protection when drawing conclusions within the report.
[3] Note that these figures are presented in Sterling and in table 7.5.2 in Euros.

benefits within the risk margin and a second order impact on the ring fenced fund restrictions from the corresponding fall in the SCR

7.6.4.The net solvency position of UKLAP is therefore materially unchanged, with a small increase in coverage. It remains well in excess of the regulatory capital requirements. Additionally, it remains significantly above UKLAP's Solvency Risk Appetite.

7.7. Solvency II Capital Position (UKLAP With-Profits Funds)

7.7.1. In effect, no assets or liabilities are being transferred into, or out of, the existing UKLAP WPSFs, once the UKLAP reinsurance arrangement described in section 6.4 is taken into consideration. The capital position of each of the UKLAP with-profits funds is therefore unchanged by the transfer. The exception to this is the UKLAP Irish WPSF where the liabilities and assets are being transferred in full to the ALPI Irish WPF. While the Solvency II solvency position of this fund changes as a result of switching to a Standard Formula basis and the loss of the Volatility Adjustment (see section 7.9), it continues to be managed on an economic basis, which is unaffected.

7.8. Solvency Risk Appetite (SRA)

7.8.1. The sections above outlined the Solvency II SCR coverage levels in respect of the companies. Provided the coverage levels are at or above the respective SRAs, the key aspect in assessing policyholder protections is the strength of the SRAs of the two companies.

7.8.2.The UKLAP SRA methodology and the SRA required level are both unchanged by the transfer.

7.8.3.The ALPI DAC SRA was considered in detail in section 6.7 and is sufficiently strong to provide ongoing protection for policyholders.

7.8.4.In addition, the Irish WPF will continue to be managed under a Risk Appetite Framework that sets out a Preferred Management Approach for the fund together with a Preferred Range of Surplus. This framework ensures appropriate management of the fund's capital, including the circumstances in which discretionary distributions may be made from the estate consistent with the fair treatment of policyholders. The Risk Appetite Framework is separate from the Solvency Risk Appetite, which applies to the company as a whole.

7.8.5.This framework will be adopted and maintained by ALPI DAC, and is set out in the PPFM and subject to the change provisions of the PPFM.

7.8.6.I am satisfied that the ALPI DAC SRA, having taken into account the ability to reduce this by a further 5%, provides sufficient protection for the transferring policyholders and the level of protection provided, both by the level of capital and the governance regarding changes to the SRA, is no weaker than that provided in UKLAP.

7.8.7.I am satisfied that the transfer will not have an adverse effect on the security of the benefits for the transferring policyholders or those remaining in UKLAP.

7.9. Volatility Adjustment ("VA") Under Solvency II

7.9.1.Insurers discount the value of all future liability cashflows to provide the best estimate of the total value of all its future payments.

7.9.2.Insurers can apply to the regulator for a VA, which allows an addition to the discount rates used to value these liability cashflows.

7.9.3.Prior to the transfer, the Irish business to be transferred to ALPI DAC included a VA in accordance with the UKLAP VA approval under Solvency II legislation.

7.9.4.In advance of the transfer, a VA application for ALPI DAC to the CBI was being considered. This application has subsequently been deferred until 2019. The figures presented above were produced assuming the transferring business would be subject to a VA.

7.9.5.However, this assumption does not have a material impact on the financial results presented in this report and has no impact on the conclusions. By not having the VA on the transferred business, the adverse impact as at 31 December 2017 on the Solvency II coverage of ALPI DAC is low; a reduction in Solvency II surplus of c€6m or a reduction in coverage ratio of approximately 2%. Furthermore, this will be offset by a further capital injection from UKLAP SHF, given the Scheme provision that ensures that ALPI DAC is capitalised to a Solvency II coverage level of 150%.

7.9.6.The solvency position of ALPI DAC within this report was therefore not dependent on this approval and there are no adverse policyholder impacts from not gaining this approval.

7.10.UKLAP Reinsurance Arrangement

7.10.1.The reinsurance arrangement noted in section 6.4 will reinsure the transferring 'Other non-UK EEA' business back into the individual UKLAP sub-funds that the business currently resides in, so that, for example, the benefits of a policy currently written in NWPSF will effectively remain in this fund through the Scheme of transfer and attaching reinsurance.

7.10.2.The reinsured policyholders go from being direct policyholders of UKLAP to direct policyholders of ALPI DAC. In a UKLAP insolvency event, ALPI DAC would be an unsecured creditor of UKLAP and, without further action, rank below UKLAP's direct policyholders in settling this debt. To avoid this, the reinsurance treaty will include a form of floating charge, operating over all the assets of UKLAP.

7.10.3.With the charge, ALPI DAC will become a secured creditor and rank above the direct policyholders of UKLAP. Further provisions within the charge then limit ALPI DAC's recovery to the level that ALPI DAC would have been entitled to as a direct policyholder of UKLAP.

7.10.4.This ensures that in the event of UKLAP's insolvency, ALPI DAC has the same ranking as that of the direct policyholders of UKLAP, and that the transferring policyholders had before the Scheme.

7.10.5.I am satisfied this charge provides effective protection, aligning the rights of ALPI DAC and UKLAP's direct policyholders in the event of UKLAP's insolvency.

7.10.6.Either ALPI DAC or UKLAP may terminate the reinsurance if provisions within the reinsurance treaty are breached. In addition, ALPI DAC can decide that it no longer wishes to continue with the reinsurance agreement if the Board considers it is no longer necessary to protect the rights and benefit expectations of policyholders allocated to the reinsured sub-funds. The Scheme sets out the procedures that must be followed to ensure that the termination of the agreement does not adversely impact the Transferring Policyholders. This includes gaining prior approval from an independent actuary, notifying and receiving no objections from the CBI and consulting with the WPC where appropriate.

7.11.Financial Services Compensation Scheme (FSCS)

7.11.1.The FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long-term insurance policies, the FSCS will pay 100% of any eligible claim. There is no equivalent to the FSCS covering life insurance business in Ireland.

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

7.11.3.Although those transferring policyholders who currently have FSCS protection will lose it on transfer into Ireland, where there is no equivalent Scheme, the protections the Scheme offers in allowing the policies to continue to be serviced outweigh the loss of this FSCS protection; in other words the loss of FSCS is an unavoidable consequence of the transfer.

7.11.4.Even were there to be late changes to the terms of Brexit, the Scheme would be expected to proceed. In this scenario it could be argued that [some of] the transferring policyholders may experience an unnecessary detriment as they would lose FSCS protection. However, I do not consider this to be a material loss given that the policyholders remain subject to the Solvency II capital regime and that policies are with an insurer with a strong and robust Solvency Risk Appetite and a strong solvency position.

7.12.Financial Ombudsman Service (FOS)

7.12.1. FOS is an independent body in the UK set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves.

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

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

7.12.4.With the exception of the Swedish and Icelandic policyholders, all other non-UK EEA policies will continue to have access to the same Ombudsmen before and after the transfer.

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

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

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

7.13.Consequences of UKLAP insolvency

7.13.1.As outlined in section 2.1.2, the purpose of my report is to consider the effects of the Scheme on the policyholders of UKLAP, either remaining or transferring. The following section focuses on those UKLAP policyholders transferring under the Scheme and does not consider existing ALPI DAC policyholders.

7.13.2.The probability of a UKLAP insolvency event is extremely remote as the company is currently an A rated insurer, subject to Solvency II requirements, a robust risk management framework and has significant excess capital over regulatory requirements.

7.13.3.In relation to the reinsurance outlined above, ALPI DAC may crystallise the floating charge under given conditions such as an administrator or a liquidator being appointed in relation to UKLAP, and ALPI DAC reasonably considering there to be a serious imminent risk that such a person may distribute a dividend to creditors of UKLAP. Crystallisation is limited in this way and occurs at a late stage in the process to ensure remaining UKLAP policyholders are treated fairly, relative to those policyholders reinsured in from ALPI DAC.

7.13.4.Given that the likelihood of UKLAP's insolvency is remote, I would also expect that the assets received by ALPI DAC in the event of such insolvency would be close in value to the value of the underlying policyholder liabilities. I am satisfied that, given the SRA in place, ALPI DAC could in any case absorb a reasonable loss on the insolvency before the transferring policyholders are put at risk.

7.13.5.In addition, ALPI DAC is on a Standard Formula basis and, therefore, is required to hold a prudent level of capital against the risk of UKLAP defaulting.

7.13.6.Under an insolvency event there is a further risk to ALPI DAC in respect of liquidity, based on the time taken for the assets to be recovered, with the risk being that ALPI DAC would be unable to meet contractual payouts to the policies transferring under the Scheme. ALPI DAC will develop a Liquidity Risk Appetite framework in line with Aviva Group guidance. Due consideration will be given to the impact that a UKLAP insolvency would have on the liquidity requirements of ALPI DAC, where this event would trigger a termination of the reinsurance arrangement. As the likelihood of UKLAP becoming insolvent, now or in the future, is a remote event it is not expected to currently have a material impact on the ALPI DAC liquidity requirements. If the solvency of UKLAP deteriorates then these changed circumstances would be captured as part of the annual review of ALPI DAC's liquidity risk appetite or in an ad hoc review in the event of a sudden and major deterioration in UKLAP's solvency.

7.13.7.UKLAP's solvency II coverage ratio will be reviewed on a quarterly basis by ALPI DAC, and under the Aviva Credit Risk Limit framework and the Credit Risk Business Standard ALPI DAC will perform monthly monitoring of all counterparties, including UKLAP. This will identify movements in the exposures and credit rating downgrades. The exposure to UKLAP and any required management actions, including additional monitoring, will also be considered within the annual Own Risk and Solvency Assessment ("ORSA") updates.

7.14.Conclusions

7.14.1.Overall, I am satisfied that the Scheme does not have a material adverse affect on the security of the existing UKLAP policyholders, whether transferring to ALPI DAC or remaining in UKLAP.

7.14.2.The solvency coverage ratio in UKLAP after the transfer is substantially the same as before the transfer and more importantly the Solvency Risk Appetite approach and level remains unchanged.

7.14.3.The Solvency coverage ratio of ALPI DAC after the transfer will be 150%, significantly above regulatory requirements and equal to the SRA requirement. The determination of the SRA for ALPI DAC follows the same underlying approach as UKLAP and does not give rise to a weakening of security for transferring policyholders.

7.14.4.The with-profits policyholders transferring to the Irish WPF have further safeguards through the Risk Appetite Framework that applies to the with-profits sub-fund, which is unchanged by the transfer. The impact of the transfer will be no effective change in the benefit security for the transferring policyholders.

7.14.5.The reinsurance arrangement for 'Other non-UK EEA' policyholders ensures they retain the security of UKLAP and UK regulations and remain subject to WPC oversight and to COBS requirements. The floating charge arrangement ensures that ALPI DAC has the same ranking that the policyholders had prior to the Scheme (i.e. that of a direct policyholder of UKLAP). ALPI DAC receives equivalent compensation to that which the policyholders themselves would have received had they remained as direct policyholders of UKLAP.

7.14.6.I do not consider the loss of FSCS protection to be a material weakening of the transferring policyholders' terms.

7.14.7.Only a small number of policyholders will see a change in the Ombudsmen with whom they have the right to pursue a complaint with. Even for these policies, given the comparative strength of the FOS and FSPO regimes, this is not considered a material weakening of their protection.

8. Effect of proposed changes on rights and expectations of remaining UKLAP policyholders

8.1. Rights and expectations

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

8.2. Summary

8.2.1.There are no changes to the rights and expectations of these policyholders. In particular, there are no changes to any of the following areas of management for those policyholders remaining within UKLAP:

- Ongoing administration and governance;
- Investment management;
- Bonus Policy;
- Management of the With-Profits Funds (No changes to published PPFMs);
- Policyholder taxation; or
- New Business Policy.

8.2.2.I conclude that the proposed Scheme has no impact on the fair treatment and benefit expectations of the remaining policyholders of UKLAP.

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

9. Effect of proposed changes on benefit expectations and arrangements for the management of the business transferred from UKLAP to ALPI DAC but reinsured back to UKLAP in full

9.1. Rights and Expectations

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

9.2. Ongoing administration

9.2.1. This business is currently administered on behalf of UKLAP, either internally or through external outsourcing contracts. The policy administration services for this business will continue to be performed by UKLAP, with the reinsurance treaty incorporating a legally binding side letter which describes the management and administrative services that UKLAP is required to perform in respect of the reinsured policies. The purpose of this is to ensure that reinsured policies are administered in the same way as they were before the Scheme.

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

9.3. Investment Management

9.3.1. Under the Scheme, ALPI DAC will reinsure 100% of this business back to UKLAP and the only asset held by ALPI DAC in respect of this business will be the reinsurance asset. The assets backing this business within UKLAP will continue to be covered by existing arrangements.

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

9.3.3. The unit-linked policies will continue to be invested in the same funds after the transfer.

9.4. ALPI DAC Sub-Funds Classification

9.4.1. The substance of the with-profits policies within this category will be unchanged due to the direct link back to the UKLAP with-profits funds and they will remain with-profits policyholders. However, the funds they sit within ALPI DAC will be classified as non-profit funds, but with a fund link into the UK with-profits funds.

9.4.2. This means that any payments including claims, bonuses and estate distributions declared by UKLAP will directly flow through ALPI DAC to the policyholders, with no additional discretion introduced within ALPI DAC.

9.5. Communications to Policyholders

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

9.6. Other/Governance

9.6.1. The unit-linked policies will continue to be invested in the same funds after the transfer.

9.6.2. Unit-linked business will be subject to continued oversight of the UKLAP Unit Pricing Group, with the newly established ALPI DAC Unit Pricing Group (See section 10.5.10) reviewing the outcomes of these meetings, and having the ability to raise challenges.

9.6.3. The with-profits business reinsured back into the UK funds will continue to be subject to the same PPFM as before the transfer and to have oversight from the With Profits Committee.

9.7. Summary

9.7.1. The structure of the reinsurance is such that policyholders are reinsured back into the UKLAP sub-funds that they currently reside in. In addition, the reinsurance includes the ongoing administration of the policies. The Scheme ensures the reinsurance is affected at the same time as the Scheme Effective Time.

9.7.2. Due to this arrangement, the policies will continue to be subject to the same governance, administration, expenses, investment management, bonus policy and regulatory environment to that which they are currently exposed to in UKLAP.

9.7.3. The benefits received by with-profits policyholders will be unchanged as the funds within ALPI DAC will be set up as non-profit funds that are explicitly linked to the underlying UKLAP with-profits fund that they currently reside in.

9.8. Conclusion

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

10. Effect of proposed changes on benefit expectations and arrangements for the management of the business transferred from UKLAP to ALPI DAC excluding business reinsured back to UKLAP in full

10.1.Introduction

10.1.1.In this section I consider the benefit expectations and adequacy of the arrangements that are to be put in place for the management of the business to be transferred from UKLAP to ALPI DAC under the Scheme, that are not subject to the internal reinsurance arrangement back to UKLAP.

10.2.ALPI DAC Structure

10.2.1.It is proposed that all of the transferred non-profit policies within the UKLAP Irish NPSF in UKLAP will be allocated to the Other Business Fund in ALPI DAC, along with all the assets currently held within this fund in UKLAP.

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

10.3.Administration Arrangements

10.3.1.The servicing arrangements for the transferring policies are based on integration principles of treating customers fairly and using the "best of both" approach across people, systems and processes to reach the "end state" integrated business.

10.3.2.Following the Transfer, the Irish with-profits business, which was previously administered by Aviva Life Services Ireland Limited ("ALSIL"), will be administered by ALPI DAC. The administration teams, processes and systems of ALPI DAC and ALSIL will be brought together using a Best of Both approach ("Best of Both" is an approach whereby the overall customer experience from the ALSIL and ALPI DAC processes are compared and the best chosen, which will define the strategy for people, systems and processes.) ALPI DAC has set out its integration principles to ensure that there will generally be no adverse impact on the services provided to policyholders. ALPI DAC will maintain a continued focus on its policyholders, providing clear information and quality of service. The impact on policyholders will be a key consideration in any decisions made about the integration of processes.

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

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

10.3.5.UKLAP is party to an Investment Fund Management Agreement (IMA) with Aviva Investors Global Services Ltd ("AIGSL"). This arrangement currently covers the Irish policies. ALPI DAC is establishing a standalone IMA with AIGSL, but it is not proposing to change any investment guidelines or fees and therefore there is no change expected for policyholders.

10.3.6.There will be no changes to the investment strategies of any of the transferred funds as a result of the transfer.

10.4.ALPI Irish WPF Key Commitments

10.4.1.As the UKLAP Irish WPSF is currently under UK regulations, much of its management was defined by reference to the UK FCA's Conduct of Business Sourcebook (COBS 20). There are two key items that cover the majority of these rules; the requirement to have a PPFM and the requirement to have a With Profits Committee.

10.4.2.The PPFM of the UKLAP Irish WPSF will be retained for the ALPI Irish WPF. Given this is not a requirement under Irish regulations, future changes to this document are subject to an explicit clause within the Scheme requiring the Board to make changes only after having consulted the WPC; this provides reassurance that the protections offered by the PPFM will be maintained over time.

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

10.4.4.The Irish regulations do not include a regulated role specifically equivalent to the UK With Profits Actuary role, which has a statutory responsibility to provide advice to the Board on the application of discretion to with-profits policies.

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

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

10.4.7.While the main areas of COBS 20 are adequately covered by the commitments to maintain a PPFM and WPC, a further review of these regulations has been performed. Where a COBS rule was not adequately covered by existing PPFM or Scheme commitments, and the regulation was deemed to provide policyholder protection, these have been added to the ALPI Irish WPF PPFM.

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

10.4.9.There is currently a Management Services Agreement ("MSA") in place between UKLAP and the UKLAP Irish WPSF that specifies the per policy charges incurred by the UKLAP Irish WPSF. This charging structure is being replicated in ALPI DAC, through a Memorandum of Understanding, such that the level of charges remains the same and governance around future amendments to these charges is sufficient to provide ongoing protection to policyholders.

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

10.4.11. The adoption of the existing PPFM ensures there is no material change to the management of the with-profits fund, including the approach to the use of the estate in the ALPI Irish WPF. There are no material changes to the Principles by which the ALPI Irish WPF is managed, and future changes to these Principles are subject to a high degree of governance.

10.5. Unit-linked policyholders

10.5.1.No changes are being proposed to policy terms and conditions for the transferring UKLAP policyholders under the Scheme, except that benefits will be paid by ALPI DAC rather than UKLAP.

10.5.2.The returns on unit-linked policies depend on investment performance and the charges that are made for expenses and insurance risks.

10.5.3.Investment management services in respect of the transferring unit-linked funds of UKLAP will continue to be managed in accordance with the existing agreements, but new agreements will be put in place between ALPI DAC and the existing fund managers Aviva Investors Global Services Limited. These arrangements will be reviewed periodically as business needs evolve with the fair treatment of policyholders a key consideration in any review.

10.5.4.In many cases, expense charges under unit-linked policies are not guaranteed and may be varied in the future subject to conditions which are set out in the relevant terms and conditions. The Scheme does not alter this position.

10.5.5.For some policies, the company may increase or decrease charges for insurance risks to reflect emerging experience. The principles and practices under which such charges will be reviewed will not alter as a result of the Scheme. There is no reason to suppose that the Scheme will have any adverse effect on the factors which may lead to the charges being increased, namely the mortality and morbidity experience of the contracts concerned.

10.5.6.The transferring unit-linked policyholders will not lose access to any of the existing unit-linked funds under the transfer and will have an increased fund range from the existing ALPI DAC funds.

10.5.7.The unit-linked policyholders will be subject to Irish Consumer Protection Code ("CPC") regulations, whereas currently the unit-linked funds are subject to COBS 21 rules. While COBS 21 is more prescriptive than CPC, the rules are not considered to provide more protection except for those noted below.

10.5.8.The 'Irish' unit-linked funds are already subject to their own unit pricing policy, which will be maintained by ALPI DAC going forward. Where areas of COBS 21 were considered to provide stronger protection, such as in respect of stock lending and property fund gearing, the COBS rules have been explicitly included within this unit pricing policy.

10.5.9.The oversight of the unit-linked business will be performed by a newly established ALPI DAC Unit Pricing Group ("UPG").

10.5.10.The terms of reference for the ALPI DAC UPG will include the same responsibilities as the UKLAP UPG, but replacing references to UK specific regulations or guidelines with the Irish equivalent, and incorporating any other commitments being made as part of the Scheme e.g. to maintain COBS 21 protections for transferring policies. In order to ensure continuity of the management of the business going forward, it is proposed that existing members of the UKLAP UPG will attend the ALPI DAC UPG.

10.6.Conventional non-profit policyholders (excluding annuities)

10.6.1.The term 'conventional non-profit' is commonly applied to policies that do not participate in profits and are not index-linked or unit-linked policies. In general, the premiums and benefits under such policies are pre-defined.

10.6.2.No changes are being proposed to policy terms and conditions for the transferring UKLAP policyholders under the Scheme, so there will be no change to benefit expectations of conventional non-profit policyholders.

10.6.3.Under some policies, the company may review premiums to reflect its emerging and expected experience with regard to mortality, morbidity or expenses. The position is identical to that of unit-linked business covered above and there is no reason to suppose that the Scheme will make any increase or decrease more likely.

10.7.Annuity policyholders

10.7.1.No changes are being proposed to policy terms and conditions for transferring annuity policyholders of UKLAP under the Scheme, so there will be no change to their benefit expectations.

10.8.Tax considerations

10.8.1.The basis of charging tax to the ALPI Irish WPF, the other with-profits funds of UKLAP and the with-profits funds of ALPI DAC is that each is charged tax on the basis that it is a stand-alone company. It is not proposed that any changes are made to this approach as a result of the Scheme.

10.8.2.Following the transfer, additional VAT in Ireland at the rate of 23% will apply on certain services supplied to Ireland from overseas. Although we believe that it could be considered fair for UKLAP to reasonably recover some of the additional costs and VAT from transferring with-profits policies, the amounts are relatively small and we do not intend to do so at this time. Any future proposal to change this would be subject to appropriate governance at that time, including consultation with the WPC and the HoAF.

10.8.3.Whilst the provider of the transferring policies is changing from a UK company to an Irish company, no significant tax impacts are expected on UK or overseas policyholders as there is no change in the terms and conditions of the policies involved.

10.8.4.The Scheme will affect the way in which investment returns on the 'Irish' policies are taxed, with Irish double tax treaties applying on overseas investments for these policyholders, which differs to the UK treatment. This results in a c5% uplift in the tax rate applied on investment returns on c5% of ALPI Irish WPF assets and on investment returns on 2% of non-profit assets. For the majority of policyholders this is a reversion to the tax position applying before the 2014 Scheme.

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

10.9.Communications to Policyholders

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

10.10.New Business

10.10.1.The transferring UKLAP Irish WPSF is closed to new business and this is unchanged by the Scheme.

10.10.2. New non-profit, unit-linked and annuity business, including vesting GAOs from the ALPI Irish WPF will be written in the Other Business Fund of ALPI DAC.

10.11.Conclusion

10.11.1.I conclude that the Scheme will have no material adverse impact on the expected benefits of the policyholders of UKLAP transferring to ALPI DAC and that the Scheme will have no impact on the fair treatment of such policyholders.

10.11.2.The effect of the Scheme on the UKLAP with-profits policyholders is also considered by the With Profits Actuary of UKLAP and his conclusion is set out in his report.

10.11.3.The effect of the Scheme on existing ALPI DAC policyholders has been considered by the Head of Actuarial Function of ALPI DAC and his conclusion is set out in his report.

11. Conclusions

11.1.Summary

It is my view that:

11.1.1.The Scheme does not result in any changes to the benefit expectations of policyholders, either with-profits, non-profit or unit-linked. Policy terms, conditions and charges are unchanged by the Scheme. The circumstances under which policyholder benefits would be adversely affected are not materially changed by the Scheme.

11.1.2.The security of benefits for policyholders is not materially adversely affected by the Scheme as the surplus capital in both UKLAP and ALPI DAC remains in excess, or at, their respective internal Solvency Risk Appetites after the transfer. In addition, going forward the governance process around future changes to the Solvency Risk Appetites is sufficiently robust to protect policyholders.

11.1.3.Whilst the risks to which policyholders are exposed are changed by the Scheme, the changes in exposure to any individual risk are not inappropriate or excessive. In any event policyholders remain supported by an adequate level of capital.

11.1.4.There are no mergers of with-profits funds and all the with-profits funds remain separately maintained. The Scheme has put in place adequate protections for the policyholders transferring from the UK COBS regulatory regime, such that there is considered to be no material adverse impact for these policyholders. There are no changes to any principles or practices for the UKLAP WPSFs. There are no changes to any with-profits policyholders' benefit expectations.

11.1.5.Administration and management of policies and treatment of policyholders are not materially adversely impacted by the Scheme.

11.1.6.I therefore conclude that the Scheme does not result in a material adverse impact on the financial security of UKLAP policyholders, either those transferring to ALPI DAC or those remaining in UKLAP, or their expected benefits or on the fair treatment of these policyholders.

Appendix: Glossary of terms and abbreviations

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

2017 Scheme	In April 2015, Aviva plc acquired Friends Life Group, making Aviva plc the ultimate holding company of Friends Life Ltd and Friends Life & Pensions Ltd. On 1 October 2017, the long-term business of FLL, FLP and the annuity business of Aviva Investors Pensions Ltd ("AIPL") was transferred to UKLAP.
Best estimate liabilities (BEL)	The expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the life time of the contracts and taking into account all up-to-date financial market and actuarial information
Board	The board of directors of the relevant company from time to time.
CBI	Central Bank of Ireland, the regulator of the financial services industry in Ireland.
CFA	Chief Finance Actuary. The Chief Finance Actuary provides advice to the management and Board of Aviva UK Life on the financial management of its business, and in particular the management of its solvency position.
COBS	Conduct of Business Sourcebook gives rules and principles that regulated financial services companies must follow in the UK.
CWP	Conventional' with-profits ('CWP') policies typically provide a guaranteed amount of money on a set date or dates ('the contractual date(s)') and/or on death, provided that all the premiums are paid when due. The annual bonuses added from time to time increase the value of the initial guarantee set out in the policy. A terminal bonus may be added on the contractual date.
Effective Time	The Effective Time, 22:59 (GMT) on 29 March 2019, is the time and date on which, subject to the consent of the Court, the Scheme will take effect.
Estate	The excess of the assets of a with-profits fund over its liabilities.
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firms, including the fairness of treatment of customers.
FLAS WPF	FLAS With-Profits Sub-Fund, a sub-fund of UKLAP
FLC NWPSF	FLC New With-Profits Sub-Fund, a sub-fund of UKLAP.
FLC OWPSF	FLC Old With-Profits Sub-Fund, a sub-fund of UKLAP.
FoE	Freedom of Establishment is the right of an insurer located in one European Economic Area member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state.
FoS	Freedom of Services is the right to provide business services on a cross-border basis within the EEA. For insurance contracts, this means that the contract can

	be underwritten in an EEA member state that is different from the member state where the risk is located.
FOS	Financial Ombudsman Service is an independent body set up in the UK to deal with individual complaints that consumers and financial businesses are not able to resolve themselves.
FPLAL WPSF	FPLAL With-Profits Sub-Fund, a sub-fund of UKLAP.
FSCS	Financial Services Compensation Scheme. FSCS is a statutory "fund of last resort" which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA.
FSPO	Financial Services and Pensions Ombudsman of Ireland.
GAOs	Guaranteed Annuity Options provide a guaranteed for the conversion of cash lump sums into a life-time annuity.
HoAF	The Head of Actuarial Function role is defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015.
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA
Internal Model	The Internal model is the approved model for determining the Solvency Capital Requirement that a firm is required to hold under Solvency II Pillar 1.
Irish 2014 Scheme	The Irish 2014 Scheme was a scheme of transfer sanctioned by the Irish High Court on 2 December 2014 to transfer business to UKLAP from Aviva Life & Pensions Ireland Limited. This became effective on 1 January 2015,
Irish NPSF	Irish Non-Profit Sub-Fund, a sub-fund of UKLAP
NMLAIL	NM Life Assurance Ireland Limited
NPSF	Non-Profit Sub-Fund
NWPSF	New With-Profits Sub-Fund, a sub-fund of UKLAP
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile.
OWPSF	Old With-Profits Sub-Fund, a sub-fund of UKLAP
PMSF	Provident Mutual Sub-Fund, a sub-fund of UKLAP
PPFM	The Principles and Practices of Financial Management (PPFM) explains the nature and extent of discretion available in the management of with-profits funds and how this discretion will be applied across different groups and generations of with-profits policyholders.

PRA	Prudential Regulation Authority, the regulator of the financial services industry in the UK responsible for the safety and soundness of firms and securing an appropriate degree of protection for policyholders
Reattribution Scheme	The Scheme of transfer in 2009 that transferred the business of CGNU Life, Commercial Union Life Assurance Company and Norwich Union Life (RBS) Limited to UKLAP as described in section 4.1.6
RIEESA	Reattributed Inherited Estate External Support Account
Scheme	The insurance business transfer Scheme that is the subject of this Report.
SGF WPSF	Secure Growth Fund
Solvency Capital Requirement (SCR)	The capital an entity is required to hold under Solvency II Pillar 1.
Solvency Risk Appetite (SRA)	The Solvency Risk Appetite specifies the amount of capital required to be held in addition to regulatory requirements.
Standard Formula	The Standard Formula is a standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II.
Technical Actuarial Standards (TAS)	Technical Actuarial Standards, the principles created by Financial Reporting Council against which all Required or Reserved Actuarial work should be performed
Terms of Reference	The Terms of Reference of the With Profits Committee specify the responsibilities of the With Profits Committees. In addition, they describe how the Committee will interact with UKLAP and ALPI DAC and the industry's regulators.
UWP	Under a unitised with-profits policy ("UWP"), each premium paid buys a number of units. Annual bonus may be added either by increasing the price of the units held and/or by adding extra units to the policy. Units may be cashed in at any time and a terminal bonus may be added. However, if the units are cashed in at any time that is not one of the contractual dates, a deduction may be made from their value.
Volatility Adjustment (VA)	This is an adjustment to the risk-free interest rates used to discount insurance obligations, set in accordance with the Solvency II Directives on the basis of technical information published by EIOPA.
WL WPSF	WL With-Profits Sub-Fund, a sub-fund of UKLAP
WPA	With Profits Actuary. The With Profits Actuary function (SIMF21) is the function having responsibility for advising the Board on the exercise of discretion affecting the with-profits business of the company and whether the assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the Principles and Practices of Financial Management.

WPC	With Profits Committee. The With Profits Committee was established by UKLAP to provide independent oversight and challenge to ensure that fairness and with-profits policyholders' interest are appropriately considered in governance structures and decision making. The With Profits Committee also advises ALPI DAC after the Scheme.
WPSF	With-Profits Sub-Fund, a sub-fund of UKLAP.