IN THE HIGH COURT OF JUSTICE **No. CR-2018-007982**
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
COMPANIES COURT (ChD)

IN THE MATTER OF

AVIVA LIFE & PENSIONS UK LIMITED

and

IN THE MATTER OF

FRIENDS FIRST LIFE ASSURANCE COMPANY DAC

and

IN THE MATTER OF

THE FINANCIAL SERVICES AND MARKETS ACT 2000

EXHIBIT MAS7

This is the Exhibit marked "MAS7" referred to in the witness statement of Maeve Ann Sherry dated 5/10/ 2018.

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Maeve Ann Sherry, Chief Risk Officer, FFLAC

Report to the Directors of Friends First Life Assurance Company Designated Activity Company from the Head of Actuarial Function 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

Richard O'Sullivan FSAI

Head of Actuarial Function

10 September 2018

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1. Executive Summary

This report, made in my capacity as Head of Actuarial Function, is addressed to the Directors of Friends First Life Assurance company ("FFLAC") and concerns the proposed transfer of long term business from Aviva Life & Pensions UK Limited ("UKLAP") to FFLAC. FFLAC is to be rebranded Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC") on the Effective Date of the proposed transfer. However, throughout this report, I refer to the existing company, FFLAC, rather than to the end state company, ALPI DAC, as I believe that this approach will be intuitive for any existing FFLAC policyholders who may review this report. This approach differs to that taken in other reports, discussed below, which have adopted the naming convention of ALPI DAC throughout. This does not alter the meaning or substance of the reports.

The 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:

- Existing FFLAC policyholders; and
- UKLAP policyholders transferring to FFLAC under the Scheme.

I conclude that, after the implementation of the Scheme:

- The financial security of the existing policyholders of FFLAC will not be materially adversely affected by the transfer;
- The financial security of the policyholders of UKLAP transferring to FFLAC is not materially adversely impacted at the point of transfer and on an ongoing basis;
- The Scheme will have no material adverse impact on the expected benefits or the fair treatment of the policyholders already in FFLAC; and
- The proposed arrangements for the ongoing management of the transferring business to be transferred from UKLAP to FFLAC are expected to provide for the fair treatment of those policyholders following the implementation of the Scheme.

I have reviewed the Reports on the Scheme, prepared by the Chief Finance Actuary and the With-Profits Actuary for the Directors of UKLAP ("The CFA Report" & "The WPA Report"). The CFA Report considers how the Scheme impacts the financial security and fair treatment of the policyholders of UKLAP, both transferring to FFLAC and remaining in UKLAP, with the WPA Report focusing on with-profits policyholders.

I have relied on these reports to demonstrate that transferring policyholders are not materially adversely affected by the Scheme. For transferring policyholders, I have therefore focused on the security provided by FFLAC at the point of transfer and that on an ongoing basis FFLAC can appropriately manage this business in accordance with the Scheme.

In reaching the above conclusions, I have complied with ASP PA-2 of The Society of Actuaries in Ireland, which sets out general guidelines which should be followed by members providing actuarial services. In addition, I have considered the guidance set out in The Society of Actuaries in Ireland's Actuarial Standard of Practice LA-6. This sets out to advise an actuary invited to act as the Independent Actuary in a Section 13 transfer (which is the Irish Court's equivalent of a Part VII transfer) of the statutory and professional responsibilities such an appointment entails. Although not directly applicable, it has some relevance to this report. I have also sought to:

- Exercise my judgement in a reasoned and justifiable manner;
- Describe and assess the impact on all classes of policyholders;

- Indicate how the Scheme might lead to any changes in the material risks to the benefits of different classes of beneficiaries;
- Indicate the rationale for the proposal for the Scheme to proceed;
- Include (in summary) the most material information on which my opinion is based; and
- Describe the rationale for my opinion.

Richard O'Sullivan, FSAI

Date: 10 September 2018

2. Introduction

2.1. Purpose of the report

2.1.1.As the Head of Actuarial Function for FFLAC, I have been asked to comment on the proposals for the transfer of a subset of business currently written within UKLAP to FFLAC under the Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The proposals are set out in a Scheme of Transfer (the "Scheme"). If approved, the Scheme will come into effect on the "Effective Date", which is expected to be 29 March 2019.

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

- The effect of the Scheme's proposals on the financial security of existing FFLAC policyholders.
- The effect of the Scheme's proposals on the financial security of UKLAP policyholders transferring under the Scheme;
- The effect of the Scheme on the fair treatment of existing FFLAC policyholders, including their legal rights and expected benefits; and
- Whether the proposed arrangements for the ongoing management of the transferring business to be transferred from UKLAP to FFLAC are expected to provide for the fair treatment of those policyholders following the implementation of the Scheme.

2.1.3.The With-Profits Actuary of UKLAP has been informed of the Scheme and has prepared a separate report to the Board of UKLAP on the effect of the transfer on the with-profits business of UKLAP. The Chief Finance Actuary of UKLAP has also been informed of the Scheme and has prepared a separate report to the Board of UKLAP on the effect of the transfer on the existing policyholders of UKLAP and the UKLAP policyholders transferring into FFLAC under the Scheme.

2.1.4.I have relied on these reports to demonstrate that transferring policyholders are not materially adversely affected by the Scheme. In particular, I have considered their views on the effects of the Scheme on the transferring policyholders of UKLAP.

2.1.5.For transferring policyholders, I have focused on the security provided by FFLAC at the point of transfer and on an ongoing basis. I have also considered whether FFLAC can appropriately manage this business in accordance with the Scheme.

2.2.Guidance on its Usage

2.2.1.This report is written for the Board of FFLAC in my capacity as Head of Actuarial Function ("HoAF"), and should be read in conjunction with the Scheme, the UKLAP With-Profits Actuary's report, the UKLAP Chief Finance Actuary's report and the report by the Independent Expert.

2.2.2.For the purposes of this report, the in scope business transferring from UKLAP 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 ("INPSF") account and to policies held within the Irish With-Profits Sub-Fund ("Irish WPSF") of UKLAP. While these are not distinct legal entities, they are segregated accounts and therefore used as a reference throughout this document.

  The business within these funds includes business which 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. It also includes any new Irish business written by UKLAP since 1 January 2015

For the avoidance of doubt, while FFLAC has also written business in Ireland, references to "Irish policies" do not relate to FFLAC business.

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

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

2.3.Independent Expert

2.3.1 Mr T Roff of Grant Thornton UK LLP has been retained by the Board of UKLAP in the capacity of Independent Expert and has been approved as such by all the relevant regulatory bodies. I have read a draft of his report on the impact on policyholders of the proposed 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.

2.4.Independence

2.4.1.I am a Fellow of the Society of Actuaries in Ireland ("FSAI"), having qualified in 1988.

2.4.2.I am an employee of Friends First Life Assurance Company. I have no shares or share options in Friends First or Aviva plc. I hold a number of insurance policies issued by Friends First.

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 FFLAC, and is available for consideration by the Board of UKLAP.

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

2.5.3.The Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") 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 FFLAC during normal business hours following the publication of the notice of the transfer at:

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

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

2.6.Reliances

2.6.1.I have read the report prepared by Mr N. Rowley, the Chief Finance Actuary of UKLAP. I have considered his comments on the effect of the Scheme on the policyholders of UKLAP who are transferring to FFLAC. In particular, I have relied on his descriptions of the impact of the Scheme on the transferring policyholders, his conclusion that while the Scheme does change the risk profile for transferring policies, these changes are not inappropriate or excessive and that he is satisfied that the security of transferring policyholders is not adversely affected by this transfer. I have also relied on his conclusion that the Scheme does not materially adversely impact the benefit expectations and fair treatment of the policyholders.

2.6.2.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. I have relied on his descriptions of the impact of the Scheme on with-profits policyholders and his conclusion that the Scheme does not materially adversely impact the benefit expectations and fair treatment of the with-profits policyholders.

2.6.3.The UKLAP and FFLAC financial information are year end 2017 results. I have relied on these figures being complete and accurate.

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 FFLAC's financial position allowing for the proposed transfer. These have been subject to review internally, and by me in the course of writing this report. I have relied on the completeness and accuracy of these figures.

2.6.6.UKLAP has received legal and tax advice with respect to a number of issues. Where I have relied on this advice in reaching my conclusions, I have referred to this in the relevant sections of the report below.

2.6.7.This report is based on information made available to me up to 10 September 2018 and takes no account of developments after this date.

2.7.Compliance with Actuarial Standards

2.7.1.There are no Actuarial Standards of Practise ("ASP") issued by the Society of Actuaries in Ireland that directly deal with the preparation of this report.

2.7.2.However, ASP LA-6 "Transfer of long term business of an authorised insurance company – Role of the Independent Actuary" is of some relevance to this report. I have taken the recommended practice in ASP LA-6 into account in preparing this report.

2.7.3.I have also complied with ASP PA-2, "General Actuarial Practice", which sets out general guidelines which should be followed by members providing actuarial services.

2.7.4.In addition, under the Quality Assurance provisions of ASP PA-2, this report has been reviewed by Mr Kevin Manning FSAI of Milliman who has been engaged to perform an independent peer review. Updates to the report to reflect changes in the Scheme and related documents as a result of PRA and FCA feedback were also peer reviewed by Mr Kevin Manning.

2.7.5.The WPA, CFA and IE have confirmed that their reports are written in compliance with the Technical Actuarial Standards issued by the Financial Reporting Council.

2.7.6.Any work carried out in the preparation of this report is deemed not to be reserved work in the United Kingdom (unless otherwise stated). For this purpose, reserved work is defined as work that is required to be carried out by an actuary with a prescribed qualification from a Professional Body on behalf of an entity by virtue of United Kingdom legislation, regulation or some other legal obligation.

3. Background

3.1. Overview

3.1.1.Friends First Life Assurance Company is an Irish life assurance company. In November 2017, it was announced that FFLAC would be purchased by Aviva and the acquisition was approved on 23 May 2018. The company is to be rebranded as Aviva Life and Pensions Ireland Designated Activity Company on the Effective Date of the proposed transfer. It is an Irish standalone entity, with a UK parent, UKLAP. (See Section 4).

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

3.1.3.On 1 January 2015, Aviva Life and Pensions Ireland Limited transferred its assurance business to an Irish branch of UKLAP and was subsequently de-authorised. This transfer was under a Scheme of Transfer under Section 13 of the Assurance Companies Act 1909 and is referred to as the "Irish Scheme".

3.1.4. 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.

3.1.5.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).

3.1.6. Products meeting one of these criteria will be transferred to FFLAC under the Scheme. A list of in scope products is appended to the Scheme document. FFLAC is authorised to carry out Long-Term Insurance Business in Ireland, and will continue to have the right to carry on such business across the EEA on a Freedom of Services and Freedom of Establishment basis following Brexit.

3.1.7.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. UK citizens who move 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.

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

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

[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 authorization in each country.

3.1.10.The UKLAP Irish With-Profits Sub-Fund ("IWPSF" or "Irish WPSF") policyholders will transfer into a newly established sub fund of FFLAC, known as the ALPI Irish With-Profits Fund ("IWPF").

3.1.11.Irish policies currently held in the UKLAP NPSF will transfer into the Other Business Fund of FFLAC.

3.1.12.In addition, the Scheme will transfer a number of other policies, "Other non-UK EEA", from a range of UKLAP sub funds, see section 6.1.5, which will result in additional funds being created in FFLAC.

3.1.13.The policies in this category will be subject to a 100% Quota Share reinsurance arrangement back into UKLAP, including a small amount of ceding commission from UKLAP to FFLAC to cover oversight costs. The reinsurance agreement includes a "side letter" which outlines a servicing agreement between UKLAP and FFLAC so that the administration of these policies will remain under control of UKLAP subject to oversight by FFLAC.

3.1.14.Aviva plc currently transacts life business in Ireland and the EEA under the Aviva brand. New business under the Aviva brand is currently written by UKLAP or FFLAC depending on the source and type of business. Following the transfer all Irish new business will be written directly in FFLAC, which will be rebranded as Aviva Life & Pensions Ireland DAC on the Effective Date.

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

3.1.16.Subject to the consent of the Court, the Scheme will take effect at 22:59 GMT on 29 March 2019 (the "Effective Date").

3.2.Rationale for the Scheme

3.2.1.On 23 June 2016, the UK voted to leave the EU and on 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU. As a result of Brexit, there is a risk that the UK will lose EU passporting rights from March 2019.

3.2.2.If Aviva were to delay the transfer process until the outcome is more certain there would not be sufficient time to implement the Scheme ahead of March 2019.

3.2.3.Should the UK lose its rights to carry out Long-Term Insurance Business in other non-UK EEA States on a Freedom of Services or Freedom of Establishment basis, business administered on that basis out of the UK will cease to be legal. 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,

4. Overview of FFLAC

4.1. FFLAC Purchase

4.1.1. In November 2017, Aviva PLC agreed the purchase of FFLAC. This purchase was subject to a successful change of control application with the CBI. Approval of the transaction was granted in May 2018.

4.1.2. The company is to be rebranded as ALPI DAC on the Effective Date of the proposed transfer and is the target company for the Part VII transfer.

4.1.3. FFLAC is authorised as a Life Insurer under the European Union (Insurance and Reinsurance) Regulations 2015, by the Central Bank of Ireland.

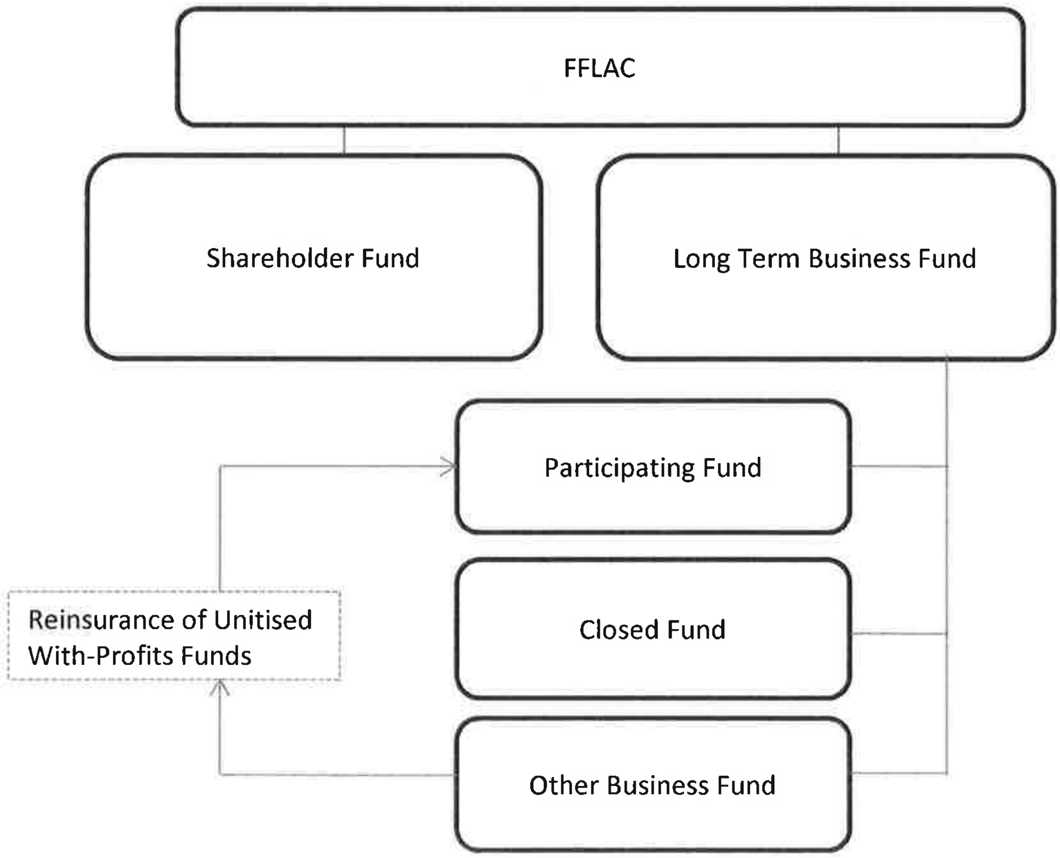
4.1.4. It is a wholly owed subsidiary of UKLAP.

4.2. FFLAC Background

4.2.1. FFLAC is a subsidiary of UKLAP. It has a number of subsidiaries, however, none of these are regulated insurance companies.

4.2.2. Friends Provident Life Office ('FPLO') was established in England in 1832 as a mutual life company. It wrote business into Ireland through an Irish Branch. In 1990, Friends Provident Life Assurance Company ('FPLAC') was established in Ireland to acquire the Irish Branch business of FPLO under a Scheme of transfer approved by the Irish High Court. In 1993, FPLAC acquired NM Life Assurance Ireland Limited ('NMLAIL') 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').

4.2.3. The pre-transfer fund structure of FFLAC is summarised below:



4.2.4. Shareholders are entitled to transfers from the Participating Fund equal to 10% of the distributed surplus each year. The fund contains the business transferred from FPLO in 1990 other than unit-linked and PHI business. The fund consists of conventional with-profits business (life and pensions), non-profit non-linked life assurance business and pension business (written prior to March 1996) and unitised with-profits business ("UWP"). 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 and increments on UWP business but no new conventional with-profits business is written. Thus, the fund is writing very limited volumes of new business.

4.2.5.The unitised with-profits business relates to unit-linked policies written in the Other Business Fund which have the option in invest in a UWP fund. This business is reinsured into the participating fund.

4.2.6.Any expenses that arise in 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 Share of UWP business. Any profit or loss on such expenses arises in the Other Business Fund.

4.2.7. Some conventional with-profits business includes a GAO on retirement. The rates guaranteed are better than current market rates and the Company holds a reserve in respect of these guarantees.

4.2.8.Shareholders have no entitlement to any of the surplus of the Closed Fund. 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. Such options have expired, with the exception of GAO on retirement. It is current practice to transfer annuities arising from GAOs to the Participating Fund. Thus, in practice, the fund is fully closed to new business.

4.2.9.The Closed Fund does not have to be maintained as a separate fund if the number of with-profits policies falls below 1000 and must cease to operate as a separate fund if the number of with-profits policies falls below 500.

4.2.10.As at 31 December 2017 the fund has 1,821 with-profits policies and is projected to fall below 1000 in February 2026 and below 500 in December 2030.

4.2.11.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.

4.2.12.The Other Business Fund consists of life and pensions conventional non-profit business written after March 1996, unit-linked business and conventional income protection insurance. Life assurance business in this fund was written on both new and old tax bases. The investment returns on new basis business accumulate gross of tax, with tax being applied on exit or earlier date as indicated by the legislation, whereas old basis business is taxed annually on the difference between income and expenses. For unit-linked policies that choose to invest in a unitised with-profits fund, the investment is 'reinsured' into the Participating Fund.

4.3. Nature of business written

4.3.1. Below is a summary of the types of business written by each FFLAC fund:

Table 4: Summary of business written by fund

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

* Y= Yes N=No I=Increments Only
** The policies which facilitate investment in unitised with-profits are essentially unit-linked policies written in the Other Business Fund with Unitised WP within the Participating Fund offered as a fund choice.

4.4. Risk profile of FFLAC's business

4.4.1. For management purposes, FFLAC is divided 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 FFLAC. The Shareholder Fund contains capital attributable to shareholders.

4.4.2. FFLAC's main risks are largely spread across the Market, Life Underwriting and Health Underwriting modules, with smaller amounts of counterparty and operational risk exposure. The Market, Life and Health modules each have multiple risk sub-modules within them. The capital held in respect of FFLAC's risks is assessed on a standard formula basis.

4.4.3. The top 5 shareholder risk sub-modules (i.e. excluding risks entirely within a ring-fenced fund) on an undiversified standard formula basis are:

- Healthcare Disability;
- Lapse;
- Expense;
- Life Catastrophe; and
- Equity.

4.5.Balance Sheet

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

Summary of assets held by FFLAC at 31 December 2017

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

4.5.2.The table below shows the Solvency II balance sheet (in € million) for FFLAC at 31 December 2017.

	€m	**FFLAC**
Assets	Investments	4,466
	Deferred tax asset	3
	Reinsurance recoverable	429
	Other Assets	66
Total Assets		**4,965**
Liabilities	Best Estimate Liabilities (gross of reinsurance)	4,537
	Transitional measure on Best Estimate	0
	Transitional measure on Risk Margin	0
	Risk Margin	51
	Deferred tax liabilities	10
	Other non technical liabilities	110
Total Liabilities		**4,709**
Net Asset Value		**256**
	NM Own Funds restriction	**3**
Own Funds		**253**

4.5.3.The table below summarises the standard formula SCR (in € million) for FFLAC at 31 December 2017.

€m	FFLAC
Market Risk	105
Life underwriting Risk	104
Health underwriting Risk	65
Counterparty default Risk	8
Diversification	-69
Basic Solvency Capital Requirement	213
Loss-absorbing capacity of technical provisions	-67
Operational risk	14
Solvency Capital Requirement	160

4.5.4. Future discretionary bonuses in the participating and closed funds are included in the best estimate liabilities. In a severe loss event, these bonuses can be reduced, reducing the amount of capital required to protect the company against the loss. This is referred to as the loss absorbing capacity of technical provisions. Any such actions to reduce bonuses must be approved by the Board.

4.6.Solvency position

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

€m	**FFLAC Total**
Own Funds (A)	253
Solvency Capital Requirements (B)	160
Excess Capital (C=A-B)	92
Solvency Cover Ratio (D=A/B)	**158%**

4.7.Solvency Risk Appetite

4.7.1.FFLAC has a Solvency Risk Appetite ("SRA") introduced when it became part of the Aviva Group, in line with Aviva standards. Prior to the introduction of the revised SRA, FFLAC had a SRA in place which, although developed using a different methodology, set the appetite at the same level. The SRA, together with consideration of the level of distributable reserves, is the primary mechanism used by FFLAC 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.

5. Overview of UKLAP

5.1.Background

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

5.1.2.The current fund structure of UKLAP is summarised in the CFA and WPA reports and therefore I have not repeated it here.

5.1.3.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. Fuller descriptions are provided in the WPA and CFA reports. I have relied on these reports in the remainder of this section. Section 5.5 provides a breakdown of the best estimate liabilities ("BEL") by sub fund for the transferring policies.

5.1.4.FFLAC is the target entity for the transfer. The background to FFLAC is provided in Section 4.

5.1.5.UKLAP has a number of different With-Profits Sub-Funds, including the New With-Profits Sub-Fund ("NWPSF"), the Old With-Profits Sub-Fund ("OWPSF"), the FLAS With-Profits Sub-Fund ("FLAS WPSF"), and the FP With-Profits Sub-Fund ("FP WPSF"). These funds all contain EEA policies. The types of in scope policies in each fund are shown in section 5.2.1 below.

5.1.6.The Reattributed Inherited Estate External Support Account ("RIEESA"), established as part of the Reattribution Scheme to provide capital support, is included with the NWPSF as the NWPSF has the first call on the capital support of the RIEESA.

5.1.7.The Belgian Sub-Fund contains policies that were written through the Belgian Branch of General Accident. This business is wholly reinsured to the Belgian branch of NN Insurance Belgium SA/NV (NN Insurance).

5.1.8.The UKLAP Irish With-Profits Sub-Fund originated from the transfer of the with-profits fund of Aviva Life and Pensions Ireland Limited in 2015. The with-profits business consists of both conventional with-profits ("CWP") and unitised with-profits ("UWP") life and pensions business. Other than increments on existing policies and new members in existing group pension Schemes, the fund was closed to new CWP business in 2001 and to new UWP business in 2009.

5.1.9.The Non-Profit Sub-Fund ("NPSF") contains a wide range of non-profit business, including protection, unit-linked, healthcare, pensions and annuities. Following the 2015 transfer of the Aviva Life & Pensions Ireland Limited business, the NPSF includes Irish branch non-profit business.

5.1.10. All in scope With-Profits Sub-Funds have 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.

5.2.Nature of business written

5.2.1.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	Index-linked	Unit-Linked	Open to New Business*	In scope countries**
IWPSF	✓	✓				I	IE
NWPSF	✓	✓	✓			I	SE, DE, FR,IE
OWPSF	✓	✓	✓			I	SE, DE, FR,IE
FP WPSF		✓			✓	I	DE, IS
FLAS WPF					✓	N	DE
Belgian Sub-Fund	✓***					N	BE
UKLAP NPSF****			✓		✓	Y(IE only) I	IE, SE, DE,IS

** I = Increments*
*** IE= Ireland SE = Sweden DE=Germany FR=France IS=Iceland, BE = Belgium*
**** This is European style participating business.*
***** Includes the INPSF.*

5.2.2.The Irish With-Profits Sub-Fund 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 INPSF.

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

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

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

5.3.Risk profile of UKLAP's business

5.3.1.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.

5.3.2.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. Under Solvency II there is no requirement for a shareholder fund and capital can now move freely between LTBF and SHF.

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

- Life insurance risks such as longevity, lapse risk and expense risk;
- Market risks such as credit risk, equity risk, and interest rate risk; and
- Operational risk arising from inadequate or failed internal processes, personnel or systems, or from external events.

5.3.4.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%

5.3.5.A summary of the assets (in £ millions) held by each fund of UKLAP at 31 December 2017 is shown in the CFA and WPA reports.

5.4. Solvency position

5.4.1.The table below shows the indicative Solvency II financial position (in £ millions), of UKLAP post Friends Life transfer, assuming that the UKLAP purchase of FFLAC has been approved and before the Brexit Part VII, as at 31 December 2017.

£m	**31 December 2017**
	UKLAP
Own Funds (post transitional) (A)	14,254
Solvency Capital Requirement (B)	9,321
Excess Capital (C=A-B)	4,933
Solvency Cover Ratio (D=A/B)	**153%**

5.5. Summary of in scope business

5.5.1. 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 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/ INPSF</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.*

6. The Proposed Transfer

6.1. Proposed structure of transfer

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

6.1.2. The Scheme proposes to transfer non-profit 'Irish' policies in the existing non-profit fund of UKLAP into the non-profit sub-fund of FFLAC ("Other Business Fund"). Any new non-profit business previously written into the Irish Branch of UKLAP will be written into this fund from the point of transfer.

6.1.3. The Scheme proposes to transfer with-profits 'Irish' policies in the existing with-profits sub-fund of UKLAP (Irish WPSF), in full, to a segregated sub-fund in FFLAC (ALPI IWPF). Increments on existing policies will be written in the ALPI IWPF after the transfer. Vesting GAO business from this fund will be written in the Other Business Fund.

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

6.1.5. The Scheme proposes to transfer 'Other non-UK EEA' policies in existing UKLAP with-profits sub-funds into separate sub funds in FFLAC. This generates four new funds, ALPI New Fund, ALPI Old Fund, ALPI FP Fund, and ALPI FLAS Fund. This business will be fully reinsured back into the UKLAP with-profits sub funds from which it transferred (see section 7.8). These 'Other non-UK EEA' policies in the UKLAP NPSF and in the existing UKLAP with-profits sub-funds are together referred to as 'OLAB' business.

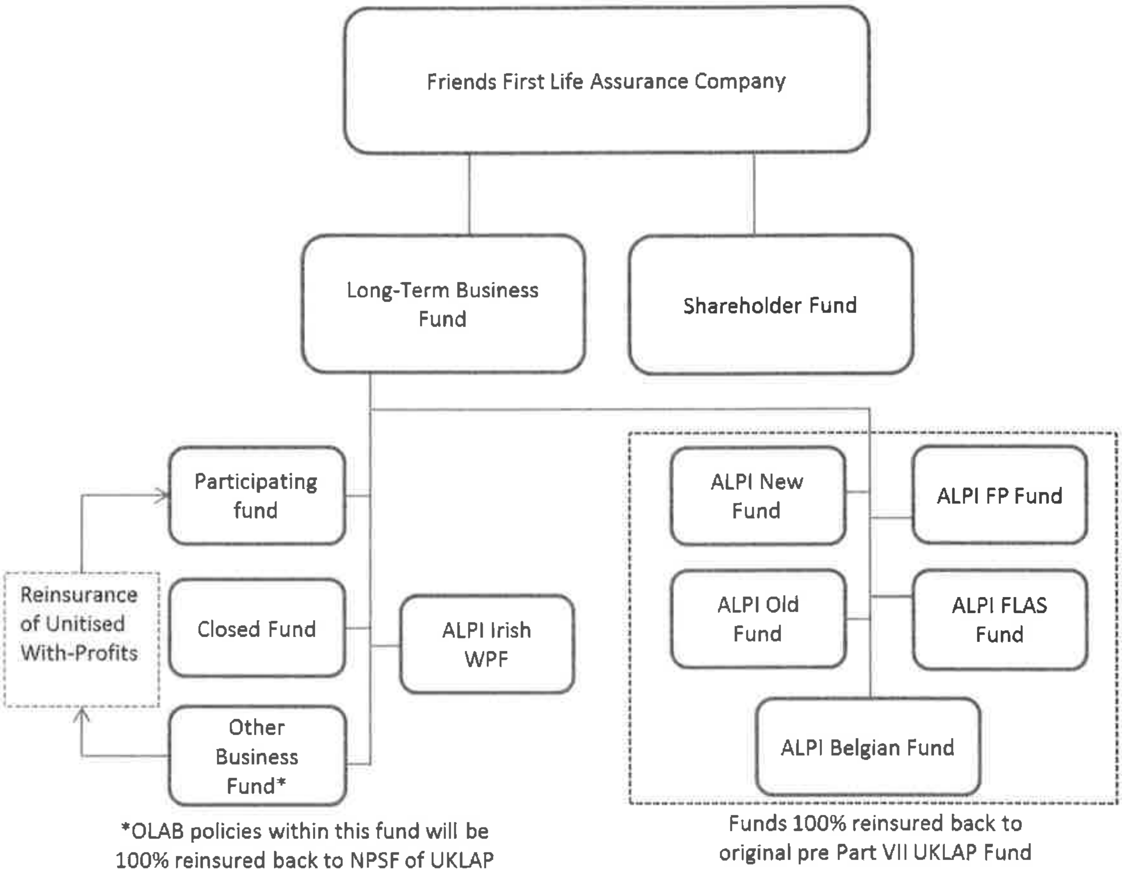
6.1.6. These policyholders will be considered with-profits policies within a non-profit fund, as the fund directly links back to the UKLAP WPSFs, with policyholders continuing to participate in the UKLAP funds in respect of all claims, bonuses and estate distributions.

6.1.7.The UKLAP Belgian Sub-Fund will be transferred to FFLAC and reinsured back into the UKLAP Belgian Sub-Fund. The existing 100% Quota Share reinsurance, outsourcing and loan arrangements with NN Insurance will remain in place.

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

6.1.9.The Scheme includes a provision that UKLAP will make a capital contribution to FFLAC. This will be such that the Solvency II coverage of FFLAC, immediately after the transfer, is 150%. This will be estimated at the point of transfer, with a formal true up within one year based on year end 2018 actuals.

6.2. Proposed FFLAC fund structure post transfer



6.3. Reinsurance arrangements

6.3.1. If the Scheme proceeds, any external reinsurance arrangements which UKLAP has entered into, which relate solely to in scope business, will continue to apply and will be novated to FFLAC on the Effective Date. There will be no changes to the terms of these agreements as a result of the Scheme. FFLAC will hold capital against these counterparties within its Standard Formula assessment. The exception to this is the NN Insurance reinsurance arrangement relating to the Belgium business, which will remain will UKLAP.

6.3.2. There is one external reinsurance arrangement that covers both 'Irish' policies and UK policies within a single treaty. Aviva will enter into a supplemental agreement between FFLAC and the reinsurer, whereby the reinsurer agrees to continue to reinsure the relevant Irish Business directly with FFLAC but retains the reinsurance with UKLAP in respect of the UK business.

6.3.3. There is a further external reinsurance arrangement covering both 'Other non-UK' EEA policies and UK policies. In relation to this, Aviva 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).

6.3.4. The Scheme will introduce an intra group reinsurance arrangement between UKLAP and FFLAC. This will be a 100% Quota Share reinsurance of 'Other non-UK EEA' business being transferred to FFLAC, back into UKLAP, which will include a "side letter" governing the servicing of these policies.

6.3.5.This intra group reinsurance will include a floating charge, to ensure that FFLAC has an equal ranking to UKLAP's direct policyholders in the event of an insolvency of UKLAP. The details of this arrangement are explored in Section 7.8.

6.3.6.Also FFLAC will put in place processes to monitor the risk of UKLAP insolvency.

6.4.Sunset clauses

6.4.1.Sunset Clauses of the Irish Scheme define the trigger, after which the UK Life Board can ("can close" trigger) convert the with-profits policies to non-profit policies, and a trigger point when the Board must ("must close" trigger) convert the with-profits policies to non-profit policies.

6.4.2.The Irish WPSF, which is being transferred in full to FFLAC, currently has both 'can close' and 'must close triggers'

6.4.3.This Scheme proposes the removal of the "must close" trigger. The rationale is that this may force a fund to convert to a non-profit fund at a time that is disadvantageous to the with-profits policyholders in that fund, for example at a time of significant market turmoil. There are no changes to the clauses for the existing FFLAC with-profits funds.

6.4.4.The FFLAC Board will assume responsibility for deciding whether to take action when the can close trigger is met, after considering the advice of the HoAF and the With-Profits Committee ("WPC").

6.5.With-Profits fund merger provisions

6.5.1.The Scheme governing transfer of the NMAIL business into FFLAC in 1995, as described in section 4.2.2, allows for the merger of any Friends First sub funds.

6.5.2.In the case of with-profits sub funds, before a merger is allowed a report from an independent actuary is required to be submitted to both the Board and CBI that any proposed merger is not likely to adversely affect the reasonable expectations of policyholders.

6.5.3.The Scheme proposes to extend the merger provision to the ALPI IWPF, with the additonal provision that the WPC will be required to be consulted.

6.6.Support Accounts

6.6.1.There are no proposed support accounts to be set up within FFLAC. 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.

6.7.With-Profits Policyholder Protections

6.7.1.The Scheme outlines the requirement to maintain a set of Irish WP principles, which will be based at outset on the existing Irish WPSF Principles and Practices of Financial Management ("PPFM"), (covered in Section 10.4.2).

6.7.2.The Scheme outlines the role of the WPC (covered in Section 10.4) in a number of areas involving policyholder protection, such as the requirements to consult the WPC should any changes be proposed to the Solvency Risk Appetite, the expenses to be charged to the IWPF, changes to the investment strategy, or the PPFM.

6.8.Solvency Risk Appetite

6.8.1.The FFLAC SRA is defined as holding a capital buffer above the Solvency II Pillar 1 capital requirements such that after a 1 in 5 year 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. This buffer in excess of the Solvency Capital Requirement was set to 50% of the Solvency Capital Requirement at the date of change of control and this level is unchanged by the Scheme.

6.8.2. The Scheme introduces additional protection for future changes, specifying that any material weakening to FFLAC's SRA requires taking appropriate actuarial advice, consulting with the HoAF and the WPC, prior to approval by the FFLAC Board. The CBI must also be informed.

6.8.3.The definition of material weakening allows the FFLAC Board to reduce the SRA by 5% to 145% without triggering these Scheme requirements. I have therefore considered an SRA level of 145% when assessing the security of transferring policyholders.

6.8.4.Should solvency coverage fall below this level, no dividends are payable and plans must be presented to senior management outlining how the company can return above the SRA. These actions could include an injection of shareholder capital from UKLAP.

6.9. Other Schemes

6.9.1.The existing Friends First Schemes are unchanged by the introduction of the Scheme, with no restrictive clauses that conflict with the intentions of the new Scheme.

6.9.2.The existing Irish Scheme was approved under Irish law at the point of the Section 13 transfer of the Aviva Life & Pensions Ireland Limited business into UKLAP in 2015. Any necessary provisions from the Irish Scheme have been included within the Scheme.

7. Effect of proposed changes on security of policyholder benefits

7.1. Introduction

7.1.1. This section considers the effect of the Scheme on the existing policyholders of FFLAC and the policyholders transferring from UKLAP to FFLAC with respect to the security of their benefits.

7.1.2. The Scheme results in the creation of six new sub funds in FFLAC as outlined in section 6.1.

7.2. Risk Profile

7.2.1. The approach taken in assessing the impact on the security of policyholders of this part VII is as follows:

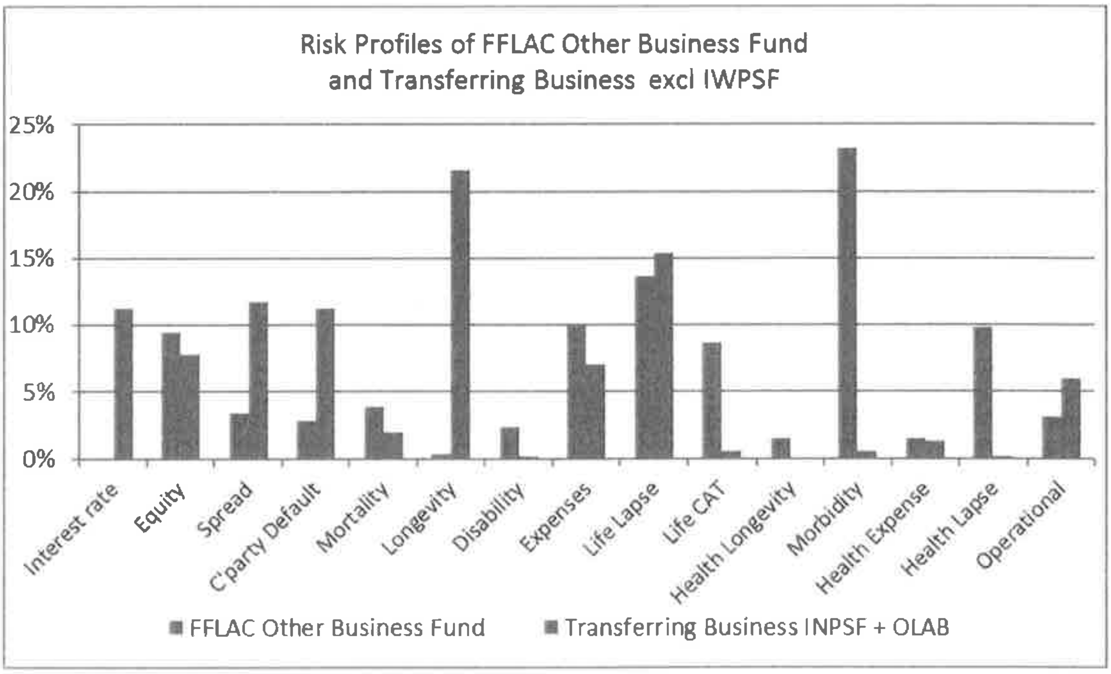
- Consider the risk profile of the transferring policies.
- Consider the risk profile of FFLAC before and after the Part VII transfer.
- Consider the SII coverage levels for FFLAC, before and after the part VII.
- Consider the Solvency Risk Appetite of FFLAC before and after the Part VII.

7.3. Undiversified Risk Profiles (Transferring business)

7.3.1. To examine the impact of the Scheme I have compared the undiversified solvency capital requirements ("SCR") by risk type. The discussion relates mainly 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. The with-profits funds are discussed in sections 7.4.9 and 7.4.10 below.

7.3.2. Undiversified Risk Profiles

Figure 1: Standalone SCR – Top 15 Risks[2]



7.3.3. The risk profile of the transferring business is dominated by longevity risk and lapse risk. Spread risk, counterparty default risk and interest rate risk are the next three largest

[2] Top 15 covers 94% and 97% of the total risks for FFLAC and transferring non-profit business respectively.

risks. FFLAC's risk profile is more diversified with the highest exposures being to morbidity, lapse and expense risks. In FFLAC both the life and health business give rise to lapse risk.

7.3.4.The transferring business is exposed to longevity risk, the risk that life expectancy is different to assumed, through its annuity business.

7.3.5. Lapse risk is material exposure in both companies. The risk is an exposure to a large number of policyholders lapsing their policies over a one year period, a 'mass lapse' event. In FFLAC, the exposure arises from both life and health risk, while in the transferring business the exposure relates to life risk only.

7.3.6.Spread risk is the third largest risk exposure in the transferring business. This captures the risk of an adverse financial impact either due to default of a credit counterparty or a change in market value on non-defaulted assets which is not offset by a change in liabilities. Interest rate risk is the risk of adverse financial impact due to changes in the level of interest rates and this risk is also significant in the transferring business.

7.3.7. Counterparty default risk in the transferring business is predominantly due to exposure to UKLAP through the reinsurance of the non-UK EEA business which creates a counterparty exposure.

7.3.8.Morbidity risk is more significant for FFLAC than for the transferring business, because a significant proportion of the existing FFLAC business is healthcare business. The transferring business contains much smaller volumes of health business.

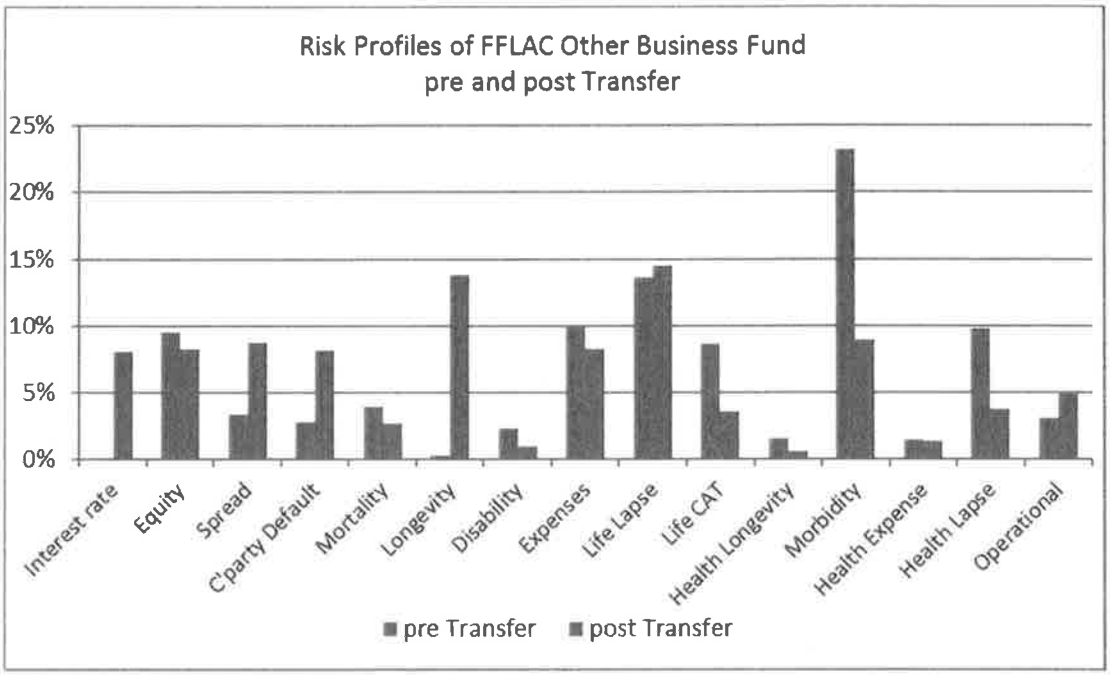
7.3.9.Expense risk arises if the company is exposed to expenses rising more than expected. This may occur, for example, because the company makes fixed charges to cover expenses and is therefore exposed to inflation. Both FFLAC and the Transferring Business have similar exposure to expense risk.

7.4. *Risk Profiles (FFLAC before and after transfer)*

7.4.1. To examine the impact of the Scheme I have compared the undiversified solvency capital requirements ("SCR") by risk type, as a proportion of the total. Changes discussed below relate to the relative movement in these proportions as the total SCR post Part VII will be significantly higher than prior to the transfer.

7.4.2. Undiversified Risk Profiles

Figure 2: Non-Profit Business Standalone SCR as a Proportion of Total – Top 15 Risks[3]



7.4.3. The risk profile of FFLAC post transfer is more diversified than the profile of the company before the transfer. The CFA report compares the risk profile of the post transfer business to the risk profile of UKLAP prior to transfer and concludes that while the Scheme transfer does change the risk profile for transferring policies moving from UKLAP to FFLAC, these changes are not inappropriate or excessive and he is satisfied that the security of the transferring policyholders is not adversely affected by this transfer. I have relied on his opinion in this respect.

7.4.4. Lapse risk is a material exposure both pre and post transfer. Combining life and health lapse it is the largest exposure accounting for 24% of the exposure pre transfer and 18% post transfer.

7.4.5. Longevity risk is the second highest exposure post transfer, accounting for 14% of the capital requirement. Longevity risk has been accepted by insurance companies for many years. UKLAP has significant experience in managing this risk, and there is experience in FFLAC through the longevity exposure in the Participating Fund.

7.4.6. The increase in counterparty risk arises from the reinsurance of the non-UK EEA business back to UKLAP as part of the Scheme. UKLAP is a large entity with a strong credit rating. The reinsurance treaty contains a floating charge arrangement to ensure that FFLAC receives a level of compensation for its policyholders consistent with that received by the direct policyholders of UKLAP. The floating charge gives appropriate protection

[3] Top 15 covers 94% and 96% of the total risks for FFLAC Other Business Fund pre and post transfer.

against the risk of UKLAP insolvency, but can not be used to reduce capital requirements. I have relied on legal advice that this clause will have the intended effect.

7.4.7.The inclusion of the transferring policies has reduced the relative exposure to most other risks or left them at a similar level. The major reductions are in morbidity and life catastrophe risks. The exposure to interest rate and spread risks are both larger in the transferring business than in the FFLAC existing business. While the exposure to these risks is therefore higher for existing FFLAC policyholders than previously, these are well established risks for insurers and I am satisfied that they do not dominate the risk profile of the business post transfer.

7.4.8.Thus, post transfer, the risk profile of FFLAC remains well diversified albeit that its largest risk exposures change from lapse and morbidity risks to lapse and longevity. Pre transfer these largest risks account for 46% of the total undiversified, while post transfer it is 32%. This leads to a greater spread of risks overall with spread, equity, expenses, counterparty default and interest rates becoming more prominent after the transfer.

7.4.9.The main risks of the with-profits business of the existing FFLAC with-profits funds are longevity, lapses and equity risk, while spread risk is also an exposure for the Participating Fund. For the transferring Irish WPSF the main risks are lapse, longevity and interest rate risk.

7.4.10.The lapse exposure arises in the Irish WPF through the increased costs of guarantees in the Funds if policies remain in force for longer than expected. The longevity risk arises through due to Guaranteed Annuity Rate options, the cost of which increase if the assumptions around how long policyholders are expected to live are strengthened. For the FFLAC Participating Fund, it also arises from annuities written within the Fund. The equity, interest rate and spread risks are all market related risks which arise when downward changes in the value of assets in the Funds give rise to smaller downward changes in the value of the liabilities.

7.4.11.As discussed above in section 4.5.4, the loss absorbing capacity of technical provisions, whereby the Board approves changes to bonus rates in a severe loss event, reduces the amount of the loss arising in these events. This allows FFLAC to mitigate the impact of severe events, and enables the FFLAC Participating and Closed Funds to cover their respective capital requirements without support from the shareholder.

7.4.12.While the overall risk profile of FFLAC will change, the risk profile of these funds will remain the same post transfer as they are ring-fenced from the remainder of the business.

7.4.13.While the Scheme transfer does change the risk profile for FFLAC existing customers, these changes are not inappropriate or excessive and I am satisfied that the security of the existing policyholders is not adversely affected by this transfer.

7.5.Solvency II Capital Position (FFLAC before and after)

7.5.1.This section provides an analysis of the FFLAC Solvency II Coverage on a pre and post Part VII basis.

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

FFLAC (€m)	Pre Part VII	Post Part VII
Own Funds	253	559
SCR	160	372
Surplus Capital	92	186
Solvency Ratio	158%	150%

7.5.3.The post transfer coverage ratio shows that the solvency position of FFLAC is well in excess of the regulatory capital requirements, and in line with its solvency risk appetite.

7.5.4.The Scheme requires FFLAC to be capitalised to a Solvency II coverage level of at least 150% at the point of transfer. As such the post Part VII results include an estimated capital injection from UKLAP at the point of transfer of c€113m.

7.5.5.While the coverage of FFLAC falls as a result of the transfer, the pre Part VII solvency coverage is in excess of the solvency risk appetite and the post transfer level is at the level of the Solvency Risk appetite as discussed in section 7.6.

7.5.6.I have been provided with a report which considered the solvency position of FFLAC post transfer in a range of scenarios, including some relatively extreme scenarios. I am satisfied that the Scheme does not adversely affect the relative security of policyholders. In reaching this conclusion, I have relied on the information provided in the aforementioned report being complete and accurate.

7.6.Solvency Risk Appetite (SRA)

7.6.1. The sections above outlined the Solvency II coverage levels in respect FFLAC. Provided the coverage level is above or in line with the respective SRAs, the key aspect in assessing policyholder protections is the SRA.

7.6.2.The SRA of FFLAC follows the Aviva Group "Solvency II Risk Appetite Guidance".

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

7.6.4.The SRA takes into consideration a number of quantitative and qualitative factors.

7.6.5.The FFLAC SRA was considered in detail in Section 6.8 and is sufficiently strong to provide ongoing protection for policyholders.

7.6.6.The Scheme includes a provision that the WPC will need to be consulted if there is a material weakening in the SRA to provide additional protection for future changes. Any material weakening to FFLAC's SRA requires taking appropriate actuarial advice, consulting with the HoAF and the WPC, prior to approval by the FFLAC Board. The CBI must also be informed.

7.6.7.I am satisfied that the FFLAC 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 sufficiently strong to continue to protect both existing and transferring policyholders on an ongoing basis and that there is not weakening at the point of transfer that adversely affects existing policyholders.

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

7.7.1.Prior to the transfer, the transferring business avails of the use of the VA in calculating its technical provisions in accordance with the UKLAP VA approval under Solvency II legislation.

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

7.7.3.However, this assumption does not have a material impact on the financials presented and has no impact on the conclusions. By not having the VA on the transferring business, the adverse impact as at 31 December 2017 on the Solvency II coverage of FFLAC is low, a reduction in Solvency II surplus of c5m or approximately 2% reduction in coverage ratio. Furthermore, this will be offset by a further capital injection from UKLAP given the Scheme provision that ensures that FFLAC is capitalised to a Solvency II coverage level of 150%.

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

7.8. UKLAP Reinsurance Arrangement

7.8.1. The reinsurance arrangement noted in section 6.3 will reinsure the transferring 'Other non-UK EEA' business back into the individual UKLAP sub funds that the business currently resides in i.e. a with-profits policy currently written in NWPSF will remain in this fund through the Scheme of transfer and attaching reinsurance.

7.8.2. The change for the policyholders in scope of this arrangement is that they will transfer from being a direct policyholder of UKLAP, to being a direct policyholder of FFLAC reinsured to UKLAP. In the event of the insolvency of UKLAP, FFLAC would be an unsecured creditor of UKLAP and would rank below other direct written UKLAP policyholders in the event of insolvency, without further action.

7.8.3. To avoid this, the reinsurance treaty will include a form of floating charge operating over all of the assets of UKLAP.

7.8.4. With the charge, FFLAC will become a secured creditor and rank above the direct policyholders of UKLAP. Further provisions within the charge then limit FFLAC's recovery to the level that FFLAC would have been entitled to as a direct policyholder of UKLAP. This ensures that in the event of UKLAP's insolvency, FFLAC has the same ranking as that of the direct policyholders of UKLAP, and that the transferring policyholders had before the Scheme.

7.8.5. The charge operates as a floating charge over the assets of the reinsurer, which means that in the event of insolvency the liquidator will only be able to realise and distribute the proceeds of those assets with the permission of the floating charge holder.

7.8.6. The Scheme sets out the conditions under which the reinsurance agreement may be terminated. This can be done by either FFLAC or UKLAP, if contractual payments relating to the reinsurance agreement are missed, there is a material breach, the agreement becomes unlawful, the other party ceases to have permission to perform its obligations under the agreement or there is fraudulent activity.

7.8.7. In addition, UKLAP has the right to terminate the reinsurance agreement if FFLAC transfers a substantial part of its business without the consent of UKLAP. FFLAC has the right to terminate the reinsurance agreement if the Board of FFLAC considers that the reinsurance arrangement is no longer necessary to protect the rights and expectations of the transferred policyholders, either FFLAC or UKLAP leaves the Aviva Group, UKLAP becomes insolvent, a holder of security over all or a substantial part of the assets of UKLAP takes steps to enforce its security, or there is a change in tax or law which has a material adverse effect on FFLAC or UKLAP's ability to perform its obligations under the reinsurance arrangement.

7.8.8. In the event that FFLAC or UKLAP decides to terminate the reinsurance agreement, the Scheme sets out the procedures that must be followed prior to the termination. These include, but are not limited to, the Board of FFLAC:

- Consulting with and obtaining prior approval of an independent actuary;
- Consulting with the WPC; and
- Notifying the CBI and ensuring that no objection is received within a certain time period.

7.8.9.On termination of the reinsurance arrangement UKLAP must pay a termination amount to FFLAC. The termination amount represents the economic value of the reinsured business as at the date of termination of the agreement, subject to the agreement of both parties.

7.8.10. FFLAC will put in place new processes to provide oversight on this reinsurance. I have reviewed the plans to achieve this and am satisfied FFLAC can appropriately oversee the reinsurance arrangements and ensure the fair treatment of these policyholders.

7.8.11.I am satisfied that the charge provides the intended protections for the transferring policyholders and that FFLAC will hold sufficient capital based on its SRA against the risk of UKLAP default. In reaching this conclusion I have relied on legal advice provided to UKLAP that the charge will operate as intended.

7.9.Consequences of UKLAP Insolvency

7.9.1.In the event of UKLAP experiencing financial difficulties, FFLAC will consider whether it is prudent to terminate the Reinsurance Arrangement before UKLAP insolvency happens to increase the likelihood of recovering the full value of policyholder liabilities.

7.9.2.In relation to the reinsurance outlined above, FFLAC may crystallise the floating charge under given conditions such as an administrator or a liquidator being appointed in relation to UKLAP, and FFLAC 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 (Non-Transferring Policyholders) are treated fairly, relative to those policyholders reinsured in from FFLAC (Transferring Policyholders).

7.9.3.Given the likelihood of UKLAP's insolvency is remote, I would also expect recoveries for FFLAC in the event of such insolvency to be high so that the assets received would be close in value to the value of the underlying policyholder liabilities. I am satisfied that, given the SRA in place, FFLAC could absorb a reasonable loss before the transferring policyholders are put at risk.

7.9.4.Furthermore, the additional capital required may not be significant given FFLAC is on a Standard Formula basis and will already hold a prudent amount against the risk of UKLAP defaulting.

7.9.5.The Reinsurance Arrangement provides for payment from UKLAP to FFLAC of an estimated Termination Amount within three days of termination taking effect. This amount will then be adjusted up or down accordingly once the final Termination Amount has been determined. This will mitigate most of the liquidity risk that FFLAC might face between the Termination Date and the final settlement of the Termination Amount.

7.9.6.Under an insolvency event there is a further risk to FFLAC in respect of liquidity, based on the time taken for the assets to be recovered, with the risk being that FFLAC would be unable to meet contractual payouts to the policies transferring under the Scheme. FFLAC has plans to develop a Liquidity Risk Appetite (LRA) framework in line with Aviva Group guidance after the Part VII transfer has taken place. As part of the LRA calibration process for the combined Irish business, due consideration will be given to the impact that a UKLAP insolvency would have on the liquidity requirements of FFLAC where this event would trigger a termination of the OLAB reinsurance agreement. As the likelihood of UKLAP becoming insolvent, now or in the future, is a remote event (given that UKLAP operates within risk-based regulatory regime and is well capitalised with appropriate Solvency Risk Appetite policies), I would not expect this to currently have a material impact on the FFLAC liquidity requirements. If the solvency of UKLAP deteriorates over time then these changed circumstances would be captured as part of the annual review of the LRA or in an ad hoc review in the event of a sudden and major deterioration in UKLAP's solvency.

7.9.7.Also FFLAC will put in place processes to monitor the risk of UKLAP insolvency

7.10.Inter Group Loans

7.10.1. The Scheme contains a provision which allows FFLAC to make a loan to, or an investment in, any member of the Aviva Group, subject to regulatory requirements. Prior to agreeing to such a loan, the Board of FFLAC is required to take appropriate actuarial advice, including that of the HoAF where the IWPF is granting the loan. The Board must be satisfied that the loan terms are no less favourable to FFLAC than would be the case with a loan to a party external to the Group; that the loan is appropriate to the nature and terms of the liabilities in the granting FFLAC fund; and that the interests of policyholders are not adversely impacted by the provision of the loan.

7.10.2.The transferring business funds are subject to a similar provision within the relevant UKLAP schemes prior to the transfer.

7.10.3.Such a provision did not exist in the FFLAC schemes, however, nor was there a provision that prohibited such loans.

7.10.4.I am satisfied that the controls outlined in the Scheme are appropriate to ensure that policyholders interests would be considered and protected in the event that such a loan was granted.

7.11.Conclusions

7.11.1.Overall, I am satisfied that the Scheme does not have a material adverse affect on the security of the existing FFLAC policyholders and that the company is sufficiently strong on an ongoing basis to protect both existing FFLAC policyholders and those transferring in from UKLAP.

7.11.2.The revised sub fund structure ensures that protection afforded to the transferred with-profits policyholders to match those which they had in the UK has no material adverse affect on other FFLAC policyholders.

7.11.3. The Solvency coverage ratio of FFLAC after the transfer will be 150%, significantly above regulatory requirements and in line with the level of the SRA. The determination of the SRA follows the same underlying approach, and remains at the same level, before and after the transfer.

7.11.4.The reinsurance arrangement for Other non-UK EEA policyholders and attaching floating charge provides sufficient protection for those policyholders transferred in and reinsured back to UKLAP.

7.11.5.I am satisfied that FFLAC will have sufficient oversight over the reinsurance.

8. Effect of proposed changes on benefit expectations and fair treatment of existing FFLAC policyholders

8.1.Summary

8.1.1.This section considers the effect of the Scheme on the existing FFLAC policyholders, with respect to their ongoing benefit expectations and fair treatment.

8.2.Administration

8.2.1.This business is currently administered directly by FFLAC. The policy administration services will continue to be performed by FFLAC after the Effective date. FFLAC's administration processes comply with the Consumer Protection Code to ensure that policyholders are treated fairly.

8.2.2.As a result of the integration of FFLAC, there may be some changes in the administration process for this business. This work to design the end state administration processes has not yet finalised, however, the integration project will use a "Best of Both" approach.

8.2.3."Best of Both" is an approach whereby the overall customer experience from the processes in place for the transferring Irish policies and from the FFLAC processes are compared and the best chosen, which will define the strategy for people, systems and processes. FFLAC has set out its integration principles to ensure that there will generally be no adverse impact on the services provided to policyholders. FFLAC 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.

8.2.4.The requirements of the Consumer Protection Code will continue to be met by FFLAC regardless of changes in the administration process. In addition, the administration of FFLAC policies will also be subject to the requirements of the Aviva "Customer Experience Standard", which sets out the controls needed to ensure customers are treated fairly.

8.2.5.I consider that the integration of the customer services functions will not have an adverse impact on the service to be provided to FFLAC policyholders.

8.3.Governance

8.3.1.FFLAC is governed by its Board of Directors, which is responsible for the compliance of the business with the relevant laws, regulations and administrative requirements. It is supported in its role by relevant experts including the HoAF and the CRO, who advise the Board and provide perspectives to ensure that the Board is informed of issues to consider on relevant matters.

8.3.2.FFLAC is supervised by the CBI and is subject to the applicable regulations in Ireland, including the CBI Consumer Protection Code and the CBI Corporate Governance Code.

8.3.3.The regulatory framework under which FFLAC operates will not be impacted by the proposed transfer.

8.4. New Business Policy

8.4.1.FFLAC and Aviva, through the Irish Branch of UKLAP, are both currently open to new business in Ireland. Historically, the range of products offered by the Irish Branch and FFLAC has been similar, although the mix of business sold in each entity differs.

8.4.2.The range of products offered for sale by both entities was reviewed after the acquisition of FFLAC by Aviva. As a result of this review, a single product set was agreed and new business continued to be written into each of FFLAC and the Irish branch on the basis of this agreed product set between the acquisition date and the Effective date.

8.4.3.After the Effective Date, all new business sold by Aviva in the Irish market will be written into FFLAC, and the product offering will be the same as the agreed product set.

8.4.4.While the mix of business in FFLAC immediately prior to the Effective Date will be different to that immediately after, there will be no product types sold at that time that were not previously offered by FFLAC.

8.4.5.FFLAC has a risk management framework which sets out to control the risks associated with new business sales. I do not expect there to be any diminution of the level of controls around new business as a result of the transfer.

8.4.6.There will be no changes to the types of new business written into the FFLAC Participating Fund or the types of increments written into the Closed funds. The Irish WPSF is closed to new business other than increments. The Other non-UK EEA business is also closed to new business other than increments. Any such increments will be reinsured into UKLAP under the provisions of the reinsurance treaty governing this business.

8.4.7.There will be no impact of the Scheme on new business policy that will adversely affect existing policyholders.

8.5.Tax implications

8.5.1.The basis of charging tax to non-profit and unit-linked policyholders of FFLAC will not change as a result of the Scheme.

8.5.2.Tax is charged to the FFLAC Closed Fund as if it were a mutual life assurance company whilst the Participating Fund tax charge is calculated as if it were a separate proprietary company. It is not proposed that any changes are made to this approach as a result of the Scheme.

8.5.3.There will be no impact of the Scheme on existing policyholders from a tax perspective.

8.6.Communications with Policyholders

8.6.1.I have reviewed the drafts of the proposed communication for the FFLAC policyholders with respect to the Scheme to FFLAC.

8.6.2.I am satisfied that the material provides sufficient information to describe the Scheme, the impact on policyholders and that it is consistent with the principles of the Consumer Protection Code.

8.7.Participating and Closed Fund With-Profits Policyholders

8.7.1.There are no changes proposed to the terms and conditions of any policies under the Scheme.

8.7.2.There are no changes proposed to the management of these two funds under the Scheme.

8.7.3.The Board is responsible for deciding the bonuses to be allocated to policyholders in these funds, taking into account the recommendation of the HoAF. The HoAF will continue to review the relevant calculations and to recommend proposed bonuses to the Board for approval. There are no changes proposed to Bonus Policy under the Scheme.

8.7.4.Expenses are currently allocated to the with-profits funds using an Activity Based Costing ("ABC") exercise, which allocates costs to the business on the basis of time spent administering the business and including an allocation to overhead expenses. In addition, there is a cap on the level of expenses that may be charged to the Closed fund.

8.7.5.After the Effective date, the ABC exercise will be undertaken in the same way as before. Due to the fact that overhead costs will be spread over a larger block of business after the transfer, it is not expected that costs allocated to the existing FFLAC WPFs will increase as a result of the transfer. Over time, some diseconomies of scale may arise as the funds contract, however, this risk exists currently in the Participating Fund and the proposed transfer does not change this risk.

8.7.6.There is an agreement in place in the Irish WPSF whereby expenses charged to that fund are capped and any overrun in expenses is met by the shareholder. No share of this overrun will be allocated to the FFLAC Participating and Closed With-Profits Funds.

8.7.7.The 1995 Friends First Scheme described in Section 4.2.2 allows for the merger of the with-profits sub funds, subject to a report from an independent actuary stating that any proposed merger is likely not to adversely effect the reasonable expectations of policyholders.

8.7.8.This provision will be extended in the current Scheme. In the event that the Participating or Closed with-profits funds are to be merged with the IWPF, the Board will consult the HoAF with respect to the fairness of the merger and an independent actuary will provide their view on the impact of the merger on policyholders' reasonable expectations.

8.7.9.Given the protections that will be in place at the time of the proposed merger, there should be no impact of this change on policyholders.

8.8. Non-Profit Policyholders

8.8.1.There are no changes proposed to the terms and conditions of any policies under the Scheme. This applies to all Non-Profit policies (term assurance, whole of life assurance, group risk schemes, income protection, deferred annuities and annuities in payment) in the Participating, Closed and Other Business funds.

8.8.2.FFLAC has discretion in setting the surrender value basis for a number of products. The process and controls around setting these values will not change as a result of the Scheme. Any subsequent changes in practices for this business will be approved by the FFLAC Conduct Committee.

8.9. Unit-Linked Business

8.9.1.There are no changes proposed to policy terms and conditions for the FFLAC unit-linked policyholders under the Scheme.

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

8.9.3.Some FFLAC funds, in particular Unitised With-Profits funds, provide guarantees under certain circumstances. Where a unit-linked customer chooses to invest in UWP then the relevant part of the policy is reinsured into the Participating Fund. The impact of the scheme on With-Profits policies in the Participating Fund is discussed in 8.7 above.

8.9.4.The arrangements that are in place on the Effective Date for the management of assets backing existing FFLAC unit-linked policies will not be changed by the Scheme. The Scheme will not impact on the likely performance of the investment managers employed. These arrangements will be reviewed periodically as business needs evolve with the fair treatment of policyholders a key consideration in any review.

8.9.5.FFLAC is in the process of establishing a Unit Pricing Group that will be responsible for the oversight of unit pricing. The Group's objective will be to ensure that unit pricing is performed in accordance with regulatory standards, documented policies and policyholders' reasonable expectations. Any changes in practice will be approved by the UPG.

8.9.6.Additional unit-linked funds may become available to FFLAC policyholders as a result of the creation of new unit-linked funds in FFLAC that are required to administer the transferring business. In the normal course of business, some FFLAC and transferring business unit-linked funds with similar characteristics may be merged. This will only be done if customers will not be adversely impacted by any changes. In particular charges and risk ratings will be no higher, and asset mix profiles will be similar.

8.9.7.In many cases, expense charges under unit-linked policies are not guaranteed and the company has discretion to vary them in the future subject to conditions which are set out in the relevant terms and conditions. The Scheme does not alter this position.

8.9.8.Under some policies, the company also has discretion to increase or decrease charges for insurance risks, in particular for mortality and morbidity risk. The principles and practices under which such charges will be reviewed will not alter as a result of the Scheme. Any future changes in the practice of discretion will be approved by the FFLAC Conduct Committee. I consider that the Scheme will not have an adverse effect on the factors which may lead to the charges being increased.

8.9.9.Therefore, there should be no impact of the Scheme on policyholders arising from the operation of unit-linked funds.

8.10.Summary

8.10.1.There are no changes to the right and expectations of current FFLAC policyholders. In particular there are no changes to any of the following:

- Policy terms and conditions;
- Ongoing administration and governance;
- Investment management (at the Effective Date);
- Bonus Policy;
- Management of the With-Profits Funds; and
- Policyholder taxation.

8.10.2.Administration services provided to FFLAC policyholders may change as a result of Integration. However, these changes will not result in a material change to the services provided to policyholders.

8.10.3. While the mix of business in FFLAC immediately prior to the Effective Date will be different to that immediately after, there will be no products sold at that time that were not previously offered by FFLAC. There will be no changes to the types of new business written into the FFLAC With-Profits Funds. I do not expect there to be any diminution of the level of controls around new business as a result of the transfer.

8.10.4.While investment management arrangements (including the choice of funds available to FFLAC unit-linked customers) may change over time after the Effective Date, I believe that such changes would have been likely to occur irrespective of the Scheme.

8.10.5.No adverse changes are anticipated for with-profits policyholders as a result of the Scheme, nor is an increase in charges anticipated. With-profits funds may merge at a future date, however, given the governance structures that will be in place to protect policyholders' interests, this should not have a negative impact on them.

8.11. Conclusion

8.11.1. I conclude that the proposed Scheme has no material impact on the fair treatment and benefit expectations of the existing policyholders of FFLAC.

9. Arrangements for the management of the business transferred from UKLAP to FFLAC but reinsured back to UKLAP in full

9.1.Benefit Expectations and Fair Treatment

9.1.1.This section considers the effect of the Scheme on the existing UKLAP policyholders being transferred to FFLAC, and immediately reinsured back into UKLAP. The WPA and CFA Reports have concluded that the Scheme does not materially adversely impact the benefit expectations and fair treatment of the policyholders. I have relied on their conclusions in that respect. In this section I consider the ability of FFLAC to service the business.

9.2.Administration

9.2.1.The non-Irish part of this business is currently administered within UKLAP, either directly or through 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 to ensure that reinsured policies are administered in the same way as they were before the Scheme.

9.2.2.There is a small block of Irish ex-CGNU business which is currently administered through an arrangement between Aviva Life Services Ireland Limited ("ALSI") and UKLAP. ALSI will be dissolved and an equivalent arrangement between UKLAP and FFLAC put in place before the transfer. This business has always been administered in Ireland and this will continue to be the case following the transfer. There will be no change to the administration for this business.

9.2.3.There will be no change to the administration of any of these policies, with UKLAP, external outsourcers and FFLAC performing the same administration services as before the transfer. This means there will be no impact on the service standards experienced by, and the ongoing communications received by, the policyholders transferring to FFLAC.

9.3.Investment Management

9.3.1.The assets backing this business within UKLAP are managed in accordance with an Investment Management Agreement with Aviva Investors Global Services Limited.

9.3.2.As this business will be fully reinsured back to UKLAP, the only asset held by FFLAC in the respect of it will be the reinsurance asset. The assets backing this business will continue to sit within the originating UKLAP sub funds and will continue to be managed under the Investment Management Agreement.

9.4.FFLAC Sub funds Classification

9.4.1.As discussed in the CFA and WPA reports, 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. As all payments (claims, bonuses and estate distributions) declared by UKLAP will flow directly through FFLAC to the policyholders, there is no requirement to exercise any additional discretion introduced within FFLAC and these will have no impact on the management of other FFLAC WPFs.

9.4.2.The unit-linked policies in the fund will continue to be invested in the same funds after the transfer and subject to continued oversight of the UKLAP unit pricing governance committee.

9.4.3.These policies will continue to be managed by UKLAP. FFLAC will be required to exercise appropriate oversight of the management of these policies.

9.5. Reinsurance Oversight

9.5.1. As a result of the reinsurance and administrative arrangements of this business introduced by the Scheme, FFLAC will be required to exercise appropriate oversight. This outsourcing will include, in addition to the administration of the business, the provision of financial information to FFLAC for inclusion in its financial statements including Solvency II reporting.

9.5.2. I have reviewed the draft reinsurance agreement and side letter and concluded that:

- The terms of the agreement are consistent with the Scheme. In reaching this conclusion I have relied on legal review of the Scheme and the agreement;
- The terms of the floating charge achieve the required outcome. I have relied on legal advice provided to Aviva in reaching this conclusion;
- FFLAC will be capable of administering the agreement in accordance with its terms.

9.5.3. I have reviewed the outsourcing agreement and concluded that it provides for the continued servicing of the OLAB business by UKLAP and that the terms of the agreement provide for appropriate oversight by FFLAC of the services and for appropriate reporting to FFLAC.

9.5.4. I have reviewed the intended governance process that will be applied to the outsourcing by FFLAC and concluded that these are consistent and in accordance with the Irish domestic actuarial regime and CBI outsourcing requirements.

9.5.5. I have relied on the legal review regarding the consistency between the terms of the reinsurance treaty and the terms of the scheme.

9.6. Summary

9.6.1. The structure of the reinsurance and side letter ensure that these policies will continue to be subject to equivalent governance, administration, expenses, investment management, bonus policy and regulatory environment to that which they are currently exposed. Therefore, the servicing of this business will be unaffected by the Scheme.

9.6.2. The floating charge which is included in the reinsurance arrangement ensures that policyholders are entitled to the same payouts as UKLAP's direct policyholders under UKLAP's insolvency, albeit through the payouts that FFLAC itself receives on behalf of policyholders.

9.6.3. The terms of the reinsurance arrangement provide for appropriate oversight of this transferring business and FFLAC will be capable of administering the arrangements in accordance with the Scheme in respect of this business.

9.7. Conclusion

9.7.1. The effect of the Scheme on the UKLAP policyholders being transferred to FFLAC and reinsured back to UKLAP in full is considered by the With-Profits Actuary and Chief Financial Actuary of UKLAP and their conclusions are set out in their reports.

9.7.2. Having taken their conclusions into account, I conclude that the proposed Scheme has no material adverse impact on the fair treatment and benefit expectations of the business being transferred to FFLAC and immediately reinsured back to UKLAP.

10. Arrangements for the management of the business transferred from UKLAP to FFLAC excluding business reinsured back to UKLAP in full

10.1. Introduction

10.1.1. In this section I consider the ability of FFLAC to give effect to the arrangements that are to be in place for the management of the business to be transferred from UKLAP to FFLAC under the Scheme, that are not subject to the reinsurance arrangements. I have relied on the opinions, expressed in the WPA and CFA reports, that the Scheme does not materially adversely impact on the policyholders' benefit expectations and fair treatment and will not comment further on these matters.

10.2. FFLAC Structure

10.2.1. It is proposed that all of the transferred non-profit policies within the Irish NPSF in UKLAP will be allocated to the Other Business Fund in FFLAC, 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 Irish WPSF in UKLAP will be allocated to a newly created ring-fenced sub-fund, ALPI Irish WPF. The assets and liabilities of 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 have not yet been finalised. However, there will be key principles applied to integrate this business with the existing FFLAC business. These are to treat customers fairly and to use the "best of both" approach across people, processes, systems and controls.

10.3.2. In addition, servicing of these policyholders both pre and post transfer must comply with the Aviva 'Customer Experience Standard' and follow the rules of the Consumer Protection Code ("CPC") in Ireland.

10.3.3. Based on the integration principles and proposed frameworks, the fact that FFLAC must already comply with the CPC and will also comply with the Aviva Customer Experience Standard by the time of the transfer, I am satisfied that FFLAC will be able to administer these policies to the same standard as previously and that there are sufficient protections to ensure there is no material impact for policyholders.

10.3.4. As described in Section 9.3, UKLAP is currently party to the Investment Management Agreement which covers the Irish policies. FFLAC is establishing a standalone IMA with AIGSL, but it is not proposing to change any investment guidelines or fees and therefore no change is expected for policyholders.

10.3.5. I am satisfied that there are proposed to be no changes to the investment strategies of any of these funds as a result of the transfer and that going forward, FFLAC can satisfy their requirements in respect of the proposed IMA.

10.4. Irish WPSF Key Commitments

10.4.1. One of the key requirements going forward is the requirement to manage the IWPF in a manner consistent to its current management under UK regulations.

10.4.2. Much of the fund's current management is 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; requirement to have a PPFM and the requirement to have a WPC).

10.4.3. In each of the CFA, WPA and IE reports the requirement to materially maintain the UK regulatory protections is a key requirement but the Scheme does not enforce this on existing FFLAC policyholders.

10.4.4.As noted in the CFA, WPA and IE reports, Principles and Practices of Financial Management, consistent with the current Irish WPSF PPFMs, have been drafted for the ALPI Irish WPSF. As 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 with the HoAF; this provides reassurance that the protections offered by the PPFM will be maintained over time. I have reviewed the revised draft Irish WPF PPFM and am satisfied that FFLAC has the resources and personnel to manage this business in accordance with and comply with this PPFM going forward.

10.4.5.The WPC will continue to provide oversight for the Irish WPSF policyholders after the transfer to FFLAC.

10.4.6.The Irish regulations do not include a regulated role specifically equivalent to the UK With-Profits Actuary role, which has a statutory responsibility to report to the Board and indeed the UK regulator should he or she have any concerns. However, on 22 June 2018 the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II. This consultation paper proposes amendments to the actuarial regime in Ireland relating to the governance of with-profits business. It is proposed that these additional requirements will not apply to currently authorised insurers with existing with-profits policies until 1 January 2020. Once these additional requirements come into force, they will apply to ALPI DAC.

10.4.7.Currently within Ireland, there is a regulated HoAF role, defined by the CBI's "Domestic Actuarial Regime and Related Governance Requirements under Solvency II (2015)", providing some of these protections, which I currently perform. A formal HoAF role profile has been drafted to explicitly outline the additional requirements over and above the Irish regulations that the FFLAC HoAF is required to perform to maintain policyholder protections in respect of this business. The commitment to maintaining this role profile is included within the PPFM.

10.4.8. While there is currently 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 FFLAC Board.

10.4.9.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 Irish WPSF PPFM.

10.4.10.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.

10.4.11.I have reviewed the HoAF role profile and am satisfied that, with the support of the UKLAP WPA, the FFLAC HoAF will be able to fulfil this role going forward.

10.4.12. I have reviewed the WPC Terms of Reference and am satisfied that FFLAC can manage to and comply with the requirements of the WPC on an ongoing basis.

10.4.13.I expect that the provisions of the Scheme, the PPFM and the WPC TOR, along with the HoAF role profile mean that ALPI DAC will be fully compliant with the CBI's consultation relating to the governance of with-profits business when it comes into effect.

10.4.14.There is currently a Management Services Agreement ("MSA") and memorandum of understanding in place between UKLAP and the Irish WPSF which specify the per policy charges incurred by the Irish WPSF. This charging structure is being replicated between FFLAC and the Irish WPF, 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. The existing arrangements are being replicated as a Memorandum of Understanding ("MOU") between FFLAC and the Irish WPF. I am satisfied that FFLAC will be capable of operating on the same basis. I am also satisfied that this will not adversely affect the management of existing FFLAC with-profits policyholders.

10.5. Unit-linked policyholders and other non-profit policyholders

10.5.1.No changes are being proposed to policy terms and conditions for the transferring UKLAP policyholders under the Scheme. Accordingly, all the unit-linked funds currently available to Irish policyholders will be established by FFLAC on the Effective Date.

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.As discussed in 10.3.4 and 10.3.5 above, the Scheme will not impact the likely performance of the investment managers employed. These arrangements will be reviewed periodically as business needs evolve with the fair treatment of policyholders a key consideration in any review. 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.

10.5.4.Under some policies, the company may increase or decrease charges for insurance risks to reflect emerging experience. 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. Having seen the proposals for the governance of unit pricing and controls over the application of discretion, I am satisfied that the principles and practices under which such charges will be reviewed will not alter as a result of the Scheme.

10.5.5.Following the transfer, unit-linked policyholders will be subject to Irish Consumer Protection Code ("CPC") regulations only, whereas currently they are also subject to the UK's COBS 21 rules. While COBS 21 is more prescriptive, it does not provide more protection in many areas than what is provided by the CPC.

10.5.6.The 'Irish' unit-linked funds are already subject to their own unit pricing policy, which will be maintained by FFLAC 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 unit pricing policy has been updated to include equivalent protection. FFLAC will be capable of operating the funds according to this policy.

10.5.7.The oversight of the unit-linked business will be performed by a FFLAC Unit Pricing Group ("UPG") (which is in the process of being established), with Terms of Reference including the same responsibilities as the UKLAP UPG. Unit pricing will continue to be performed as it currently is, whether insourced or outsourced, as will the unit pricing oversight activities. In order to ensure continuity of the management of the business going forward, it is proposed that existing members of the UK UPG will attend at the FFLAC UPG. I am satisfied that FFLAC DAC will be capable of providing appropriate oversight of unit-linked funds according to this structure.

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.Policyholders are mainly concerned with the security of their benefit entitlements. As discussed in section 7, I believe that the Scheme has no material impact on benefit security.

10.6.4.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 similar to that of unit-linked business covered above. I am satisfied that the governance processes surrounding the exercise of discretion on non-profit business employed by FFLAC are sufficiently similar to those employed UKLAP. 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.

10.7.2.Policyholders are mainly concerned with the security of their benefit entitlements. As discussed in section 7 and in the CFA and WPA reports, I believe that the Scheme has no material impact on benefit security.

10.8.Tax considerations

10.8.1.The basis of charging tax to the Irish WPSF and the with-profits funds of FFLAC is that each is charged tax on the basis that it is a stand-alone company.

10.8.2.Following the transfer, certain services supplied to Ireland from overseas will be charged additional VAT at the rate of 23%. The additional VAT borne by the Other Business Fund will be an ongoing business cost with no impact expected on policyholders. Although Aviva believes that it could be considered fair for it to recover some of the additional costs and VAT from transferring with-profits policyholders, the amounts are relatively small and it does 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 the UK to Ireland, no significant tax impacts are expected on UK or overseas policyholders as there is no change in the terms and conditions of the policies involved.

10.8.4.The corporation tax treatment in both UKLAP and FFLAC of both the transfer itself and the transfer of assets it involves, is expected to be broadly neutral in the UK and Ireland. The necessary tax clearances in respect of the scheme will be expected to be received from the UK and Irish tax authorities in due course. There is expected to be no impact to policyholders due to the change in corporate tax.

10.9.Communications to Policyholders

10.9.1. I have reviewed the drafts of the proposed communication for these policyholders. While these are considered the preserve of the WPA and CFA, I am satisfied that the material correctly describes the future management of these policies by FFLAC.

10.10.New Business

10.10.1.The transferring 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 Irish WPSF will be written in the Other Business Fund of FFLAC.

10.10.3. I conclude that the proposed Scheme has no impact on the fair treatment and benefit expectations of the policyholders of UKLAP transferring to FFLAC.

10.11. Conclusion

10.11.1. The effect of the Scheme on the UKLAP policyholders, including the with-profits policyholders, is considered by the With-Profits Actuary and Chief Financial Actuary of UKLAP and their conclusions are set out in their reports.

10.11.2. Having taken these conclusions into account, I conclude that the Scheme will have no material adverse impact on transferring policyholders not being reinsured back to the UK and that FFLAC will be capable of administering the arrangements in accordance with the Scheme in respect of this business.

11. Conclusions

11.1. It is my view that:

11.1.1. The Scheme does not result in any changes to the benefit expectations of the existing FFLAC or transferring 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 as a result of the Scheme.

11.1.2. The security of benefits for policyholders is not materially adversely affected as a result of the Scheme as the surplus capital in FFLAC remains at the level of the internal Solvency Risk Appetite after the transfer. In addition, the governance processes around changes to the Solvency Risk Appetite in FFLAC are sufficiently robust to protect policyholders.

11.1.3. The risks to which policyholders are exposed are not materially changed by the Scheme, though there are changes in exposure to individual risks. In any event policyholders remain supported by adequate capital.

11.1.4. The reinsurance agreement with respect to the transferring business immediately being reinsured back to UKLAP is consistent with the Scheme. I am satisfied that the floating charge attaching to this reinsurance treaty ensures the transferring policyholders retain the same ranking under insolvency as before the Scheme.

11.1.5. 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 no material adverse impact for these policyholders either on transfer or subsequently. There are no changes to any with-profits policyholders' benefit expectations.

11.1.6. Administration and management of policies and treatment of policyholders are unchanged as a result of the Scheme. There are sufficient controls in place to protect policyholders from future changes to administration and ensure their continued fair treatment. I am satisfied that FFLAC will be capable of administering the business in accordance with the Scheme.

11.1.7. I therefore conclude that the Scheme does not result in a material adverse impact on the financial security of FFLAC policyholders, either those already in FFLAC or those transferring to FFLAC from UKLAP or their policyholders' benefits, their benefit expectations or on the fairness of their treatment.

Appendix: Glossary of terms

ABC	Activity based costing. This is a process to allocate the expenses of the business based on where time is spent.
ALPI DAC	Aviva Life & Pensions Ireland Designated Activity Company, FFLAC is due to be rebranded to Aviva Life & Pensions Ireland Designated Activity Company on the Effective Date of the proposed transfer
ALSI	Aviva Life Services Ireland Limited
ASP	Actuarial Standard of Practice, as issued by the Society of Actuaries in Ireland.
BEL	Best estimate liabilities under Solvency II regulations
Board	The board of directors of the relevant company from time to time.
Brexit	The term used to describe the UK's exit from the EU, following the vote taken in the EU referendum on 23 June 2016.
CBI	Central Bank of Ireland, the regulator of the financial services industry in Ireland.
CFA	Chief Finance Actuary. The Chief Finance Actuary provides advice to the management and Board of Aviva UK Life on the financial management of its business, and in particular the management of its solvency position.
COBS	Conduct of Business Sourcebook, produced by the PRA, gives rules and principles that regulated financial services companies must follow in the UK.
CPC	Consumer Protection Code 2012, updated with effect 1 January 2015. Produced by the CBI, provides rules and principles that regulated financial services companies must follow in Ireland.
CRA	Chief Risk Actuary. The Chief Actuary function (SIMF20) in the UK is the function of having responsibility for advising the Board on the reliability and accuracy of the technical provisions, including the appropriateness of the data, methodology, models and assumptions used.
CULAC	Commercial Union Life Assurance Company
Effective Date	The date at which the Scheme becomes legally binding.

Estate	The excess of the assets of a with-profits fund over the liabilities
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firms, including the fairness of treatment of customers.
FFLAC	Friends First Life Assurance Company DAC
FLAS WPSF	The FLAS With-Profits 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.
FP WPSF	The FP With-Profits Sub-Fund of UKLAP
FSAI	Fellow of the Society of Actuaries in Ireland
FSMA	Financial Services and Markets Act 2000 (as amended)
GAO	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 and approved by the PRA and FCA pursuant to Section 109 of FSMA.
INPSF	Irish Non-Profit Sub-Fund of UKLAP
Irish WPSF or IWPSF	Irish With-Profits Sub-Fund of UKLAP
IWPF	The Irish With-Profits Fund of FFLAC
LTBF	Long-term business fund

MOU	Memorandum of Understanding. An agreement between two or more parties where they express a convergence of will, indicating a common line of action.
NWPSF	The New With-Profits Sub-Fund of UKLAP
OBF	Other Business Fund
OWPSF	The Old With-Profits Sub-Fund of UKLAP
PPFM	Principles and Practices of Financial Management. In managing with-profits business firms rely on their use of discretion. The PPFM explains the nature and extent of discretion available 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, CULAC and Norwich Union Life (RBS) Limited to UKLAP as described in section 5.1.6.
RIEESA	Reattributed Inherited Estate External Support Account
Ring-Fenced Fund	In the context of a with-profits fund, a Ring-Fenced Fund is a fund where the own funds of that with-profits fund are restricted in determining the Solvency II own funds of the company.
Scheme	The insurance business transfer Scheme that is the subject of this transfer.
SHF	Shareholders Fund
Solvency Capital Requirement (SCR)	The capital an entity is required to hold under Solvency II Pillar 1.
SRA	Solvency Risk Appetite, how Aviva Group refers to the capital policy.
Standard Formula	The Standard Formula is a standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II.
Technical Actuarial Standards (TAS)	Technical Actuarial Standards, the principles created by the Financial Reporting Council against which all Required or Reserved Actuarial work should be performed.

TMTP	Transitional Measures on Technical Provisions, a deduction from the technical provisions, aiming to provide a smoother transition for insurance companies from Solvency I to Solvency II, phasing in the full impact of Solvency II over 16 years.
UKLAP	Aviva Life & Pensions UK Limited
UPG	Unit Pricing Group
UWP	Unitised With-Profits business
VA	Volatility Adjustment. 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.
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.
WPSF	With-Profits Sub-Fund; a sub-fund of UKLAP.