SDA ACTUARIES

ELAS

Proposed Scheme to transfer German and Irish policies to ELI

INDEPENDENT EXPERT

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10 DECEMBER 2018

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Executive Summary

OVERVIEW OF THE SCHEME

Why is the Scheme being proposed?

This is dealt with in Section 3 of my report.

Equitable Life Assurance Society ("ELAS") has policies written historically through its Irish and German branches to policyholders based in Ireland and Germany respectively. After the UK withdraws from the EU, and assuming no deal is reached on how to manage these types of policies between the UK and the EU, ELAS would not be able to administer or pay benefits to these policyholders. Therefore, ELAS are setting up a subsidiary in Ireland (which will continue to be a part of the EU) and transferring these policies to this subsidiary. The policies can then continue in force irrespective of the UK's withdrawal from the EU.

The new insurance company in Ireland will be called Equitable Life Ireland DAC ("ELI") and will be a Designated Activity Company. The only policies being transferred are those where the policies had been originally sold by one of the two branches, and this Report refers to these as Transferring Policies. Other policies will remain with ELAS. This Report refers to these as Remaining Policies.

ELI will be based in Ireland and will be regulated by the Central Bank of Ireland. The number of policies and the policy values transferred are expected to be in the order of 5,000 and £58 million, although guarantees and other liabilities will increase the total liabilities transferred to £78 million and assets to £85.5 million.

ELI has not been granted permissions by the CBI to service the Transferring Policies but the CBI expect to do so in January.

The policies transferred will include:

- Irish With-Profits business;
- German and Irish Unit-Linked business;
- German and Irish conventional Non-Profit temporary assurances, deferred annuities and annuities in payment;
- UK-Style German With-Profits business;
- German-Style With-Profits business; and
- Guaranteed Annuity Rates ("GAR") Liabilities ("GAR Liabilities")

The Scheme is a "Part VII Transfer" as defined under the Financial Services and Markets Act 2000. It requires approval by the High Court and allows anyone affected by the Scheme to have their views raised.

Irish With-Profits business and UK-Style German With-Profits business will be transferred to a new Ring-Fenced ELI With-Profits fund. They will no longer share in the profits of the main ELAS fund nor will they directly share in the profits generated by the other Transferring Policies. The other Transferring Policies will be in ELI but outside the Ring-Fenced ELI With-Profits fund.

Normally a new insurer will require its own administration system and its own staff of administrators. To ensure continuity of service, ELAS is putting in place a Management Services Agreement ("MSA") whereby all of the administration of the policies within ELI will be carried out by ELAS for set fees. There will be additional expenses for running ELI in terms of new senior management and some additional costs for maintaining a separate legal entity. These have been estimated at £0.4 million to £0.5 million a year. Technical Provisions will be established to meet these continuing costs within ELI's balance sheet.

To ensure that the Transferring With-Profits policyholders continue to share in the profits (and losses) of the main ELAS fund, a new Reinsurance Agreement has been established which will cover all the benefits and premiums of the Transferring With-Profits policies and allow for any profits from the main ELAS fund as well as investment returns and expense profits to be shared with the Transferring Policies in the same way as would have been done prior to the Scheme. I have reviewed the Reinsurance Agreement and I believe it is reasonable and it would achieve its aim.

ELAS will transfer sufficient resources to capitalise ELI so that 150% of the Solvency Capital Requirement ("SCR") (as required under Solvency II, the current solvency regime for EU insurers) will be covered at outset as well as providing for the Technical Provisions covering any liabilities transferred. A Capital Support Mechanism has also been established which will ensure that ELI can call on ELAS for further capital injections if the coverage of the SCR falls below 120%, as long as this would not endanger the solvency or liquidity of ELAS. Dividends will be paid by ELI to ELAS as long as ELI is achieving 150% coverage after the dividend payment.

Alternatives

There were two main alternatives to carrying out the Scheme. The first was to approach the CBI and BaFin (the German regulator) to ask whether ELAS could continue to administer the policies after the UK leaves the EU without establishing an EU-based insurer.

ELAS approached the Central Bank of Ireland ("CBI") and was informed that the CBI did not have the power to allow this to happen. It would have to follow the single market EU regulations and would not allow ELAS to continue to administer these policies from the UK unless the terms of the EU's withdrawal from the EU specifically allowed for access to the single market for UK life insurers. As the Irish policyholders make up the bulk of the Transferring Policyholders (holders of Transferring Policies), this route was not pursued. We note that BaFin has recently published a draft regulation change that would enable policies such as those for ELAS to continue to be serviced from the UK during any transition period. However, this would not be a permanent solution (and would only affect German Policies), so does not give a viable long-term alternative.

The other alternative was not to carry out the Transfer and to hope that the terms of the UK's withdrawal from the EU would allow for the policies to continue to be administered in the UK. This was rejected as an option unless there were adequate transitional provisions, due to the risk of policyholders not being able to receive their benefits. However, ELAS have confirmed that if there are adequate transitional provisions, then the Transfer will not go ahead.

Purpose of the report

An Independent Expert is required to report to the High Court on the contents and implications of any Part VII transfer or scheme. There are rules and guidance about what should be included within the report laid down by the UK regulators, the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") which reside in the PRA's Statement of Policy on "The Prudential Regulation Authority's approach to insurance business transfers" from April 2015 and the chapter marked SUP18 in the FCA Rulebook. I am the Independent Expert appointed to provide this report to the High Court. The report needs to be made public and a summary has to be sent to policyholders. The report has to give my views on the effect that the Transfer has on various classes of policyholders. This includes the Transferring Policyholders and holders of Remaining Policies (the "Remaining Policyholders"). I need to consider different sub-groups within these groups of policyholders depending on whether I believe the impact will be markedly different between the groups.

I am required to give an opinion on whether any of these groups of policyholders are adversely affected and whether any adverse effect is material.

I look at the security of the benefits promised by ELAS to its policyholders, policyholders' benefit expectations especially if they have some element of discretion attached, the approach to unit pricing and investment fund mandates for Unit-Linked policies and whether policyholders can expect the same level of service from the insurer in the future.

Discretionary aspects of policies are particularly relevant on "With-Profits" policies where the policies' benefits depend upon the profits of ELAS and there is discretion exercised by the Board on how to share these profits and the timing involved. However, it is also present in other policies such as Unit-Linked policies on unit pricing and any policy with reviewable premium rates.

Complications from other ELAS planned events

In June 2018, ELAS entered into an agreement to transfer the Society and its policies into Reliance Life, part of Life Company Consolidation Group ("LCCG").

There are two schemes that ELAS expects to enter into.

The first is a Scheme of Arrangement which will convert all of the ELAS With-Profits policies into Unit-Linked policies. This will be achieved by uplifting all of the asset shares (the underlying realistic value of the policy used as a guide to set bonuses and future payouts) by distributing all of the With-Profits assets. Secondly, these asset shares will then be switched into Unit-Linked policies. The guaranteed investment returns and guaranteed minimum benefits will then cease to apply. The uplift will allow for the value of the guarantee given up. The Scheme of Arrangement will take place at the same time as the sale of ELAS (and ELI) to Reliance Life.

The second is a transfer whereby all policies in ELAS will then be transferred into Reliance Life ("Reliance Transfer"). The empty shell of ELAS will then be wound up.

These schemes are expected to take place by the end of 2019, several months after the planned Effective Date of the Scheme considered in my Report.

The policies transferred to ELI are not expected to directly take part in the Scheme of Arrangement or the Reliance Transfer. However, the ownership of ELI is expected to transfer to Reliance Life or LCCG when the Scheme of Arrangement is implemented. If there is adequate transitional provision, the Transfer will not go ahead and the Irish With-Profits policies will be expected to take part in the Scheme of Arrangement and all policies will be expected to take part in the Reliance Transfer.

MY APPROACH

This is dealt with in section 4 of my report.

I am not required to consider the impact of the later two schemes (the Scheme of Arrangement or the Reliance Transfer) on policyholders. That is the work of other Independent Expert(s) who will report in due course.

However, I need to consider as part of my report on the Scheme of Transfer to ELI the potential effect of three future scenarios that could arise after the Transfer has been completed:

1. The Scheme of Arrangement and Reliance Transfer do not take place;
2. The Scheme of Arrangement and Reliance Transfer do take place; and
3. The Scheme of Arrangement takes place (including the sale of ELAS (and ELI) to Reliance) and the Reliance Transfer does not take place.

ELAS management believes that it is extremely unlikely that only one of the Scheme of Arrangement or Reliance Transfer can occur whilst the other does not. From correspondence I have received from ELAS management, I believe that the Reliance Transfer cannot occur without the Scheme of Arrangement but the Scheme of Arrangement could (in an unlikely scenario) occur without the Reliance Transfer. Note that the Scheme of Arrangement cannot take place without the sale of ELAS (and ELI) to Reliance.

If the Reliance Transfer goes ahead, then the Reinsurance Agreement, the MSA and the Capital Support Mechanism will fall away. There is the intention of creating new forms of these agreements with Reliance Life/LCCG but there is no guarantee of this occurring and no expected resulting agreements.

This report is, therefore, more complex than other similar reports as there is an additional degree of uncertainty on the end destination.

FINDINGS

Financial impact

This is dealt with in Section 5 of my report.

I have examined documents from ELAS on the impact on ELAS's balance sheet and on the expected development of ELI.

ELI will be owned 100% by ELAS and will be consolidated into ELAS's balance sheet. Overall, the impact on the consolidated firm will be a reduction in the free assets (or "Own Funds") by the expenses of carrying out the Transfer, establishing ELI and paying the increased ongoing expenses of ELI into the future. The Reinsurance Agreement and the MSA reduce the costs of managing ELI to extra senior management, accounting, compliance and actuarial costs. The administration of the policies and their benefits will still be carried out by ELAS. The costs amount to £2.5 million on the Transfer and establishing ELI, and £0.4 million to £0.5 million annual costs thereafter. The latter cost is capitalised in the balance sheet immediately at an extra expense reserve of £9 million (approximately 11 million Euros). Note that the cost will be shared amongst all the Transferring and Remaining With-Profits policyholders, which is in line with the pooling concept for with-profits business and statements to policyholders made by ELAS about how it runs its with-profits business.

Therefore, there is a loss to policyholders from the exercise of some £11 million to £12 million. ELAS has total assets of £6,613 million as at 31 December 2017 and total Technical Provisions of £5,850 million, so the cost is a small proportion of total assets. Coverage of the Solvency Capital Requirement before and after the proposed Transfer, assuming the Transfer occurred on 31 December 2017, remains at 167%.

ELI has two five-year projections in its Own Risk and Solvency Assessment provided for the CBI based on 31 December 2016 figures to agree establishment of the company. The main "best estimate" projection shows a growing level of solvency and an orderly run-off over the next five years. There appears to be an orderly run-off from this initial five-year projection. The amount of assets as at 31 December 2017 is estimated at £85.5 million with Technical Provisions at £78.0 million leading to own funds of £7.5 million with a Solvency Capital Requirement of £5.0 million. The 150% coverage of SCR at outset is slightly lower than the 167% for ELAS and, in my opinion, is adequate as it is well in excess of regulatory requirements.

For all Transferring policies, there will be a loss of protection from the Financial Services Compensation Scheme which provides compensation if a UK life assurer cannot meet its obligations. As stated above, I believe that ELI will have sufficient capital available and that its Own Risk and Solvency Assessment shows a reasonable level of ongoing solvency.

The Capital Support Mechanism gives ELI comfort that ELAS will support ELI's solvency to at least 120% coverage of its SCR as long as the support would not cause ELAS to have solvency issues. Dividends will only be paid by ELI to ELAS if ELI is achieving 150% coverage after the dividend payment.

Therefore, the impact of the Transfer is marginally negative due to the extra costs involved.

As these costs are a requirement of a "hard Brexit" which is out of the control of ELAS, and the costs have been minimised by the three agreements put in place by ELAS, I believe that this does not materially adversely affect policyholders.

Benefit impact including areas where benefit security could be weaker

This is dealt with in section 6 and 7 of my report.

For ELAS policyholders, there is no material impact from the Transfer other than the slight impact of the additional costs mentioned above on policyholders' benefit expectations and the security of these benefits.

For ELI Unit-Linked and Non-Profit policyholders, including German-style German with-profits policies and Guaranteed Annuity Rate liabilities, no impact will occur. The MSA and the continuation of investment management agreements ensures that the position does not change.

I have also examined the governance arrangements that will be in place in ELI and believe that there will be adequate controls locally within ELI to meet reasonable policyholder expectations.

ELI With-Profits policyholders will be placed in a Ring-Fenced Fund and will no longer benefit from the profits (and losses) of the Non-Profit and Unit-Linked business nor from the wider fund of ELAS. The Reinsurance Agreement is designed to offset this potential loss by ensuring that all of the profits of the total ELAS fund including those derived from the Non-Profit and Unit-Linked business from ELI is shared back to ELI as if they were still part of the main fund including maintaining the investment returns that would be available if they had not left the main fund. Again, the MSA is designed to ensure the same service is maintained. The Capital Support Mechanism has been established to provide further capital security for ELI.

Therefore, assuming that the three agreements are in place, there is no material adverse effect on Transferring Policies. The next section discusses these agreements and explains what happens when they fall away.

When the Scheme of Arrangement takes place, ELI's With-Profits policies are expected to have an increase in their asset shares so as to distribute all the ELI With-Profits assets in the same way that the Scheme of Arrangement aims to distribute all the With-Profits assets of ELAS. Asset shares are a calculation of the share of the fund that is deemed to belong to each policy by accumulating their premiums less expenses less an allowance for the cost of risk benefits at the actual investment return. They are commonly used in With-Profits companies to give some indication of the fairness of any payout. The increase is equivalent to the base uplift under the Scheme of Arrangement and is likely to be in the order of a 60% or 70% increase (to 160% or 170% of the previous asset shares). The policies will then pay the greater of uplifted asset share or guaranteed values. The guarantees including the guaranteed minimum benefits will remain at their previous value. These guarantees will be less valuable against the asset share after the uplift and it is expected that the only policies that will still normally benefit from the guarantees will be those with the 3.5% guaranteed investment return. The value of the guarantees including the guaranteed minimum benefits is expected to shrink to £0.5 million for ELI. There is no guarantee, at present, that the uplift in asset shares will take place as part of the Scheme of Arrangement. However the intention to apply the uplift will be covered by the Witness Statements given to the Court in relation to the Scheme, so it is unlikely that the uplifts will not be carried out, provided the Scheme of Arrangement occurs.

However, the Irish With-Profits policies will not be automatically switched into Unit-Linked policies as would have occurred under the Scheme of Arrangement. They will continue as With-Profits policies and may be allowed to switch into Unit-Linked with their uplifted asset shares if they wish (some policy types will not be able to switch). German Policies are not able to switch at present, as such a switch would give rise to a policyholder tax charge in Germany and this will continue. For ELAS policies, a further uplift is made over the level proposed for ELI to remove the guarantees automatically. The equivalent further uplift for affected With-Profits Transferring Policies would have been in the order of 3.9% of their asset share. However, at present, it is proposed that this further uplift will not take place for ELI policies.

The increase of benefits for the affected Irish With-Profits policyholders will, therefore, be less for ELI than if they had remained in ELAS. However, they still retain their guarantees and, in my opinion, the amount of benefit lost will be small compared with the large increase and will only affect a sub-group of policyholders where the guarantee retains material benefit. I would suggest that this is re-examined by ELI's Board when it considers fair values for allowing policyholders to switch from With-Profits to Unit-Linked for the policies affected. ELAS, at present, is proposing no such uplift.

The Agreements – status and what happens when they fall away

The Reinsurance Agreement, the Capital Support Mechanism and the Management Services Agreement can be seen as three agreements that, together, ensure that no material adverse effect is suffered on the Transfer and that ELAS has no reduction in its scale due to the Transfer (a small effect could otherwise be possible due to spreading expenses over fewer policies).

They have all been reviewed and approved by the Executive Committee of ELAS, reviewed and approved for submission to the Court by a Board Sub-Committee at its meeting on 20 November 2018 and the final versions are expected to be reviewed and approved by the ELAS Board in February.

Obviously, these agreements could change over time. I would not expect them to change in the normal course. However, the Reliance Transfer is likely to lead to the agreements falling away. Although the MSA would transfer to Reliance Life, the Reliance Transfer would allow Reliance Life to give three months' notice to terminate it. The Reinsurance Agreement and Capital Support Mechanism would not automatically transfer unless this explicitly formed part of the scheme for the Reliance Transfer. Note that new similar agreements with Reliance Life/LCCG are expected but not guaranteed.

If the MSA is terminated and is not replaced by a similar agreement with LCCG, ELI will need to source an administration system and extra staff. I estimate that these actions are possible and would not cause ELI to become insolvent, although there would be additional cost and expenditure of senior management time. In my experience, it is perfectly possible to run a With-Profits insurer of ELI's scale with independent resources using outsourcing of functions such as investment management, internal audit, actuarial, IT support and compliance support where the scale would not make full internal functions possible. ELI could also negotiate with ELAS / Reliance for release of copies of the administration system, although a replacement system can normally be purchased and put in place for £1 million approximately (in my experience). The termination of the MSA would therefore, as a minimum, be likely to lead to additional costs of putting in place new arrangements, but I do not anticipate this would be material and indeed replacing the MSA could lead to savings if ELI was able to negotiate lower costs elsewhere.

If the Reinsurance Agreement is terminated, assets will be transferred to ELI equivalent to the liabilities reinsured. There is, therefore, no material impact on the security of ELI other than a possible change in its Solvency Capital Requirement from counterparty risk (to ELAS) to market risk (for the assets). As the assets are proposed to be government bonds, market risk will be minimal. There is a potential loss in the lack of sharing of the profits achieved in the remainder of the ELAS portfolio including its ownership of the Non-Profit and Unit-Linked portions of ELI, but this would have been the case anyway if the Transfer had not occurred but the Scheme of Arrangement had occurred. The uplift in asset share will reflect the value of the Non-Profit and Unit-Linked business to the estate of ELAS. Therefore this is not expected to reduce policyholders' expected benefits.

If the Capital Support Mechanism is terminated and no mechanism is put in its place, there will be a small not material loss in security for ELI policyholders. However, ELI will instead be covered by the group capital support policy of LCCG, which we understand aims for solvency coverage of 135% to 150% for all of its insurance entities. I believe the solvency coverage would be reasonable.

Overall, although the termination of these agreements could create a small adverse effect on the Transferring Policies, I do not believe that there would be any change in my conclusion overall as a result of all three agreements ceasing.

CONCLUSIONS

My conclusion is that there will be small losses for all with-profits policyholders in terms of their benefit expectations and security due to the Scheme going ahead.

However, the impact of a "hard Brexit" or a withdrawal from the EU, which does not allow UK insurers to continue to service and administer EU-based business, is far greater on these policyholders where they could, potentially, lose all their benefits, due to ELAS being unable to service their policies.

Overall, I do not believe any policyholder is materially adversely affected by the Scheme.

S. Dixon

11th December 2018

1 Introduction

1.1 LAYOUT OF THIS REPORT

My report is structured as follows:

- This section sets out an introduction to the Scheme and to this report.
- Section 2 sets out the Regulatory background.
- Section 3 gives an outline of the Scheme.
- Section 4 covers the Scope of this report.
- Section 5 covers the financial impact of the Transfer.
- Section 6 covers policyholders' security and benefit expectations.
- Section 7 describes other impacts of the Transfer.
- Section 8 covers ELAS's contingency plan if the Scheme is not approved or is no longer needed.
- Section 9 describes policyholder communications.
- Section 10 is a summary of my conclusions.

1.2 BACKGROUND

In view of the UK's exit from the European Union ("EU"), in order to continue to operate its books of German and Irish business, Equitable Life Assurance Society ("ELAS" or the "Society") has proposed a Scheme. The proposed Scheme involves setting up a subsidiary within the Republic of Ireland ("Ireland"), Equitable Life Ireland DAC ("ELI"), and transferring the German and Irish business to ELI via a Part VII Transfer. ELI will be set up as a Designated Activity Company, which will be 100% owned by ELAS and will operate the Transferring Policies, passporting services for the German Business.

Therefore, ELAS is applying to the High Court of Justice of England and Wales (the "Court") for approval of the proposed Scheme.

An Independent Expert's Report is required under Section 109 of the Financial Services and Markets Act 2000 (the "2000 Act") in order that the Court may properly assess the impact of the proposed Scheme (the "Scheme" or "Transfer").

1.3 PURPOSE OF THIS REPORT

Section 109 of the 2000 Act requires the parties involved in an insurance business transfer scheme to provide the Court with a report by an Independent Expert on the terms of the proposed Transfer and the likely effects of the Transfer on the members and policyholders of the Society. I have been approved by the Prudential Regulatory Authority ("PRA") who consulted with the FCA, to act as the Independent Expert in relation to the Transfer. The purpose of this report ("The Report") is to set out the results of my review of the terms of the Transfer. In particular, I am required to advise on the likely impact of the Transfer on the policyholders of the Society, and how it would affect the security of their benefits and their fair treatment.

Full details of my Terms of Reference, which have been discussed and agreed with the Society, are set out in Appendix 1. The terms have been reviewed by the PRA and the Financial Conduct Authority ("FCA").

In forming my views, I have taken into account all matters that I consider relevant and material in assessing the impact of the Transfer.

I have considered the impact of the Transfer against the likely position of the Society if the Transfer is not completed. I have not considered any other possible alternative arrangements to the Transfer. I have considered the impact of the Transfer in three scenarios: (a) if the proposed scheme of arrangement to remove the guarantees from most of the With-Profits policies from ELAS and convert these policies into Unit-Linked policies with an uplift in their policy value allowing for the distribution of the estate and removal of guarantees ("Scheme of Arrangement") and the transfer of the resulting book of business to Reliance Life ("Reliance Transfer") succeed; (b) if neither the Scheme of Arrangement nor the Reliance Transfer take place; and (c) if the Scheme of Arrangement (including ownership of ELAS (and ELI) passing to Reliance) takes place but the Reliance Transfer does not.

The Report assesses the likely impact of the Transfer on the existing policyholders of the Society. It does not consider the impact of the Transfer on any new policies written into the Society or ELI following the Transfer, as the Society is closed to new business.

The Report allows for the system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.

I expect to provide a supplementary report for the Court, shortly before the Court hearing at which an order sanctioning the Scheme will be sought, covering any relevant matters which might have arisen since the date of the Report.

1.4 PROFESSIONAL EXPERIENCE

I qualified as a Fellow of the Institute of Actuaries in 1988 and hold Chief Actuary and With-Profits Actuary practising certificates issued by the Institute and Faculty of Actuaries. I am a founding Partner of Steve Dixon Associates llp ("SDA"). I have over 40 years' experience in the UK life assurance industry, including With-Profits, Non-Profit and Unit-Linked business. I have performed regulatory roles as Appointed Actuary, Appropriate Actuary, Actuarial Function Holder, Chief Actuary and With-Profits Actuary within the mutual sector since 2001.

The PRA, having considered the skills needed to make a proper Report, has approved my appointment as Independent Expert, in consultation with the FCA.

The cost of my work is to be paid for by the Society.

I understand my duties and responsibilities to the Court.

1.5 INDEPENDENCE

Neither I, SDA's partners nor any of SDA's employees hold any insurance policies or have any other financial interest in ELAS (or any of their subsidiaries). In addition, neither I nor SDA have previously provided advice to ELAS (or any of their subsidiaries) in a professional capacity. One member of the team undertook an eleven-month secondment to ELAS in 2001-02 in her previous employment.

1.6 REGULATOR

In this Report, Regulator (including Regulatory and other derivations) refers to the relevant financial regulator at the relevant time. Regulator will cover the Financial Services Authority, PRA, Central Bank of Ireland ("CBI") and FCA.

1.7 REGULATORY GUIDANCE

My Report has been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business. See Appendix 4 for details of how these requirements have been met.

I have also considered FG18/4 from the FCA, "The FCA's approach to the review of Part VII insurance business transfers" and the PRA's Statement of Policy from April 2015, "The Prudential Regulation Authority's approach to insurance business transfers".

1.8 PROFESSIONAL GUIDANCE

I have prepared this Report with the intention that it should meet the requirements of the following Technical Actuarial Standards ("TASs") of the Financial Reporting Council:

- TAS 100 "Principles for Technical Actuarial Work"
- TAS 200 "Insurance"

In my opinion, this Report, and the work underlying it, complies with the required standards of TAS 100 and TAS 200. The work has also been carried out in accordance with any applicable standards as laid down by the Institute and Faculty of Actuaries, including having work peer reviewed as set out under Actuarial Practice Standard X2.

1.9 RELIANCES AND SOURCES OF INFORMATION

In producing the Report, I have relied on information provided by the Society and its respective professional advisers without independent verification of the accuracy or completeness of information provided. In particular, I have assumed that the reserves and Technical Provisions are correct as they have been calculated according to the standards used for reporting solvency to the Regulator (according to the statements from the Board backed by advice from their Chief Actuary) and have already been audited by the Society's external auditors. However, wherever possible, I have reviewed the information for reasonableness and consistency and against my understanding of generally accepted market practice and knowledge of the UK life assurance industry. I have also reviewed whether I need my own professional advice (including legal advice) if the matters covered are deemed of material concern and outside my professional expertise.

I consider that it is reasonable for me to rely on the information described in this section as they are provided by a party acting in the interest of their respective members and policyholders and in accordance with the regulations and guidelines set out by the PRA and FCA.

Details of the information that I have been provided with are set out in Appendix 5.

1.10 LIMITATIONS

This is a draft report. I reserve the right to change (without limitation) the contents in subsequent drafts and the final report.

The Transferring Policies are those policies written by the Irish and German branches of ELAS as described in section 3.1 below.

I understand that there may be some policyholders outside of the Irish and German Business who were UK residents when their policies were taken out with ELAS in the UK but now reside elsewhere in Europe. These policies are not within the scope of the proposed Part VII and so are not considered further in this paper. ELAS believes that the only policies that it will not be able to service after the UK leaves the EU will be the Transferring Policies, as defined above (where the State of Commitment is within the EU and not within the UK rather than the State of Risk).

At the time of writing this report, the Scheme of Arrangement and Reliance Transfer had not been finalised or agreed. Therefore, in this report, when writing about these projects, I have based my analysis and judgements on expectations not facts.

The Report should be considered in its entirety, as parts taken in isolation may be misleading.

This Report assumes that ELI will be set up as planned with the appropriate permissions and governance in place for operating the Transferring Policies. I expect to be able to confirm this in my supplementary report.

1.11 REVIEWING PROCESS

In producing this Report, I have complied with SDA's internal reviewing process. This includes a peer review carried out by another actuary within SDA who has experience in Part VII Transfers.

1.12 USERS OF THIS REPORT

The Report has been prepared for the purpose of the Scheme in accordance with Section 109 of the 2000 Act. A copy of the Report will be sent to the ELAS Board and the Regulators, and will accompany the Scheme application to the Court. A copy of the final version of this Report may be published on the website of the Society and made available to the policyholders of the Society upon request. This Report is provided for the use of the Court, the Regulators, the ELAS Board and ELAS's policyholders for the sole purpose of considering the impact of the Scheme on the affected policyholders. It should not be used for any other purpose. The Board may give copies of the Report to other third parties. However, SDA does not accept any liability for any use of the Report for other than the intended purpose, or to any party other than ELAS or the Court due to any action or inaction that they may follow due to reading this Report.

Other than publication on the Society's website and distribution to policyholders on request, this Report (or any extract from it) should not be published without the prior written consent of SDA. A summary of the Report, approved by me, will be provided to the policyholders of the Society with an interest in the Scheme. No other summary of this Report may be made without the prior written consent of SDA.

2 Regulatory background

Some background on the regulatory requirements in the UK and Ireland is given below. The impact of the change in regulation for policyholders is discussed in the section on Policyholder Protection Issues in section 7.7 below.

2.1 SOLVENCY II

The Solvency II directive is the basis for the regulatory framework for the European insurance industry that contributes to the objective of forming one single insurance services market enabling all companies within the European Union to operate with a single licence. The framework also aims to increase protection for policyholders by reducing the possibility of consumer loss or market disruption in the insurance industry. The framework came into force on 1 January 2016 and established a set of capital requirements, valuation techniques, governance and reporting standards.

Solvency II is a principle-based regime set around three pillars:

PILLAR	TYPE OF REQUIREMENTS
1	quantitative
2	qualitative
3	reporting and disclosure

The amounts set aside to provide for benefits are called the Technical Provisions under Solvency II and are set at a best estimate of the value of the likely cashflows on a policy plus a margin for risk. This value is calculated using various actuarial techniques and involves discounting future expected cash flows at a “risk-free rate” of future investment return.

Under Solvency II, there are two sets of capital requirements to allow for different levels of supervisory intervention on top of being required to maintain the Technical Provisions. These are the Solvency Capital Requirement (“SCR”) and the Minimum Capital Requirement (“MCR”). The SCR is usually higher than the MCR and is the amount of capital required over the liabilities to enable continued solvency over one year, in 99.5 cases out of 100.

The SCR can be calculated using the Standard Formula, the Standard Formula with undertaking specific parameters (“USPs”), an Internal Model or a Partial Internal Model. The Standard Formula approach uses a prescribed set of formulas and parameters to calculate the SCR. Within the Standard Formula framework, subject to regulatory approval, entities can use USPs to refine certain parameters. The Internal Model approach involves, subject to regulatory approval, an entity using its own capital model to calculate the SCR. The Partial Internal Model approach is a combination of the Internal Model and Standard Formula approaches.

The Implementing Rules define the MCR for each insurer. If the insurer does not have sufficient capital to cover the MCR, this will trigger serious intervention from the regulatory authority.

Insurers are also required to calculate the level of capital, after allowing for their liabilities, available to meet the SCR and MCR, known as "Own Funds". This requires the calculation of a Solvency II balance sheet. The Own Funds are assessed and allocated in tiers depending on their eligibility to meet the SCR and MCR.

In addition, under Solvency II, every insurer is required to undertake an Own Risk and Solvency Assessment ("ORSA") annually. This sets out an assessment of the level of capital it requires over the next three to five years as well as its current and future risk profile.

2.2 UK

2.2.1 Overview of regulation

UK Insurers are regulated by both the PRA and FCA, which are statutory bodies set up under the Financial Services Act 2012. Previously, the Financial Services Authority ("FSA") undertook all regulation of financial services institutions. From 1 April 2013, all regulatory responsibilities were transferred from the FSA to the PRA or FCA.

The PRA is part of the Bank of England and is responsible for the prudential regulation of banks, building societies, credit unions, insurance companies and major investment firms. Its primary objectives are to promote the safety and soundness of the firms it regulates and to ensure that policyholders are appropriately protected. The PRA also has a secondary objective to promote effective competition in the markets for services provided by PRA-authorised firms.

The FCA is a separate organisation and its strategic objective is to ensure that the relevant markets function well. It has three operational objectives of protecting consumers, ensuring market integrity and promoting effective competition.

2.2.1.1 Current capital requirements

From 1 January 2016, most insurance companies in the UK were required to maintain capital in line with the Solvency II requirements. Solvency II has been discussed above in section 2.1.

2.2.1.2 FCA conduct principles

The FCA has set out its Principles for Businesses, which include fair treatment of customers, as discussed in section 3.4.

2.2.2 Security under wind up

In the UK, the winding up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding Up) Regulations 2004. Under these regulations, insurance claims take precedence over the claims on the insurance undertaking with the exception of certain preferential claims (e.g. claims by employees). This implies that if an insurer is wound up, then direct policyholders will rank equally and above inwards reinsurance policyholders and other unsecured or non-preferential creditors. There are special conditions within the Society's Articles of Association which are dealt with later in this Report.

2.2.3 Financial Service Compensation Scheme

The Financial Services Compensation Scheme ("FSCS") is the UK's compensation fund of last resort for customers of authorised financial services firms. Most private policyholders, small businesses and charities with risks situated in the UK and EEA are eligible for protection from the FSCS if a UK-authorised insurer is unable to meet its liabilities.

In the event of an insurer being unable to meet its long-term insurance liabilities due to insolvency, the FSCS would pay 100% of the loss caused by the insolvency. The FSCS is funded by levies on firms authorised by the PRA.

The FSCS is discussed further below in the section on Policyholder Protection Issues in section 7.7.

2.2.4 Financial Ombudsman Service

The Financial Ombudsman Service ("FOSUK") is an independent public body which aims to resolve individual disputes between consumers and financial services businesses. FOSUK can only be accessed if the insurance policy was administered in the UK or the policyholder lives in the UK.

FOSUK is discussed further below in the section on Policyholder Protection Issues in section 7.7.

2.3 IRELAND

2.3.1 Overview of regulation

Since October 2010, Irish insurers have been regulated by the CBI, which was formed from unifying the Central Bank and the Financial Services Authority of Ireland (generally known as the Central Bank) with the Irish Financial Services Regulatory Authority. Its mission statement is "Safeguarding Stability, Protecting Consumers" and its strategic responsibilities are:

- effectiveness of the Eurosystem and price stability;
- financial system stability;
- financial services consumers' protection;
- regulatory policy development;
- efficient and effective payment and settlement systems and currency services;
- independent economic advice and high quality financial statistics; and
- recovery and resolution of financial institutions.

2.3.1.1 *Current capital requirement*

Since 1 January 2016, insurance companies in Ireland have been required to maintain capital in line with the Solvency II requirement. Solvency II has been discussed above in section 2.1.

2.3.1.2 *Consumer protection*

The CBI plays a role in the protection of the best interests of financial services consumers. One of its objectives is to have a financial services industry where consumers' interests are protected. This means that consumers should:

- be provided with relevant and accurate information during the sales process;
- be recommended a product or service that is suitable for them and appropriate to their needs; and
- receive a high standard of follow-up services e.g. when making a claim or complaint or switching products or renewing a policy.

2.3.2 Security under wind up

In Ireland, the winding up of an insurance undertaking is governed by the European Union (Insurance and Reinsurance) Regulations 2015. Under these regulations, insurance claims with respect to assets representing the Technical Provisions take precedence over other claims on the insurance undertaking.

2.3.3 Compensation

Although the Insurance Compensation Fund exists as a fund last resort for non-life insurance, no similar compensation scheme is in place in Ireland for long-term insurance.

2.3.4 Financial Services and Pensions Ombudsman

The Financial Services and Pensions Ombudsman ("FSPO") is a statutory officer who deals independently with unresolved complaints from consumers about their individual dealings with all financial service providers that are registered and authorised by the CBI. It can also deal with complaints from policyholders living in Ireland with policies written by non-Irish insurers. The FSPO is discussed further in the section on Policyholder Protection Issues, section 7.7 below.

2.4 UK WITHDRAWAL FROM EU

On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU. It will take some time for the full implications of this decision, including the risks to UK insurers, to become clear. Some areas of potential concern are the loss of business passporting rights and changing regulatory environment. Some of the insurance regulations in the UK may therefore change over time, as the UK is likely to have some freedom to move away from the EU's regulations.

3 Outline of the Scheme

3.1 OVERVIEW

3.1.1 Proposed transfer

An overview of both the Transferor ELAS and the Transferee ELI including their permissions to write business is provided in Appendices 2 and 3 below.

ELI is in the process of being given permissions by the CBI. The CBI has stated that it expects this will be complete by January 2019. There is a possibility that ELI will not be given permissions. I believe this is small. My supplementary report will comment on the status of the granting of permissions for ELI.

Although ELAS is now closed to new business, ELAS wrote some policies via branches in Germany ("German policies") and Ireland ("Irish policies") between 1991 and 2000. While the Irish products and some German products were the same as the equivalent UK products, the German Business also included some products specifically designed for the German market.

The terms of the Transfer are set out in the Scheme Document, which states that the Transferring Policies are that part of every policy, including any lapsed, matured, surrendered, expired or reinstated policy, written the German and Irish branch of ELAS. (These policies are identified by the code "D" for German policies and "I" for Irish policies on the internal records of ELAS.)

The broad effect of the Scheme will be to transfer from ELAS to ELI such Irish and German policies in-force at the time of the Transfer. This will ensure compliance with European authorisation requirements and therefore enable operation of the German and Irish policies to continue, following the UK's withdrawal from the EU.

The Transferring Business consists of:

- Irish With-Profits business;
- German and Irish Unit-Linked business;
- German and Irish conventional Non-Profit temporary assurances, deferred annuities and annuities in payment;
- UK-Style German With-Profits products;
- German-Style With-Profits Business; and
- Guaranteed Annuity Rates ("GAR") liabilities.

The German and Irish business will be transferred into ELI under a Part VII Transfer as described below:

- Irish and UK-Style German With-Profits contracts will be transferred into a new ELI With-Profits Fund.
- Assets held by ELI in respect of the Irish and UK-Style German With-Profits business will be the value of the reinsurance of all of the policy benefits back to ELAS. In order to mitigate counterparty default risk, there will be a floating charge (security) over some of the Society's

assets. The floating charge also refers to a specific group of assets and any call on them can then become a fixed charge at ELI's initiative on any other creditor seeking control over this group of assets. The floating nature of the charge allows ELAS to manage the pool of assets without seeking permission from ELI on any change in assets.

- Other liabilities such as Unit-Linked business, German-Style With-Profits business, Non-Profit business and GAR Liabilities on some German policies will be transferred into a further ELI fund;

The Scheme Document states that the surplus of the assets over the liabilities of the ELI With-Profits Fund from time to time will be applied over time solely and exclusively in the provision of benefits to the holders of policies allocated to the ELI With-Profits Fund.

On the Effective Date, members of ELAS whose policies are transferred under the Transfer will no longer be members of ELAS or be able to vote but become policyholders of ELI.

3.1.2 Reinsurance Agreement

The Scheme Document states that, from the Effective Date, the insurance business carried on by ELI that is attributable to the ELI With-Profits Fund will be fully reinsured to ELAS. A new Reinsurance Agreement will reinsure the Irish and UK-Style German With-Profits contracts back into the Society to enable With-Profits Transferring Policyholders to continue to share in the profits of ELAS, including any dividends paid by ELI. The Reinsurance Agreement has been reviewed and approved by the Executive Committee of ELAS, reviewed and approved for submission to the Court by a Board Sub-Committee at its meeting on 20 November 2018 and the final versions are expected to be reviewed and approved by the ELAS Board in February.

The intention is that the Reinsurance Agreement will enable Irish and UK-Style German With-Profits policyholders to maintain consistent benefit expectations pre- and post-transfer of the business to ELI. These policies will be held in a Ring-Fenced Fund within ELI and will be entitled to share any surplus in that fund. However they will not be entitled to share in any surplus outside the Ring-Fenced Fund.

3.1.3 Outwards reinsurance

Outwards reinsurance contracts relating exclusively to the German and Irish Business will be transferred to ELI. Assets equal to the value of parts of existing reinsurance treaties with LBG (Scottish Widows), Swiss Re, LV=, Cologne Re and GenRe covering Transferring Business to match liabilities for Non-Profit business and mortality risk for some German-Style With-Profits and Unit-Linked policies will be transferred to ELI. Operation of the treaties is expected to be unaffected by the Scheme, as the Scheme is unlikely to be seen as a material change by the reinsurers. The current reinsurance agreements generally allow termination with a set notice period and some allow shorter or no notice in the case of a transfer of business, so it is possible that reinsurers will terminate the agreements. The Society has informed me that it does not believe the transfer will be seen as a material changes by the reinsurers and so is unlikely to affect the existing reinsurance.

3.1.4 Administration

From the Effective Date, ELAS would perform the majority of administration services for ELI. Services to be provided and cost for providing these services are set out for a period of at least ten years (subject to indexation and, if necessary, amendments due to regulation changes), under an expense agreement, a master services agreement ("MSA"). However, the expectation is that the Reliance Transfer will go ahead and therefore ELAS will not exist by the end of 2019.

The proposed treatment of expenses under the MSA is described below:

- ELI will pay ELAS the following costs:
  - the difference between the Annual Management Charge (AMC) and the investment management expense on the Unit-Linked business;
  - an appropriate market rate for the administration of each policy;
- The same fees as under the LBG reinsurance agreement is maintained for Non-Profit business. Therefore, charges paid by ELI will mirror those received by the Society. The overall impact on the Society will be unchanged from the pre-transfer position;
- For the Irish and UK-Style German With-Profits business, there are no explicit charges for ELI, since this business is reinsured to the main UK With-Profits Fund;
- ELI would also incur local management and infrastructure costs.

The Scheme Document states that ELAS will bear the costs and expenses incurred in relation to the preparation and carrying into effect of the Scheme.

The MSA has been reviewed and approved by the Executive Committee of ELAS, reviewed and approved for submission to the Court by a Board Sub-Committee at its meeting on 20 November 2018 and the final versions are expected to be reviewed and approved by the ELAS Board in February.

3.1.5 Capital support

ELAS would put a Capital Support Mechanism in place to maintain SCR coverage of at least 120% for ELI. ELI will be funded initially to ensure SCR coverage of 150%. However, the Capital Support Mechanism will specify that the main UK With-Profits Fund will provide support to ELI only if it would not breach its own capital policy. To prevent unnecessary fund injections due to short term fluctuations, support will only be triggered if ELI's solvency coverage were to reduce below the risk appetite and was not expected to recover in an acceptable period. The risk appetite has been defined as applying to all solvency risk measures and, in particular, a SCR Coverage ratio equal to 120%. In the event that the ELI SCR Coverage exceeds 150%, the ELI Board will consider payment of a dividend to ELAS provided the dividend payment does not lead to ELI's SCR coverage falling below 150% immediately after the payment and it does not lead to material detriment of ELI's liquidity and its ability to meet policyholder payments and other business expenses as they fall due, or would force ELI to take action to strengthen the liquidity position. The Capital Support Mechanism requires solvency to be maintained at the higher of the risk appetite or 120% of the Solvency Capital Requirements. This would be appropriate in my experience.

The Capital Support Mechanism has been reviewed and approved by the Executive Committee of ELAS, reviewed and approved for submission to the Court by a Board Sub-Committee at its meeting on 20 November 2018 and the final versions are expected to be reviewed and approved by the ELAS Board in February.

3.1.6 With-Profits governance

ELAS has advised me that there will not be a Principles and Practices of Financial Management ("PPFM") for the Transferring Policies because the PPFM is not a requirement in Ireland. However, I note that from 2020, the regulations in Ireland will require a With-Profits Operating Principles ("WPOP") to be published for existing insurers and in my view, requires similar reporting from the Actuarial Function Holder on compliance with the Principles as required in the UK for the PPFM. As ELI is a new insurer, it will need to apply the WPOP from its inception. However, I have been informed that ELAS is seeking a waiver until 1 January 2020. This is discussed further in section 6.1.2.

3.2 BUSINESS INCLUDED

The business to be transferred from ELAS to ELI consists of all German and Irish policies that are in force at the Effective Date. The table below summarises the business being transferred to ELI, based on the business in force at 31 December 2017:

	NUMBER OF BENEFITS[1]		POLICY VALUES[2] (£000)		BEST ESTIMATE LIABILITIES EXCLUDING EXPENSES (£000)	
	German	Irish	German	Irish	German	Irish
Individual Pensions	78	687	2,200	12,600	5,000	11,500
Group Pensions	-	81	-	700		600
Life Insurance	44	20	1,700	500	1,600	500
Unit-Linked business	**122**	**788**	**3,900**	**13,800**	**6,600**	**12,600**
Deferred annuities		56		3,600		4,200
Annuities in payment	3	70	100	4,700	100	5,400
Pensions life cover		96		100		100
Life Insurance	174	771	100		100	
Conventional Non-Profit business	**177**	**993**	**200**	**8,400**	**200**	**9,600**
Individual Pensions	215	1,087	4,100	12,400	9,300	14,700
Group Pensions		736		2,700		3,000

	Number of benefits[1]		Policy values[2] (£000)		Best estimate liabilities excluding expenses (£000)	
	German	Irish	German	Irish	German	Irish
Life Insurance	137	417	2,500	5,100	2,100	4,400
UK-Style With-Profits	**352**	**2,240**	**6,600**	**20,200**	**11,400**	**22,100**
German-Style With-Profits	**105**		**5,200**		**5,400**	**0**
Total	**756**	**4,021**	**15,900**	**42,400**	**23,600**	**44,300**

[1] The table above includes the number of policy benefits. As different types of benefits are held separately within each policy record, there is some double counting of the number of policies because some policies have investments in both With-Profits and Unit-Linked funds.

[2] The policy value is a smoothed asset share value used by ELAS to determine a fair payout to With-Profits policyholders. For Unit-Linked business, the "policy value" shown in the table above is the unit fund. For Non-Profit business, the "policy value" shown in the table above is the Best Estimate Liability excluding the value of future expenses.

Note that the policy value is not the Technical Provision of the contract. The Technical Provision is different from the policy value as it includes an allowance for any guaranteed payouts that are above the policy value and allows for the guarantees including the Guaranteed Interest Rate and the Guaranteed Annuity Rates after allowing for the impact of discounting. ELAS distributes capital to policyholders when they take their With-Profits benefits by way of a Capital Enhancement Factor ("CEF"). It is not included in the table above or in Technical Provisions under Solvency II. This is (as at 31/12/2017) £9.4 million (35% of £26.8 million) for Irish and UK-Style German With-Profits business.

ELAS has provided the Best Estimate Liability for policy benefits split by category of policy being transferred as at 31 December 2016 and 31 December 2017. These reserves are part of the Technical Provisions but do not include any part of ELAS's expense reserves or Risk Margin.

3.3 RATIONALE FOR THE PROPOSED TRANSFER

Following the UK's withdrawal from the EU, there is a significant risk that ELAS will no longer have the necessary regulatory permissions to continue to administer the German and Irish business. Therefore the Society's subsidiary, ELI, will operate the German and Irish business, passporting services for the German Business.

This is in the best interest of the German and Irish policyholders, to ensure they can continue to be serviced and insured by an appropriately regulated entity following the UK's exit from the EU.

ELAS believes that the only policies which it could not continue to service after the UK's withdrawal from the EU will be those where the State of Commitment (i.e. the state in which the original policy was issued) is not within the UK rather than those where the State of Risk (i.e. the current permanent residence of the life assured) is not within the UK. Equally, ELAS believes it needs to transfer policies where the State of Commitment was outside the UK but the current State of Risk is within the UK (e.g. Irish policyholders who now live permanently in Northern Ireland). I understand that ELAS has received definitive legal advice to that effect but I have not seen that advice.

ELAS believes that Ireland is the appropriate location for ELI because

- The majority of policies affected are held by Irish policyholders;
- English is the predominant first language in Ireland; and
- The UK and Irish legal and regulatory regimes are similar.

I agree that locating in Ireland is appropriate.

3.4 FAIR OUTCOMES FOR POLICYHOLDERS

ELAS's PPFM states that its intention is to distribute assets as fairly and as soon as possible.

A key consideration with any With-Profits fund is to ensure that the fund neither becomes a tontine (where the last policyholder to leave the fund receives a disproportionately large share of the fund) nor a Ponzi scheme (where policyholders who leave early receive a disproportionately large share in the fund). Policyholders should receive a fair share of any capital backing the liabilities as the fund runs off.

It is intended that ELI With-Profits business is to be managed in accordance with ELAS's PPFM. ELAS uses a Capital Enhancement Factor to help reduce conflict between fairness to policyholders leaving ELAS (e.g. through maturity, death or surrender) and those remaining at ELAS. The PPFM states two key considerations taken into account when setting the CEF. These are that the CEF should be low enough to be stable but should be high enough to prevent excessive accumulation of capital over time and should distribute all of the capital or "estate" backing the With-Profits Fund.

Although the Reinsurance Agreement is expected to fall away shortly, once the Scheme of Arrangement is implemented, the aim is to use the reinsurance vehicle to ensure that the Transferring Policies will receive the same benefits on maturity, death and surrender, including the impact of the CEF, as they would have done if the Transfer had not taken place.

The FCA on its websites, consider that, in order to be fair to consumers, firms should strive to meet consumer outcomes which are core to what they expect of firms. Four of the six listed by the FCA apply to ELAS. ELAS has provided the following information which I have compiled into a table on how it complies as shown below. It is also the intention that ELI will have very similar processes. The two outcomes that do not apply to ELAS and would also not be relevant to ELI are related to selling new business and giving advice. These have been excluded from the table below.

I believe that the evidence does show a compliant framework.

OUTCOMES	EVIDENCE
Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture	The intention is to recreate policyholder value by distributing capital to With-Profits policyholders as fairly and as quickly as possible. Both ELAS and ELI have strategic proposals that are central to this. The values of transparency, fairness, affordability and delivering for policyholders are a strong foundation. ELAS's Board has confirmed the values, beliefs and behaviours, and that they underpin the purpose, strategy and business model. A Culture Dashboard has been established which links organisational behaviour to consumer outcome. To assist in executing strategy, a set of tests is in place against which fairness can be considered.
Consumers are provided with clear information and kept appropriately informed before, during and after the point of sale	With-Profits and Unit-Linked policyholders receive a simplified Annual Statement clearly showing the information most important to them along with current values. ELAS communicates with With-Profits and Unit-Linked policyholders each September. Key information regarding capital distribution plans has been communicated to the policyholders. The Society's website is kept up to date. Unit-Linked prices for UK policies are updated daily and fund fact sheets refreshed monthly.
Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect	The House of Lords ruling in 2000 on Equitable and its guaranteed annuity rates treatment has led to a very different outcome than was originally expected. However, policyholders' expectations are now based on the results of the ruling and they understand the likely payout they will receive. There are regular communications with policyholders to set their expectations about how the Society and ELI may perform in the future. The fundamental product is the payment of benefits. Administrative service standards are set in recognition of the need to provide a very good service at the point of payment. A rolling programme of product reviews is in place to establish that fair outcomes are being delivered, while identifying improvements.

OUTCOMES	EVIDENCE
Consumers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint	Benefit payments are set to take place within five days of receipt of the final documentation. Fund switches can be dealt with over the telephone, and actioned within 24 hours. Complaints data is carefully monitored, and there are no barriers to policyholders in raising their concerns directly with the Chief Executive. There are no financial deductions on payment. Wake-up packs are issued in the run-up to the policyholder's expected retirement date to support retirement planning. A Vulnerable Customers Framework is in place. The death claim process has been improved to provide a more empathetic tone at a time of loss.

4 Scope

The Independent Expert is asked to prepare a report on the proposed Transfer in a form approved by the PRA and FCA and in accordance with the guidance contained in SUP 18, FG18/4 from the FCA, "The FCA's approach to the review of Part VII insurance business transfers" and the PRA's Statement of Policy from April 2015, "The Prudential Regulation Authority's approach to insurance business transfers". The purpose of this report is to assist the Court in deciding whether to sanction the Transfer.

As Independent Expert, I need to consider the effect that the Transfer may have on the various classes of policyholders which are affected by the Transfer. In doing so, I consider separately Transferring Policyholders and Remaining Policyholders. The policies are very similar in their requirements as stated below:

- Each sub-group of the With-Profits policies will benefit from bonuses in the same way and be affected by the same factors on security of payout;
- The term assurances and Non-Profit policies will require the same considerations as the With-Profits policies on security of payout.

I do not consider that there are any sub-groups of policyholders that need separate consideration.

As ELI will be a newly formed insurer, it has no existing policyholders that need to be considered.

In addition, I am required to comment on the likely effects of the Transfer on any reinsurer of the Society whose contracts of reinsurance are to be transferred by the scheme.

Where I have used the phrase "adversely affected", I have interpreted this as follows:

For any group of policyholders, there may be some changes for the better and some for the worse. If there are some changes for the worse, this does not necessarily mean that the Transfer is unfair or unreasonable, for example they might be outweighed by other benefits, or they might be extremely small, or highly unlikely to occur. The test I have applied is whether the position of any group is, in the round, "adversely affected". Where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

In considering the effect of the Transfer on any group of policyholders, I have reviewed in particular the likely impact on:

- the security of policyholders' benefits;
- policyholders' benefit expectations, particularly for policies where benefits are significantly dependent on the exercise of discretion, any tax effects or any options available under a policy;
- for Unit-Linked policies, the approach to unit pricing and any changes to the investment fund mandates or choice of funds; and
- service levels.

The effect of the Transfer on policyholders will depend on the type of policy held. For Non-Profit policies which provide guaranteed benefits in return for fixed premiums, security of future benefits is of paramount importance. I therefore need to consider whether the Transfer is likely to adversely affect the security of benefits for these policies. For policies which include discretionary benefits, such as With-Profits policies, I need to consider the implications of the Transfer for reasonable benefit expectations as well as the security of benefits.

Some policies have other discretionary elements, such as the level of charges on Unit-Linked policies or reviewable premium rates. For these policies, I need to consider whether, as a result of the Transfer, adequate protections are in place in relation to the future exercise of discretion.

4.1 SCHEME OF ARRANGEMENT AND RELIANCE TRANSFER

The PRA have a Statement of Policy from April 2015 on the "The Prudential Regulation Authority's approach to insurance transfers". In section 2.37, the PRA state that they require the Independent Expert to consider any "wider/restructuring plans" that the Transferor or Transferee has and the impact of the Transfer on these plans. This section of my report considers ELAS's restructuring plans.

In June 2018, the Society announced that it has entered into an agreement to transfer the Society and its policies to Reliance Life, part of Life Company Consolidation Group ("LCCG"). The Society expects to convert its With-Profit policies to Unit-Linked via a Scheme of Arrangement and transfer all its policies to Reliance Life towards the end of 2019, several months after the planned Effective Date of the Scheme covered in this Report.

Under the Scheme of Arrangement, the Society's With-Profits assets will be distributed to its policyholders by uplifting asset shares. Investment guarantees will be removed from With-Profits policies, which will be converted to Unit-Linked and ownership of ELAS (and ELI) will be transferred to Reliance Life. Under the Reliance Transfer, the Society's policies will be transferred to Reliance Life via a Part VII transfer. The Society is then expected to be wound up and dissolved.

The members of the Society (and other creditors) will be asked to vote on the Scheme in the middle of 2019, before the Court is asked to approve the transactions.

A consequence of the Scheme covered in this report is that holders of Irish With-Profits Policies lose the right to vote on the proposed Scheme of Arrangement, as they will no longer be creditors of the Society. (German Policies do not currently have this right, so there is no right to lose.) These policies would not be converted to Unit-Linked via the Scheme of Arrangement. I have been informed that asset shares for all With-Profits Transferring Policies would be uplifted in line with the uplift they would have received if they had been converted to Unit-Linked policies under the Scheme of Arrangement, except that they will not receive any additional compensation for the residual value of investment guarantees, as they will remain as With-Profits policies and retain those guarantees. Whilst such an uplift would not be a legally binding part of the Scheme, it will be covered by the Witness Statements given to the Court in relation to the Scheme, so it is unlikely that the uplifts will not be carried out, provided the Scheme of Arrangement occurs.

I would expect that the value of any policy switched to a Unit-Linked policy would gain from the then cost of guarantees that will be foregone by the switch. At present, ELAS is stating that this will not be done. The majority of Irish With-Profits policies currently have the option to convert to Unit-Linked. The Society is considering extending that option to all Irish With-Profits policies. ELAS has confirmed that it does not expect the ELI Board to impose a penalty on switching from With-Profits to Unit-Linked. The intention is that the Transferring Policies would be part of the Reliance Transfer through the transfer of ownership of ELI from ELAS to Reliance Life/LCCG, with ELI becoming a subsidiary of Reliance Life.

I have been informed that the Scheme of Arrangement could take place without the Reliance Transfer although this would be extremely unlikely. However if this were to happen, then ELAS will still exist as a subsidiary of Reliance Life. The Reinsurance Agreement will cease on the Scheme of Arrangement. Assets will be transferred to ELI including the uplift to asset shares. The Capital Support Mechanism will continue. The MSA will continue in force post the Reliance Transfer but can be terminated with 3 months' notice by Reliance and alternative arrangements will need to be made. I have also been informed that the Reliance Transfer would not take place without the Scheme of Arrangement. The aim is that the Scheme of Arrangement and the Reliance Transfer will happen almost at the same time.

4.2 EXCLUSIONS

I have considered the Transfer only in the form in which it is set out in the Scheme. I am not required to, and do not, consider any possible alternative schemes or arrangements. In particular, I have not commented upon the impact of the Scheme of Arrangement and Reliance Transfer as separate projects. I only comment on the impact of this Scheme assuming the Scheme of Arrangement and Reliance Transfer do or do not take place.

5 Financial impact of the Transfer

The information in this section shows the financial impact based on the position at 31 December 2017.

It is our understanding that ELAS has calculated its Technical Provisions and SCR using the Standard Formula and Volatility Adjustment, whilst the intention is that ELI will calculate its Technical Provisions and SCR using the Standard Formula with no Volatility Adjustment. ELAS has informed us that, for Solvency II solo basis reporting, the Net Asset Value ("NAV") of ELI will be included on the ELAS balance sheet and the Equity Risk SCR for ELAS will include a stress of 20% fall of the NAV. For Solvency II group reporting, ELAS will use the look-through basis, i.e. assets and Best Estimate Liability will include ELI business and the Risk Margin will be the sum of the two solo basis Risk Margins.

5.1 ELAS BALANCE SHEET AT 31 DECEMBER 2017

The table below sets out ELAS's balance sheet as at 31 December 2017. This forms the basis of the Solvency and Financial Condition Report, which was audited and is published on the Society's website.

As at 31 December 2017, the Own Funds were 167% of the Solvency Capital Requirement, as shown in the table below. The table below sets out the position of ELAS's consolidated long-term fund before the Transfer and expected after the Transfer (if the Transfer had occurred at 31 December 2017), as provided by ELAS.

SOLVENCY II VALUATION BALANCE SHEET FOR ELAS AS AT 31 DECEMBER 2017		
£MILLION	BEFORE TRANSFER	AFTER TRANSFER
Asset values*	6,613	6,610
Technical Provisions*	5,851	5,848
Own Funds	762	762
Solvency Capital Requirement (SCR)	455	455
SCR Coverage	167%	167%
Minimum Capital Requirement (MCR)	129	129

*Assets include reinsurance recoverable of £404 million, including £26 million of ELI assets. Technical Provisions include reinsured liabilities of £411 million, including approximately £26 million of ELI's Technical Provisions.

The asset values and Technical Provisions have fallen equally due to the initial set up costs (which were included in the Technical Provisions before the Transfer), therefore Own Funds and the SCR coverage remain unchanged.

5.2 ELI BALANCE SHEET AT 31 DECEMBER 2017

The table below sets out the projection of ELI's balance sheet from 2017 to 2021 taken from the draft ORSA for ELI provided by ELAS. For the projections, it was assumed that ELI had been established at 31 December 2016 with initial SCR coverage of 150%. Although there has been no allowance made for any future dividends that would be paid to the Society if solvency coverage improves, it is clear that, as the business runs off, the SCR coverage improves over time. Note that the figures in the table below are quoted in Euros. They are the most recent projections available from ELAS but are based on projections from a 31 December 2016 starting position.

€000	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Assets	59,361	56,531	53,670	51,258	49,088
Reinsurance recoverable	41,046	37,821	34,824	32,307	30,199
Total Assets	**100,407**	**94,352**	**88,494**	**83,565**	**79,287**
Non-Profit	11,299	10,936	10,569	10,216	9,872
Unit-Linked	16,927	15,808	14,537	13,614	12,671
cost of GARs	4,154	3,806	3,521	3,244	3,074
With-Profits	30,234	27,312	24,652	22,450	20,650
cost of GARs	6,932	6,509	6,110	5,745	5,461
German-Style	7,124	6,696	6,314	5,930	5,559
Expense reserves	10,908	10,436	9,934	9,464	9,020
Best Estimate Liabilities	**87,578**	**81,503**	**75,637**	**70,663**	**66,307**
Risk Margin	3,729	3,410	3,114	2,843	2,594
Technical Provisions	**91,307**	**84,913**	**78,751**	**73,506**	**68,901**

€000	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Basic Own Funds	9,100	9,439	9,743	10,059	10,386
SCR	**5,505**	**5,200**	**4,914**	**4,648**	**4,403**
Solvency Coverage Ratio	165%	182%	198%	216%	236%
MCR	**3,700**	**3,700**	**3,700**	**3,700**	**3,700**

As at 31 December 2017, the Own Funds were 165% of the Solvency Capital Requirement, as shown in the table above. These assume that all potential tax issues are mitigated.

The table below sets out ELI's balance sheet in sterling as at 31 December 2017, assuming that ELI was established on that date with initial SCR coverage of 150%. The figures as at 31 December 2017 quoted in the table above do not align with the figures in the table below because the table above is a projection of ELI's balance sheet assuming ELI was established as at 31 December 2016 while the table below assumes ELI was established as at 31 December 2017.

Solvency II Valuation Balance Sheet for ELI as at 31 December 2017 After Transfer	£million
Reinsurance recoverable	35.0
Other assets	50.5
Total assets	**85.5**
Best Estimate Liabilities for policy benefits	65.0
Risk Margin and Best Estimate Liabilities for expenses	13.0
Technical Provisions*	**78.0**
Own Funds	**7.5**
Solvency Capital Requirement (SCR)	**5.0**
SCR Coverage	**150%**

* Technical Provisions include reinsured liabilities of £35.5 million.

Both tables show that ELI is in a healthy position with SCR coverage of at least 150%. The projections show an increasing Basic Own funds and SCR coverage.

5.3 EXPENSES

The cost of setting up ELI and implementing the Transfer is estimated at £2.5 million and will be borne by ELAS. ELI's on-going costs are estimated at £0.4 million per annum. Technical Provisions already allow for these increased costs and will continue to do so. I understand that this will be met by assets transferred as part of the Transfer. These increased costs reduce the amount of capital that ELAS will be able to distribute to its policyholders as the business runs off.

An MSA will be agreed between ELAS and ELI alongside the Scheme. The terms of the MSA mean that the charges for the services provided by ELAS to ELI in respect of the Transferring Policies are defined for a period of ten years, subject to inflation-linked increases, but the term can be extended as long as the relevant parties are in agreement. This means that the Remaining Policyholders will bear any higher costs from any diseconomies of scale suffered over this period in administering the ELI business. The impact of this is expected to be minimal given the relative scale of the Transferring and Remaining Policies.

The Remaining Policyholders will bear a proportion of the initial project costs incurred in setting up ELI, as these are borne by the With-Profits Fund. The capital support arrangements, described above mean that any further costs arising will diminish solvency coverage and may lead to additional capital support being provided by ELAS to ELI.

In addition to the expected cost of about £2.5 million to set up ELI, there is also an additional cost of about £0.4 million to £0.5 million to run ELI each year. This results in a reduction in the With-Profits policyholders' benefits. However as these costs are about 0.1% and 0.02% per annum respectively of the With-Profits Fund, the impact of setting up ELI on policyholders' benefit expectation and on ELAS's Solvency II balance sheet is small. The impact becomes more relevant in the future due to the fixed (indexed for inflation only) nature of the likely additional running costs and the run-off of the ELAS business reducing the funds under management. ELAS confirmed that the number of With-Profits policies as at 31 December 2017 was approximately 276,000 policies, which results in an estimate per With-Profits policy of £9 for the set-up costs and the initial annual running cost of £2 which have been agreed by ELAS. The latter will change over time because the costs of running ELI will not run-off at the same rate as the number of With-Profits policies. In fact, the costs are likely to be unrelated to the number of policies in force but subject to Irish inflation and UK inflation. Therefore, the £2 per policy is likely to increase.

The extra expenses will be covered by a Technical Provision in ELI under the Solvency II regulations, and this was already allowed for in ELAS's 31 December 2017 Technical Provisions, at an estimated cost of £9 million.

The increased costs due to ELI will be shared by all With-Profits policyholders and will be small, representing less than 1% of total policy values, so the impact on benefit expectations will not be material.

6 Policyholders' security and benefit expectation

Section 3.1.1 above covers a full description of the Transferring Policies. I have categorised policyholders into Transferring Policyholders, Remaining Policyholders and then between With-Profits, Unit-Linked and Non-Profit policyholders.

6.1 POLICYHOLDERS TRANSFERRING FROM ELAS TO ELI

6.1.1 Introduction

This section considers the likely effect of the proposed Scheme on the Transferring Policyholders. In particular, I consider the changes proposed to the PPFM and the impact of the proposed Scheme on the following:

- the security of benefits of the Transferring Policies
- the benefit expectations of the Transferring Policies

6.1.2 Changes to PPFM

The Transferring With-Profits Policies will not have a PPFM, as a PPFM is not a requirement in Ireland. The new WPOP requirement will replace the PPFM and will apply from 1 January 2020 to existing insurers. I have reviewed the regulations on the WPOP and believe it to give the same protections as granted by the PPFM. The CBI would normally require ELI to have a WPOP from inception as a new insurer. However, I have been informed by ELAS that the CBI has stated that it will look favourably on an exemption until 1 January 2020. ELI is in the process of applying for this exemption. The Board of ELAS refers to a Principles of Financial Management document applying to ELI which appears to be a simplified PPFM.

The Reinsurance Agreement states that claim values for reinsured Transferred Policies will be in accordance with the ELAS PPFM. Management has also confirmed that ELAS expects ELI to continue to manage the With-Profits fund in the same way as the existing ELAS PPFM. I am satisfied that the intention is to manage the With-Profits business in a consistent manner.

6.1.3 Security of benefits

The Scheme has been proposed in response to changes to the operating environment. It is intended to ensure continued regulatory compliance in Ireland and Germany and thereby ensure the continued security of policyholder benefits, and the ability to continue to operate and administer the Irish and German policies, including being able to pay benefits to policyholders. As such, the proposal carries a cost which will have some impact on the security and benefits of both Transferring and Remaining Policyholders. However, it is expected that the cost of the proposed Scheme is borne by all policyholders in a fair manner.

ELAS is transferring assets meeting the Technical Provisions of all of the policies that will be transferred plus sufficient capital to cover the establishment costs of ELI and sufficient capital to provide 150% coverage of the Solvency Capital Requirement of ELI. This has been accepted as sufficient by the CBI and, in my view, provides a reasonable amount of capital coverage to absorb shocks that are likely to occur. I am content with the security of benefits on this basis.

To allow ELI With-Profits policyholders to continue to share in the profits of ELAS, including those generated by the Management Services Agreement, ELAS has drafted the Reinsurance Agreement for the With-Profits policies within the Ring-Fenced With-Profits fund established within ELI. 100% of benefits and premiums will be reinsured. Assets will, therefore, not be transferred for the Ring-Fenced With-Profits fund and the asset in respect of the Reinsurance Agreement will act as the sole asset of this fund. As ELAS has sufficient capital at present to cover its Technical Provisions and the liabilities in respect of the Transferring Policies are part of the Technical Provisions, then I do not have any concerns on the current security of the Reinsurance Agreement. ELI will be exposed to the risk of default by ELAS, which would cause failure of the Reinsurance Agreement and potentially lead to the inability of ELI to finance its commitments to With-Profits policies.

I have seen the December 2017 report on ELAS's ORSA which has results of some stress testing, including reverse stress tests. ELAS carried out some stress testing as at 30 June 2017 which showed that none of the insurance stresses and market stresses it considered would have led to its SCR coverage falling below 150%. ELAS also carried out some reverse stress testing on its financial position at the end of December 2016 which showed that its key risk areas are a crash in the market, policyholders with 3.5% Guaranteed Interest Rates taking their benefits later than expected and policyholders with 0% Guaranteed Interest Rates taking their benefits immediately. ELAS considered that the principal mitigant to these key risks is the successful implementation of the Scheme of Arrangement and the Reliance Transfer. All in all, given the current healthy solvency position of ELAS and the results of the stress testing and reverse stress testing, I believe the likelihood of default by ELAS is small. I have reviewed the ORSA document and believe that it shows sufficient scenarios and stresses. I believe my reliance on this document is reasonable.

To counter this risk, ELI will have security provided by a floating charge over a subset of ELAS's assets that match the reinsured With-Profits liabilities. The floating charge is generated via the Reinsurance Agreement between ELAS and ELI and by a floating charge document. The floating charge can become a fixed charge if the subset of assets are claimed by other creditors of ELAS. The reason for using a floating charge was to avoid ELI having to authorise every asset sale and purchase. The change to a fixed charge will protect ELI when needed.

Like all insurers, ELI will be at risk of volatility in the markets. ELI is expected to have assets of 95 million Euros at the time of the Transfer. The liabilities are 16 million Euros in Unit-Linked policies which will have relatively small exposure to risk other than through its management charge, 27 million Euros of With-Profits policies which have a matching asset portfolio and Non-Profit and GAR liabilities of 21 million Euros, which are matched by low risk assets. The GAR liabilities and the guaranteed bonus rate commitments could become more onerous if prospective investment returns reduce further. The position is manageable and should be no more difficult than for ELAS who will have similar issues (but on a larger scale).

However, a Capital Support Mechanism will be put in place for the Equitable Life group of companies, namely ELAS and ELI, to provide security for the Transferring Business in ELI. This will maintain SCR coverage of at least the higher of the risk appetite and 120% for ELI (unless ELAS's solo SCR coverage is lower) but, initially, ELI will be set up with an SCR coverage of 150%. Under the Group Capital Policy, ELAS will provide support for ELI where ELI's solvency coverage falls below the higher of the risk appetite and 120% and is not expected to recover to 120% within an acceptable period. If ELI's solvency coverage were to rise above 150%, a dividend may be payable from ELI to the ELAS, subject to ELI's solvency coverage remaining above 150% after payment of the dividend. The Transferring Policyholders therefore benefit from the security arising from this capital support, providing ELAS's solvency coverage is in excess of 120%.

However, if ELAS's solvency coverage fell below 120%, this capital support would fall away but, given current solvency coverage, this seems unlikely.

As stated above, this Capital Support Mechanism has been reviewed and approved by the Executive Committee of ELAS, reviewed and approved for submission to the Court by a Board Sub-Committee at its meeting on 20 November 2018 and the final versions are expected to reviewed and approved by the ELAS Board in February.

Both the Reinsurance Agreement and the Capital Support Mechanism would fall away on the Scheme of Arrangement and the Reliance Transfer. I believe it will be possible to manage ELI without either the Reinsurance Agreement or the Capital Support Mechanism in place if, as required by the Group Capital Policy, sufficient capital is maintained until the two are revoked.

ELI will be a small With-Profits insurer, but with adequate assets and a growing level of own funds according to the best estimate ORSA projection supplied to the CBI. The risk benefits provided are not material and the key issues will be investment management and capital management. My experience with small With-Profits insurers suggest these are not difficult issues for a properly constituted board of management and executive function to manage with the right advice.

A key issue will be the interaction of the Management Services Agreement and the Reinsurance Agreement. The former probably charges more for the cost of managing Unit-Linked policies than will be spent on managing them and puts all of the profits back to ELAS. The latter then allows these profits to be shared back to ELI With-Profits policies (and ELAS With-Profits policies) along with similar profits on the remaining Unit-Linked and the Non-Profit business of ELAS and ELI. ELI would have to resource its own administration and, possibly, purchase a new administration system. The Management Services Agreement is discussed below in section 7.6 below where I argue that the impact will be manageable by ELI. It is the current intention of ELAS that Reliance will inherit the MSA (although with a 3 month termination clause) and will continue servicing ELI's administration needs. The loss of the profits from the Non-Profit and Unit-Linked policies are considered in section 7.6.

There are no special policies subject to any particular security of benefit considerations.

6.1.3.1 *Conclusion*

Given the floating charge, the Reinsurance Agreement and the proposed Group Capital Policy discussed above, I do not expect the Scheme to have any material impact on the security of benefits of the Transferring Policyholders. I also believe that, without these mitigants, ELI would still have sufficient resources to ensure its solvency and the security of benefits will be sufficient. The additional security provided by the Reinsurance Agreement and the Capital Support Mechanism is heavily reliant on the financial strength of ELAS which would still be the case for the relevant policyholders if the Transfer did not take place.

6.1.4 Benefit expectations

Benefit expectations will be marginally reduced due to the costs of setting up and running ELI, as set out in section 5.

The key differences in treatment of benefits and expectations for Transferring Policyholders is between:

- Irish With-Profits and UK-Style German With-Profits business;
- German and Irish Unit-Linked business;
- German and Irish conventional Non-Profit temporary assurances, deferred annuities and annuities in payment; and
- German-Style With-Profits Business.

The first group of Transferring Policyholders above will be separated into a Ring Fenced With-Profits Fund and rely on discretionary benefits to boost their guarantees. The second group will be within the main fund of ELI but will need arrangements to ensure the investment of their Unit-Linked benefits performs in line with their expectations. The last two groups have guaranteed benefits only. All groups require their security expectations to be matched.

I have decided that there is no need to consider any sub-groups within these broad groupings. For example, the considerations will be the same for a With-Profit Pension policy as for a With-Profit Whole Life Bond within the first group.

6.1.4.1 With-Profits policies

As ELI's With-Profits policyholders, the With-Profits Transferring Policyholders will have the right to participate in the profits and losses of the Ring-Fenced ELI With-Profits Fund. Without any other arrangement, the With-Profits Transferring Policyholders will lose their rights to share in the profits of ELAS. Currently, ELAS With-Profits policyholders share in the profits of the whole of the ELAS business. The Ring-Fenced ELI With-Profits Fund will not include the Unit-Linked or Non-Profit policies including the German-Style With-Profits policies.

Therefore, With-Profits Transferring Policyholders will lose any form of sharing in the profits achieved on Unit-Linked and Non-Profit policies as well as any sharing of profits in the wider ELAS fund. The profits of the Unit-Linked and Non-Profit policies will be owned by ELAS and will be shared by its With-Profits policyholders (the With-Profits Remaining policyholders).

To mitigate this, the Reinsurance Agreement which reinsures all of the benefits and the premiums in the ELI With-Profits Fund into the ELAS fund will be put in place. All profits in the ELAS fund will then be shared back to the ELI With-Profits Fund in a proportionate way. Therefore, any profits remitted to ELAS from ELI will be shared back alongside similar ELAS profits to the ELI Ring-Fenced

With-Profits Fund. The aim is to ensure no change in the sharing of profits on the Unit-Linked and Non-Profit business.

The With-Profits Transferring Policies will expect to retain their rights to the ELAS With-Profits Fund, through the Reinsurance Agreement between ELAS and ELI, which ensures that the With-Profits Transferring Policyholders remain able to benefit from distributions from the ELAS With-Profits Fund, as they did before the Transfer. Given that the Transferring Policies will therefore still effectively participate in the ELAS With-Profits Fund, and that no changes will be made to the assets held in this fund, I expect the Scheme to have minimal impact on the benefits of the Transferring Policyholders, or their current expectations of benefits.

However, ELAS has recently announced a change in strategy which will, if successful, allow it to distribute its capital to its With-Profits policyholders by the end of 2019 via the Scheme of Arrangement and the Reliance Transfer. Post Transfer to ELI, Transferring Policyholders will no longer be creditors of ELAS and therefore they will not take part in the Scheme of Arrangement, so their policies will not be converted to Unit-Linked. Note that the UK-Style German With-Profits policyholders would not be part of the Scheme of Arrangement even without the Transfer. ELI will be a creditor of ELAS because of its Reinsurance Arrangement, but this arrangement will terminate at the Scheme of Arrangement's effective date.

Irish With-Profits and UK-Style German With-Profits policyholders will therefore remain in a standalone With-Profits Fund within ELI. This will be a small With-Profits Fund which may restrict investment freedom on run-off and have issues on cost coverage, although the MSA should mitigate this risk if the MSA is maintained by Reliance/LCCG. ELI will need to source alternative administration arrangements if the MSA is not maintained by Reliance/LCCG. In my opinion, this could be achieved easily with outsourcing agreements on investment management, internal audit, actuarial, IT support and compliance support with competent suppliers plus the hiring of administrators directly employed by ELI. The right to use the administration systems could be transferred to ELI although this has not been guaranteed by the MSA or new administration systems could be purchased. Alternatively, ELI could arrange another complete third party administration arrangement with an alternative supplier.

The With-Profits Transferring Policyholders will also have their benefits decided by only the profits achieved in the Ring-Fenced ELI With-Profits Fund and lose their share of the profits achieved on the Unit-Linked and Non-Profit business. This is a loss of potential benefit (as well as removing potential risks) for the With-Profits Transferring Policyholders. We have been informed by ELAS that the uplift applied to all With-Profits policies, including the Transferring With-Profits policies, will include a value for the future profits that would have been otherwise available from the Non-Profit and Unit-Linked business of ELAS (including profits remitted from ELI). I believe that this avoids any adverse effect of the loss of profit sharing.

With respect to the Scheme of Arrangement, ELAS considered whether to run a parallel Irish scheme to convert Irish With-Profits policies to Unit-Linked but decided not to do so. There is no precedent for such a scheme of arrangement in Ireland by a solvent insurer and the majority of the estimated £0.3 million costs would be incurred before the outcome was known.

At the effective date of the Scheme of Arrangement, asset shares for UK-Style German and Irish With-Profits policies would be uplifted to the level they would have been under the Scheme of

Arrangement except that, because they will remain as With-Profits and retain their guarantees, they will not receive any additional compensation for giving up their guarantees. For the majority of UK-Style German and Irish With-Profits policies, guarantees will have no economic value following the uplift to asset shares. The majority of Irish With-Profits policies have the right to switch from With-Profits to Unit-Linked at any time, and policyholders may choose to do this to enable them to invest in a wider range of assets, including equities. ELAS is considering adding the switch option to those Irish With-Profits policies that do not currently have such an option and confirmed that there will not be a penalty on switching from With-Profits to Unit-Linked.

I believe ELAS's decision not to run a parallel Irish scheme is reasonable given that the Irish Policies will receive an uplift without such a scheme, so the majority of Irish policyholders would have no reason to vote in favour of a parallel Irish scheme which would remove guarantees that they might prefer to retain and would provide them with no further increase to their asset shares.

I therefore agree that, given the low probability of a parallel Irish Scheme succeeding, it would be difficult to justify the additional legal risk and cost.

ELAS will transfer assets backing uplifts to asset shares to ELI's With-Profits Fund along with the assets transferred due to the termination of the Reinsurance Agreement on the Scheme of Arrangement being executed. In addition, it will transfer assets to ELI covering the expected residual cost of guarantees and additional GAR liabilities arising from the uplifts, to be held outside the With-Profits Fund. The guarantees will have less value to the policyholder due to the uplift of the asset shares.

The proposed treatment is expected to provide Transferring Policyholders with UK-Style German With-Profits policies and the Irish With-Profits policies with the same initial share of the estate being added to policies as if they benefitted from the Scheme of Arrangement. This is currently expected to be in the order of a 60% to 70% uplift to the policy value on each policy. This is equivalent to the uplifted or enhanced asset share.

ELAS is also proposing that, instead of With-Profits policyholders getting paid the maximum of policy value with any capital enhancement due and guarantees, after the Scheme of Arrangement, they will get the maximum of asset shares (uplifted) and guarantees.

I have seen copies of the paper proposing the uplift for UK-Style German With-Profits to the relevant executive committee plus the minute of the committee accepting this as the route forward. I have also seen Board papers covering the proposed treatment of the Irish With-Profits and UK-Style German With-Profits policyholders. Note that although the uplift is not guaranteed, the intention to apply the uplift will be covered by the Witness Statements given to the Court in relation to the Scheme, so it is unlikely that the uplifts will not be carried out, provided the Scheme of Arrangement occurs.

ELAS management has estimated that the value of the cost of guarantees after the initial distribution for ELI would be in the order of £0.5 million and would be concentrated almost solely on the policies with Guaranteed Interest Rates of 3.5% applying to their face values. These policies will have asset shares of some £12.9 million post the initial uplift. The cost of guarantees would, therefore, be approximately 3.9% of the asset share. They will continue to benefit from these guarantees.

Assets backing asset shares are expected to be invested in fixed interest assets including supranational bonds and sovereign bonds of appropriate duration and Euro-denominated cash. Limited exposure to credit risk is expected and there is currently no intention to change the underlying assets although there may be some refinements to better match the liabilities and asset cashflows. Obviously, investment policy for the Ring-Fenced ELI With-Profits Fund will then rest with the Board of ELI. Greater investment freedom may be possible due to the enhanced asset shares reducing the value of guaranteed benefits as a proportion of asset shares. However, this would probably increase the cost of guarantees to the shareholder, so is not particularly likely and is not proposed at present. Note that after the Scheme of Arrangement has been implemented, ELI's With-Profits Policyholders will experience a reduction in smoothing (and hence be subject to greater investment risk), due to the change from paying the maximum of policy value with any capital enhancement due and guarantees, to paying the maximum of asset shares (uplifted) and guarantees. However, this will be similar to if the Transfer had not occurred, as the Remaining Policyholders will be subject to investment risk due to conversion to Unit-Linked.

After the Scheme of Arrangement, Irish Policyholders with pension contracts will be able to access the same Unit-Linked investment choices as those in scope of the Scheme of Arrangement by switching out of With-Profits investments into Unit-Linked funds without penalty. However, this option is not currently available on the life contracts with 0% guaranteed interest rate but ELAS is exploring the implications of adding this option to these contracts. Nonetheless, the life contracts with 0% guaranteed interest rate will remain invested in similar assets to those backing the With-Profits contracts before the Scheme of Arrangement.

If the policyholder transfers to a Unit-Linked policy using their then uplifted asset share as the value for Transfer, the switch would result in them losing their guarantees, including the guaranteed minimum benefit. ELI is not intending to make the switch value further enhanced for the loss of the guarantee, as the policyholder will have the choice to not make the switch or to switch at any future date (having first benefited from the guarantees). This could mean that ELI policyholders may be worse off if they choose to switch to a Unit-Linked policy than they would have been if the Scheme of Arrangement had applied and they had been switched as part of that scheme (and received where appropriate an additional uplift in respect of giving up their minimum guaranteed benefit), but could be better off as they can choose to continue to benefit from the guarantees. The risk that the minimum guaranteed benefit means that more than the uplift must be paid will be taken by ELI (outside the With-Profits Fund), not the Transferring Policyholders. The cost arising from policyholders exercising GARs will also be met by ELI and not the Transferring Policyholders. Overall, I believe that this treatment is fair but suggest that ELI management may wish to look at uplifting values by the cost of guarantees component of switch values on an individual basis.

German-Style With-Profits Business has benefits payable as set out in a Business Plan agreed with the German regulator at the time the product was launched. No changes are planned to the policy terms and conditions.

6.1.4.2 *Non-Profit policies*

Under the proposed Transfer, no changes are being proposed to the policy terms and conditions of the Transferring Policies. As the policies are Non-Profit policies, there are no considerations around bonus rates or contingent rights to surplus.

6.1.4.3 *Unit-Linked policies*

Under the proposed Transfer, no changes are being proposed to the policy terms and conditions of the Transferring Policies. As the policies are Unit-Linked policies, there are no considerations around bonus rates or contingent rights to surplus.

There are two euro-denominated Unit-Linked funds available to each of Irish and German policyholders (making four funds in all). No other policyholders invest in these funds. Upon Transfer, it is expected that there will be no changes to the Unit-Linked funds as the assets will be transferred to ELI. Therefore, policies will continue to have the same number and value of units, and the same range of fund choices available. The pricing principles used for each of the Unit-Linked funds and the level of fund Annual Management Charges will also be unchanged.

Although ELAS is entitled to charge a switching fee under the terms and conditions of the policies, it has not charged a fee to switch funds for many years. Therefore, after the Transfer, although ELI will have the same rights as ELAS to charge for switches, the expectation is that ELI will not charge a fee for switches.

The Unit-Linked Transferring Policyholders are expected to receive the same benefits as they would if they remained with ELAS as long as the solvency of ELI is maintained.

6.1.4.4 *Dissolution or winding up of ELAS*

Upon liquidation, ELAS would be governed by a statutory framework that gives priority to the claims of insurance policyholders over the claims of other creditors, although we understand that the framework is untested in the context of a life insurer. There is, therefore, considerable legal uncertainty over how the statutory framework would operate in relation to a liquidation of the Society, particularly as policies issued by the Society include provisions which state that the Society's liabilities to its policyholders cannot exceed its assets.

I understand that there are no expectations of wind-up or dissolution within the next two years, other than as a result of the Reliance Transfer. In the event of wind-up or dissolution in other circumstances, Transferring Policyholders would be split in their treatment:

- Holders of Unit-Linked and Non-Profit policies, including the German-Style German With-Profits contracts, will be solely reliant on the solvency of ELI and will lose the Capital Support Mechanism. They will not rank as a creditor of ELAS.
- The With-Profits Transferring Policyholders will be reliant on the solvency of ELI and on the payment of claims under the Reinsurance Agreement with ELAS. The latter will not rank alongside the policies of ELAS and will be an "other creditor". The funds backing the Reinsurance Agreement are subject to a floating charge over specific pools of assets held by ELAS as reinsurer to meet its liabilities to ELI. The floating charge gives ELI the right to take full control of those assets if ELAS defaults on its obligations. How the floating charge giving a priority claim ranks against the priority given to policyholders under the special rules for this Society is debatable. Therefore it is possible that the With-Profits Policyholders would be in a worse position than if the Society had wound up before any Transfer had taken place. My belief is that this may need to be tested in the Courts and, in the worst case, the reinsurance will rank below the Remaining Policyholders.

6.1.4.5 *Protection for the terms of the Scheme*

The terms of the Scheme will apply until the Scheme of Arrangement and the Reliance Transfer have completed. The Scheme of Arrangement will occur alongside the sale of ELI as a whole (and ELAS) to LCCG and will be subject to a similar process to the Scheme involving an Independent Expert and sanction by the Court. This will therefore provide protections to the affected policyholders.

6.1.4.6 *Sharing the costs equitably*

There are costs in carrying out the Scheme and running ELI that will fall on both the Remaining Policyholders and the Transferring Policyholders with equal impact. There could be a question as to whether the cost should solely fall on the Transferring Policyholders as these are the only policyholders who need the Scheme to take place to protect their interests. The Remaining Policyholders are only protecting the reputation of the Society by being subject to the costs.

ELAS believes that the reputational cost could be severe and that policyholders would wish to share that cost between them because the reputational cost could have a greater impact on them in comparison to bearing a portion of the cost of the Transfer. This is difficult to assess.

I believe there are arguments on both sides and that a purely financial view of equity would require all of the costs to be met by the Transferring Policyholders.

The PPFM states that costs of managing the Society will be shared amongst all of the With-Profits policyholders. This is the general pooling concept that underlies With-Profits business. In addition, the Transfer is not taking place at the instigation of the Transferring Policyholders, so it could be argued that they should not be penalised as a sub-group, with the costs being shared in line with the general pooling concept that underlies With-Profits business. These could be accepted as a strong reason to allow Remaining Policyholders to have benefits reduced marginally to pay for the costs of the Scheme.

Therefore, the allocation is "fair" as it follows that required by the PPFM.

6.1.4.7 *Conclusion*

Given the information above, I do not believe that any material loss of benefits will be suffered by the Transferring Policyholders other than the possibility of losing the ranking given by ELAS on dissolution or winding up and the loss of the additional costs. Dissolution or winding up (other than as a result of the Reliance Transfer) is very unlikely and the floating charge is likely to be an additional mitigant, so I do not believe the effect of the possible change in ranking is material. The loss, common to all With-Profits policyholders, of the extra expenses will have a marginal detriment to policy payouts although as the excess costs are less than 1% of total policy values (as explained in section 5.3 above), this is unlikely to have a material effect on benefits paid. The risk of ELAS being unable to service the German and Irish policies post Brexit ceases.

Policyholders with guarantees could end up worse off than they would have been if they had received an uplift for the guarantee and converted the guarantees to Unit-Linked under the Scheme of Arrangement, but they could also end up better off. The policyholders still have their guarantees. After the Scheme of Arrangement, about 70% of the Transferring Irish Business has the option to switch out of With-Profits investments into Unit-Linked funds. ELAS is also investigating if this option to switch from With-Profits to Unit-Linked could be added to the Irish With-Profits policies that do not currently have the option. It is my understanding that as German courts would not recognise the Scheme of Arrangement, and switching from with-profits to unit-linked will cause policyholder tax charges in Germany, the UK-Style German With-Profits policyholders are excluded from the Scheme of Arrangement.

Although the Irish With-Profits policyholders will not be converted to Unit-Linked under the Scheme of Arrangement, some additional legal risk could be taken on in running a parallel Irish scheme, at an estimated cost of £0.3 million, to convert them to Unit-Linked. However, the majority of policyholders would receive no further uplift to their asset shares from such a scheme and therefore would have no reason to vote in favour.

Overall, I believe that there is no material adverse effect on transferring Policyholders.

6.2 POLICYHOLDERS REMAINING IN ELAS AFTER THE TRANSFER

6.2.1 Introduction

This section considers the likely effect of the proposed Scheme on the Remaining Policyholders. In particular, I consider the impact of the proposed Scheme on the following:

- the security of benefits of policies remaining with ELAS; and
- the benefit expectations of Remaining Policyholders

6.2.2 Security of benefits

Prior to the Scheme, the risks associated with the Transferring Business required capital to be retained by ELAS in its funds. Following the Scheme, these risks will fall to ELI's main fund and With-Profits fund. However, effectively, the interest rate and persistency risks from the With-Profits business will be retained via the Reinsurance Agreement which cedes 100% of the With-Profits liabilities from ELI back to ELAS. Administration expense risk on the Unit-Linked business is effectively retained by ELAS, which provides the administration services via the MSA.

The Scheme will not give rise to any material changes in the nature, type or the amount of assets in the ELAS With-Profits Fund as a whole. The arrangements relating to the reinsurance and floating charge are relevant, but are expected to have a limited impact on the composition of the fund's assets.

Given the impact on the assets, and the Reinsurance Agreement discussed above, I do not expect the Scheme to have any material impact on the security of benefits of the Remaining Policyholders.

If the Reinsurance Agreement is not put into effect (but the MSA is in place), the impact on ELAS Remaining Policyholders would be slightly positive. Profits (and losses) from ELI's Unit-Linked and Non-Profit policies will revert to the Remaining With-Profits policyholders. However, this is unlikely to be material due to the small scale of the policies transferred to ELI.

If the MSA was cancelled, ELAS management would need to consider whether the reduction in activity in ELAS administration would warrant a reorganisation. There will be less financial support from the margins of policies for the overhead departments of ELAS (senior management, actuarial, management accounts, internal audit) but this will be very small compared with the financial support from the Remaining Policies.

6.2.3 Benefit expectations

Benefit expectations will be marginally reduced due to the costs of setting up and running ELI, as set out in section 5.

6.2.3.1 Policy terms and conditions

Under the proposed Transfer, no changes are being proposed to the policy terms and conditions for the policies of Remaining Policyholders either now or in future.

6.2.3.2 Dissolution or winding up of ELAS

ELAS's rules currently state that upon liquidation of ELAS, it would be governed by a statutory framework that gives the priority to the claims of insurance policyholders over the claims of other creditors.

I understand that there are no expectations of wind-up or dissolution within the next two years, other than as a result of the Reliance Transfer. However, the effect of the Scheme on any dissolution or winding up is not expected to have a material impact on benefit expectations of the Remaining Policyholders.

6.2.3.3 Conclusion

Given the information above, I do not believe that any Remaining Policyholders should experience a worsening of his or her benefit expectations due to the Scheme other than the impact of the additional costs. This is not expected to be material.

7 Other impacts of the Transfer

7.1 MEMBERSHIP RIGHTS

ELAS is a mutual and accordingly has no shareholders. Under the Articles of Association of the Society, its members essentially are policyholders who hold With-Profits policies with ELAS which remain in force.

Irish With-Profits policyholders and policyholders with UK-Style German With-Profits policies are currently members of ELAS. On transfer, these policyholders will lose their membership and voting rights.

Members of ELAS have the right to attend and vote at general meetings of the Society and participate in the profits and losses of the Society.

The Society's Board considers matters affecting With-Profits policyholders such as risk and capital management, payouts, investment strategy and communication and ensures decisions affecting With-Profits policies are consistent with the PPFM.

7.1.1 Impact of loss of membership rights on ELI policyholders

As ELI is structured as a Designated Activity Company, the Transfer will result in the loss of the membership and voting rights of the Transferring With-Profits policyholders. ELAS's With-Profits Actuary is of the view that as these rights do not confer any financial benefit on policyholders under the Articles of Association, these voting rights do not have a material value.

I believe that the exercise of individual membership rights would only have a value if ELAS was writing new business, had a large estate that it could distribute on run off and that the special resolution would remove the ability of the Board to continue to write new business. As ELAS is in run-off and the Board is distributing the estate to With-Profits policyholders, I tend to agree that the financial benefit of being able to exercise the vote is less meaningful and could not be considered material. There are circumstances where the vote could have meaningful value but it is extremely difficult to see that circumstance other than in the case of the Scheme of Arrangement.

As a result of the Transfer, Irish With-Profits Policyholders will lose the right to vote on the Scheme of Arrangement. However as these only make up about 1% of ELAS policy values as at 31 December 2017, it is highly unlikely that their vote would have changed the outcome of the Scheme of Arrangement. Therefore these policyholder's rights have not been significantly compromised.

Section 6 considers rights on dissolution or winding up of ELAS.

Transferring Policyholders, will be sent a letter explaining how to get further information and of their right to make representations to the Court. Section 9 covers policyholder communication.

ELAS has recently informed me that ELI is intended to become a subsidiary of Reliance Life under the Reliance Transfer.

7.1.2 Compensation for any loss of rights

There is no compensation being provided for the loss of membership rights. I believe that the value of membership rights is small and not sufficient to justify compensation.

7.1.3 Conclusion

Whilst the Transfer will lead to the loss of voting rights for the Transferring Policyholders, in practice those policyholders are unlikely to have any significant influence on the Society as they represent only 1% of ELAS's policy values. Therefore the loss of voting rights is not material.

The financial effects of the Transfer on the rights to surplus and rights on dissolution or winding up are considered in earlier sections of this Report.

7.2 GOVERNANCE

7.2.1 ELAS

The Board has adopted the 'three lines of defence' governance model to support the management of risks. These are:

- 1st line of defence : line management and staff;
- 2nd line of defence : the risk function; and
- 3rd line of defence: internal audit.

ELAS's governance structure is made up of three main levels with the Board at the very top. The four Board Committees are Audit and Risk Committee, With-Profits Committee, Remuneration Committee and Nominations Committee. The Society has two Executive Committees: one responsible for delivery of standard business activities; the other responsible for the delivery of the Society's strategy. Four committees at the third level: the Regulatory and Industry Developments Committee, Unit Pricing Committee, Asset and Liability Committee and Technical Review Committee, report into the appropriate Executive Committee.

It is my understanding that the Terms of Reference for the governance bodies are reviewed annually. Any changes made for Board committees are approved by the Board while changes for committees reporting to the Executive Committees are approved by the relevant Executive Committee. The Company Secretariat monitors the reviews to ensure they are being undertaken and the appropriate approval process is being followed.

There are also a number of Governance Groups that monitor various business activities and report on these activities to one or more of the Executive Committees. ELAS's With-Profits Committee ensures the Society meets the requirements set out in Section 20.5 of the FCA's Conduct of Business Sourcebook.

7.2.2 ELI

ELI's Board will consist of five directors: a Chief Executive Officer (CEO), a Group Chairman, a Group Director and two Independent Non-Executive Directors. There will also be a Risk

Committee and an Audit Committee, which will each have five members. The Audit and Risk Committees will comprise of all members of the Board and the Chairman will be an Independent Non-Executive Director. The Board is expected to meet quarterly and it is anticipated that the Board, Audit Committee and Risk Committee meetings will take place on the same day.

I have been informed that all of the responsibilities and scope of the relevant senior management and committees are listed in their Terms of Reference. I have seen the draft Terms of References and they seem reasonable.

ELI will rely on ELAS's Remuneration and Nominations Committees. Their responsibilities are defined in the Terms of Reference.

The Executive Committee will meet monthly and be comprised of at least three members and six roles which implies that some of these roles may be combined. The six roles are the CEO, Chief Finance Officer (CFO), Chief Investment Officer (CIO), Chief Actuary (CA), Chief Risk and Compliance Officer and Head of Claims. Activities completed by ELAS's Unit Pricing Committee and Asset and Liability Committee will be included in ELI's monthly Executive Committee meetings. Again their responsibilities are defined in the Terms of Reference.

The CBI has said it will be prepared to allow ELI, initially at least, to appoint only a CEO within Ireland. The other roles will be carried out by similar role holders within the UK as part of the MSA.

The CBI will require a document outlining the With-Profits Operating Principles to be published and will require the Chief Actuary to opine on whether Board discretion has been operated in line with the Principles and has brought in similar public disclosure as exists within the UK on "fair" treatment of the With-Profits Policyholders. I have assumed that ELI will not seek an exemption from this requirement that comes into effect from 1 January 2020.

After the Scheme of Arrangement and Reliance Transfer, ownership of ELI is expected to be transferred to Reliance Life, a subsidiary of LCCG. Therefore the Reliance Life/LCCG governance model, which would be well established, will apply. I have not been given a copy of this governance model and cannot comment on it. However, I believe the Independent Expert for the Reliance Transfer will take this into consideration and the Reliance Transfer will not go ahead unless there are no material adverse effects expected on policyholders.

7.2.3 Effect on Transferring Policyholders

The Transferring With-Profits policies will be reinsured back into the UK With-Profits fund to ensure that both transferring and remaining With-Profits policyholders get equivalent discretionary benefits. The policyholders will not be covered by the With-Profits Committee nor will the With-Profits Actuary of ELAS have a statutory or regulatory duty to ensure fair treatment of the policyholders transferred. However, I expect the professionalism requirements of the Institute and Faculty of Actuaries would mean that the With-Profits Actuary would look through the reinsurance treaty and attempt to ensure that ELI is receiving fair value from the reinsurance treaty. This has been confirmed to me by the WPA.

If the Reinsurance Agreement is not in place, the Transferring With-Profits policyholders will be subject to the Irish system of governance of With-Profits business. The Board of ELI will hold the primary responsibility for fair treatment. The Actuarial Function Holder has certain responsibilities under the Irish regulations and this will be enhanced in 2020 with the introduction of the requirement for a With-Profits Operating Principles document which, largely, reflects the requirements for a PPFM in the UK. From my reading of the regulations bringing in the requirement for a WPOP, I see the requirements as being equivalent to the requirements of the PFFM in the UK.

For Non-Profit and Unit-Linked policies, the governance will be with the ELI Board who will need to ensure fair treatment under Irish consumer regulations.

7.2.4 Conclusion

Overall, taking into account my expectation of the Scheme of Arrangement and the Reliance Transfer only going ahead if the Independent Experts conclude that there will be no material adverse effect on policyholders, my expectation is that there will be no adverse impact on Transferring Policyholders from the new governance arrangements.

7.3 INVESTMENT MANAGEMENT

7.3.1 With-Profits

The ELAS With-Profits Fund is invested overwhelmingly in government bond assets managed by BlackRock under an investment management agreement.

On transfer, these assets would be expected to follow the Transferring With-Profits policies to ELI's new Ring-Fenced With-Profits fund. This would cause additional work in identifying and arranging an in specie transfer to ELI of the matching assets for the Transferring With-Profits policies. Normally, insurance funds do not maintain separate records of assets purchased for particular policy groups, so additional work will be required here and extra costs incurred around investment management and administration.

However, the Reinsurance Agreement removes the need for this transfer of assets. The Reinsurance Agreement means that, although the assets will be held by a custodian and subject to a floating charge to give protection from ELAS's potential default, the management of the assets will still be the responsibility of ELAS which will continue under the existing investment management agreement.

My expectation is that there will be no adverse impact on With-Profits policyholders.

On the cessation of the Reinsurance Agreement, assets will need to be transferred to ELI. The extra work of managing and administering these assets separately will then be required. The governance of the asset management of the Ring-Fenced ELI With-Profits Fund will be subject to the Board of ELI and the Actuarial Function Holder. I have been involved in the management of With-Profits funds of this scale and, in my experience, the only loss from smaller fund management tends to be on the ability to use derivatives to hedge exposure. As the assets are likely to be matching bonds to the Transferring With-Profits policy liabilities, there is likely to be no need for derivatives to be used.

My expectation is that there will be no adverse impact on all With-Profit policyholders.

7.3.2 Unit-Linked and Non-Profit

The assets backing the Transferring Policies will be transferred to ELI and run by ELI. The management agreements will be replicated for the Unit-Linked funds to have ELI as the new counterparty. The Non-Profit assets will be transferred and run by the existing manager.

Therefore, there is a loss of funds under management for ELAS but the existing fund manager will still be running the funds with the existing mandates. Therefore, there is no impact on the Remaining Policyholders.

The Unit-Linked policies will continue to be linked to the same funds and will continue to benefit from the same investment manager with the same mandate and the same proportionate cost to the policyholders. There is no impact on the Remaining Policyholders.

For Non-Profit policies, the assets will be run by the same investment manager but the policyholder does not benefit from any investment return – ELI bears all of the investment risk and gains all the return. There is therefore no impact on Non-Profit policies.

7.3.3 Unit pricing, fund administration and governance

The fund range available to Transferring Unit-Linked Policyholders is expected to continue to be a managed fund and a money fund. To support ELAS in meeting its obligations for managing all aspects of the Unit-Linked business, outsourcing agreements are in place with State Street and Aberdeen Standard Investments. State Street undertakes all fund accounting, fund pricing and custodian activities on behalf of and under the oversight of ELAS. Aberdeen Standard Investments is ELAS's Fund Manager responsible for managing the Unit-Linked funds in accordance with agreed mandates. State Street is the Society's custodian. The intention is that the agreements would be replicated for ELI and therefore there would be no effect on Transferring Policyholders.

As part of the MSA, ELI's Executive Committee will oversee and monitor the services provided by ELAS to support the administration of the Irish and German Business.

If the MSA did not exist, I would expect that the relationship between ELI and Aberdeen Standard Investments and with State Street would continue with no change. The charges levied, in my experience, reflect those in the market for these services.

7.3.4 Conclusion

There will be no adverse effect from the Transfer on the investment return for the Transferring Policyholders. As the management charges will continue to reflect the scale of the ELAS portfolio, the Remaining Policyholders will not lose, despite lower funds under management.

7.4 DRAFT REINSURANCE AGREEMENT

The draft Reinsurance Agreement is summarised in Appendix 6. As stated above, the expectation is that the Reinsurance Agreement will enable Irish and UK-Style German With-Profits policyholders to maintain consistent benefit expectations pre- and post-transfer of the business to ELI. This is expected to be terminated from the effective date of the Scheme of Arrangement.

ELAS has recently sold its corporate bond portfolio and has therefore ceased to use a Volatility Adjustment in the valuation of its With-Profits liabilities. I was informed that ELI has no plans to apply to use a Volatility Adjustment or transitional deduction whilst the Reinsurance Agreement remains in force. ELI will have no control over bonus decisions affecting the Transferring Policies covered by the Reinsurance Agreement.

The Reinsurance Agreement will terminate at the Scheme of Arrangement's effective date. Asset shares would be uplifted in line with the uplift they would have received under the Scheme of Arrangement, except that they will not receive any additional compensation for the residual value of investment guarantees, because they will remain as With-Profits policies and retain those guarantees. Assets will be transferred to ELI to cover the expected cost of residual guarantees which will be met from assets held outside the With-Profits Fund.

The With-Profits Fund investment strategy is expected to stay the same pre and post termination of the agreement but assets will be different because they will now be matching just ELI business instead of the whole ELAS business. ELAS maintains separate pools of assets to match the liabilities from the policies covered by the Reinsurance Agreement. At the effective date of the Scheme of Arrangement and termination of the Reinsurance Agreement, assets will be transferred to ELI's With-Profits Fund to match uplifted asset shares. The investment strategy for those assets is expected to be similar to ELAS's current investment strategy for the assets backing the Transferring Policies.

7.4.1 Effects on Transferring Policyholders

For its 31 December 2017 published results, ELAS had the option to apply management actions (such as allowing for a change in bonuses) but chose not to, as it was already in a good solvency position without these adjustments or actions. ELAS applied a Transitional Measure on Technical Provisions which increased Own Funds by £70 million. This implies that the impact of ELI not having control over bonuses or adjustments to the Technical Provisions is not significant. However, there is some uncertainty around the Reliance Life/LCCG intentions in terms of management actions and other adjustments to the Technical Provisions or SCR after the Reliance Transfer.

As stated above, the assets are expected to be different post termination of the Reinsurance Agreement. This change in assets is likely to reduce risk as it will only be matching ELI business.

If the Scheme of Arrangement takes place, investment strategy will revert to ELI and bonuses will be a matter for the ELI Board solely.

7.5 OUTWARD REINSURANCE

In terms of outward reinsurance, there are nine treaties currently in force that cover some of the Transferring Business as shown in the table below.

Territory	Risk covered	Reinsurer	Type of cover*	Notes
Germany	Mortality, disability and accident	General Reinsurance AG	Surplus	Covers business effected before 1 October 1998
			50% Quota Share	
		Swiss Re Europe SA	Surplus	Covers business effected on or after 1 October 1998
			50% Quota Share	
UK & Ireland	Medical expenses	Swiss Re Europe SA	50% Quota Share	Fixed individual medical expenses
	Mortality	Swiss Re Europe SA	Surplus	Separate treaties for individuals and groups schemes as well as flexible protection plans.
	Medical expenses	Liverpool Victoria Life Co Ltd	50% Quota Share	Fixed individual medical expenses
UK, Ireland, Germany and Channel Islands	Mortality	Swiss Re Europe SA	100% Quota Share	The treaty ends after five years i.e. November 2021
	Mortality and longevity	LBG (Scottish Widows Limited)	100% Quota Share	This covers deferred annuities, annuities in payment, assurances and some unitised With-Profits investment.

*See glossary for definition.

Those parts of existing reinsurance treaties covering business being transferred are expected to be transferred to ELI. Reinsurance treaties are expected to continue to operate unchanged (other than the change of cedant) and reinsurance assets will back the majority of the Non-Profit business.

7.5.1 Effect on reinsurer

The reinsurance treaties are expected to operate unchanged post Scheme (other than the change of cedant) therefore no adverse effect is expected on the reinsurer.

7.5.2 Effect on Transferring Policyholders

The reinsurance treaties are expected to operate unchanged post Scheme (other than the change of cedant). Hence no adverse effect on the Transferring Policyholders is expected. I expect that there should be no issue in transferring the reinsurance treaties to ELI from ELAS.

7.6 ADMINISTRATION

Establishment of a new insurer will normally require the acquisition of the use of a new administration system and the recruitment and training of staff to administer the policies. At present, no plans exist in ELAS or ELI to recruit other than senior management for ELI or to acquire an administration system for ELI. This is because ELI will have a Management Services Agreement with ELAS.

ELAS will perform the majority of administration services for ELI, therefore those services will be provided by the same teams using largely the same processes as if the business had not transferred. The services to be provided, and the costs for providing the services, are set out under the MSA. As part of the MSA, the charges for the services provided by ELAS are defined for a period of ten years, subject to increases linked to inflation (and the possibility of amendment due to regulation changes). This provides security to Transferring With-Profits Policyholders against diseconomies of scale that may emerge in administration costs. However, although the MSA can be extended, there is no guarantee that the charges will remain the same after ten years and therefore there is some uncertainty around the charges should the MSA be in place after ten years.

The Transferring Business will be subject to expenses in addition to those covered by the MSA, these being additional costs incurred by ELI for the day to day running of ELI. These costs are expected to be funded from investment return on ELI's own capital resources provided by ELAS on establishment of ELI. ELAS states that additional charges for such costs will not be levied on policyholders. I understand that there will be an additional expense reserve from the date of Transfer to cover these additional costs, to make sure that expenses are covered irrespective of future investment returns. This is calculated as Euro 11 million at 31 December 2017, which covered Euro 4 million for costs under the MSA, Euro 1 million of investment expenses on non-linked assets and Euro 6 million other costs.

Transferring Policyholders are protected against increases in expenses that fall to ELI through the capital support provided by ELAS, should solvency coverage fall below 120%.

There is some uncertainty around expenses after the Scheme of Arrangement and Reliance Transfer as, although the MSA would transfer to Reliance Life, the Reliance Transfer would allow Reliance Life to give three months' notice to terminate it.

ELAS has informed me that although there is currently no MSA drafted between Reliance Life/LCCG and ELI, it expects Reliance to use ELAS staff to continue to service the Transferring Policies but this has not yet been confirmed. Any agreement is expected to be on an "arm's length" basis and an appropriate guarantee term would be included. However, I received an extract from the sale agreement between ELAS and Reliance Life/LCCG covering future charges for Unit-Linked policies.

For Unit-Linked policies, after the Scheme of Arrangement which includes the sale of ELAS (and ELI) to Reliance Life, the charges are not expected to exceed 0.75% unless

- the annual management charges on underlying Unit-Linked funds exceed 0.75%;
- charges already exceed 0.75% (for example the charge for the property fund is 1%);
- change in regulation leads to a material increase in Reliance Life/LCCG cost and other life companies increase their annual management charges too; or
- there is an increase in third party investment management cost.

There is also an upper limit of 1% for all funds. The charges above would apply both to Remaining Policies (who would convert to Unit-Linked as part of the Scheme of Arrangement) and Transferring Policies which were individually converted to Unit-Linked.

For the With-Profits business, ELAS intends to suggest the same charges as the Unit-Linked business of 0.75% but this has not yet been agreed.

Other options for the ELI Board would be to either in-source the administration of the policies or to conclude a third party administration agreement with another provider. In-sourcing may be easier given the scale of the book, in my experience. My experience with smaller With-Profits insurers suggests an internal administration team of some 5-10 staff with internal audit, IT support, compliance and actuarial services being outsourced under contracts with specialist providers. An administration system will cost in the order of 1 million Euros and take some time to install. This is likely to be a major consideration at the time for the Board. Overall, though, I do not see this as being insurmountable, especially given the margins that will then be released from the MSA. The 0.5 to 0.6 million Euros per annum involved in the 0.75% mentioned above combined with the current expected expenses of 0.4 million to 0.5 million Euros will provide for an adequate expense margin. In-sourcing has greater risks and requires activity now to achieve so the MSA is a sensible initial arrangement in any case.

ELAS has confirmed that they could pass the licences onto ELI of their current administration system after negotiation with their suppliers. This would, obviously, need to be reviewed by ELI Board at the time.

Therefore, I believe that the administration of the Transferring Policyholders is not going to be materially affected.

7.6.1 Effect on Remaining Policyholders

There is no reason to believe that the charges or administration of the policies of Remaining Policyholders will worsen.

7.6.2 Effect on Transferring Policyholders

Following the Transfer, an MSA is expected to be in place under which general administration of the Transferring Policies will be provided by ELAS to ELI from the UK. Therefore no change is expected to the standards of service for the Transferring Policyholders.

However, after the Reliance Transfer, the expectation is that Reliance will use ELAS staff to continue to service the Transferring Policies but this is yet to be confirmed with Reliance. Reliance Life's parent company also has subsidiaries based in Ireland, who could be in a position to provide Irish-based governance at a lower cost than ELAS as I expect this is marginal compared to their current roles, but it could also mean that there could be less focus on ELI.

7.7 POLICYHOLDER PROTECTION ISSUES

7.7.1 Remaining Policyholders

The Remaining Policyholders will still be subject to the full protection of the Financial Ombudsman Scheme, the FCA rulebook and the Financial Services Compensation Scheme. There is no impact on these policyholders from the Scheme in this regard.

7.7.2 Transferring Policyholders – Financial Services Compensation Scheme

The Transferring Policyholders are currently covered by the UK's Financial Service Compensation Scheme.

There is no form of policyholder protection within Ireland for life assurance policies if the insurer is unable to meet its commitments.

FSCS is covered in section 2.2.3 in this report. When FSCS protected policies are transferred to a non UK-authorised insurer, all claims arising in respect of acts or omissions occurring post the effective date of a relevant scheme, lose the FSCS protection available to them if the insurer is not UK authorised (e.g. does not have an EEA passport into the UK). By way of contrast, where the transferee does have an EEA passport into the UK, then FSCS protection is maintained for Transferring Policyholders, for such time that the EEA passporting rights remain recognised by the UK. ELAS has structured the Scheme assuming that the UK regulators will not give a passport to ELI.

Ireland is fully committed to enforcing the new "Solvency II" prudential rules set by the European Union. This is, currently, the same regime as applies for ELAS in the UK. This acts as some form of mitigant by ensuring that the capital requirements and the Technical Provisions established by ELI will be at a standard to protect the policyholder. The aim of Solvency II is to allow an insurer to suffer an extreme event at the 0.5% probability level and still have sufficient assets to ensure another provider could take on the liabilities and make a reasonable profit from the existing book to compensate them for the use of their capital.

Coupled with this is the Capital Support Mechanism provided by ELAS which should ensure that the coverage for the capital requirements would protect ELI policyholders further than the new statutory requirement.

However, events may occur that are totally unexpected. There is, therefore, a residual small risk that Transferring Policyholders may lose by not being subject to the FSCS in the UK. I believe that this risk is small and would expect the CBI coupled with ELI's management to act at an early stage to protect the policyholders. However, it might be useful if ELI was to apply for EEA passporting rights into the UK from the PRA to maintain coverage of the FSCS.

7.7.3 Transferring Policyholders – Financial Ombudsman Scheme

The Financial Ombudsman Service is covered in section 2.2.4 of this report. The Transferring Policyholders are not currently covered by the UK's Financial Ombudsman Scheme.

Ireland has a similar scheme in place called the Financial Services and Pensions Ombudsman. This body provides an independent route to complaints and provides a documented and laid out process for complainants to take. Irish Transferring Policyholders were always subject to this regime so there is no difference in treatment before and after the Scheme.

German Transferring Policyholders were always subject to the German form of complaints resolution through BaFin. This will continue after the Scheme. Again, there is no difference in treatment before and after the Scheme.

7.7.4 The Financial Conduct Authority

Currently, all of ELAS policies are covered by regulations set by the FCA on the conduct of business and the protection of policyholders. This will cease for Transferring Policies on the Transfer to ELI. Instead, they will be subject to regulation on conduct of business and the protection of policyholders by the CBI. From my analysis, I believe the two regulators have the same aims and the same level of powers of intervention.

7.7.5 Conclusion

Taken in the round, I believe that the Transferring Policyholders will not be adversely affected by the Transfer on these grounds.

7.8 TAX ISSUES

I understand that ELAS has met with both tax authorities, HMRC and Irish Revenue, provided them with full details of the Scheme, submitted clearance applications and received responses from both tax authorities. ELAS has stated that tax risks will be mitigated by ensuring that all the tax issues are resolved before the effective date of the Scheme and that its discussions with the tax authorities have led it to believe that there will be no material tax effects from the Transfer.

I have reviewed tax advice reports provided by Ernst & Young ("EY") on the Scheme, seen correspondence between ELAS and the Irish and UK tax authorities and had discussions with ELAS. I have also seen documents from the Irish Revenue confirming agreement with ELAS proposed tax treatment and an email from HMRC stating it does not disagree with ELAS's proposed tax treatment except that it is unable to give assurance on Transfer Pricing. ELAS has stated that it intends to rely on EY's industry knowledge for Transfer Pricing. Tax issues relating to the Scheme are set out in the EY report dated 12 June 2018.

Transferring Policyholders could be disadvantaged due to the various tax matters, these include:

- tax profile of ELI as an Irish entity;
- agreeing a workable treatment for failed Overseas Life Assurance Business;
- Automatic Exchange of Information ("AEoI");
- Transfer pricing;
- reinsurance of I-E business;
- potential realisation charge on the Unit-Linked funds for the tax on equity collectives;
- potential VAT charge on non-administration tasks (i.e. finance, investment and actuarial);
- need for the reinsurance treaty / MSA to be at arms-length;
- need for Transfer pricing to be arms-length; and
- tax leakage and the extra costs.

The table below provides a summary of the expected policyholder tax implications.

CATEGORY OF TRANSFERRING POLICY	IMPLICATION ON POLICYHOLDER
policies issued before 17 March 1998	These policies are not currently treated as "foreign policies" because of their date of issue. Part VII Transfer of the policies to ELI should not impact their current treatment. Therefore no UK–resident holder of a maturing policy within this category should be disadvantaged by the proposed Part VII Transfer.
OLAB policies issued by ELAS on or after 17 March 1998	These policies are currently treated as "foreign policies" by UK HMRC and I believe will be treated as "foreign policies" by the Irish Revenue following the Part VII Transfer. Therefore no UK–resident holder of a maturing policy within this category should be disadvantaged by the proposed Part VII Transfer.
"Failed OLAB" policies issued by ELAS on or after 17 March 1998	These are not currently treated as "foreign policies" since they are not OLAB policies within ELAS. This treatment should not be impacted by the Part VII Transfer.

ELAS has discussed all three categories with HMRC, including its view that there are no policyholder tax disadvantages and HMRC has confirmed that it does not disagree with ELAS's analysis.

7.8.1 "Failed" Overseas Life Assurance Business

The business written through the Irish branch is subject to corporation tax in Ireland and business written through the German branch has not been subject to corporation tax in Germany in respect of that former branch since 2001 / 2002. The Transferring Business is predominantly categorised as Non-BLAGAB for UK tax purposes, and includes Life, Pension (individual and group) and Annuities. However, I understand that, during an investigation in 2001, it was discovered that some business sold in the 1990s through the then German and Irish branches, was reclassified as not qualifying as Overseas Life Assurance Business ('OLAB') for UK tax purposes. This may have been because ELAS had "active" reason to believe that some policyholders had not met the non-UK residency rules when the policy incepted or had become UK resident shortly after inception. However, in some cases it may have been because the Society had unresolved concerns as to the residency status of the policyholder.

As at 31 December 2015, these "failed OLAB policies" included 31 German policies with policy values of €0.42m and 189 Irish policies with policy values of €3.74m. Allowing for further run-off since that date, I understand there are now about 200 "failed OLAB policies" within the Irish and German books. I have now seen an email from HMRC confirming no disagreement with ELAS's proposed treatment for these policies. ELAS's proposed treatment is that the adjustment should no longer be made after the Transfer. This will lead to a marginally improved position for ELAS and therefore policyholders. I have not seen any disagreement from the Irish Revenue on ELAS proposed treatment.

7.8.2 Automatic Exchange of Information returns

ELI will be required to submit AEoI returns annually to the Irish Revenue Commissioners using the appropriate schema. There is an option within Ireland to report all non-resident customers holding reportable accounts to the Revenue Commissioners. ELI may need to seek advice on whether any additional changes are required to terms and conditions or specific notifications need to be issued to customers resident in non-reportable jurisdictions.

It is necessary to establish which entity will be responsible for making AEoI returns during the calendar year in which the Part VII Transfer occurs. As the policies are regarded as continuing undisturbed under a Part VII Transfer, I understand ELI will be responsible for reporting to its domestic competent authority for the whole of that year.

I have now seen confirmation from the Irish Revenue that it will be acceptable for one combined tax return for the 12 month statutory accounting period to 31 December 2019 to be submitted. The Irish Revenue has accepted that ELI will file any tax returns after the Effective Date of the Scheme. The information filed will consist of information from ELAS before the Transfer and information from ELI after the Transfer. I have also seen confirmation that HMRC does not disagree with this.

7.8.3 Transfer Pricing

The UK and Ireland currently have similar but not identical transfer pricing rules. I understand that the Irish transfer pricing rules were recently reviewed and changes are expected to be implemented no later than the end of 2020. EY has considered this in its tax advice. I have been informed by ELAS that their current understanding is that there is likely to be no effect on Transferring Policyholders and a negligible impact on Remaining Policyholders due to small shareholder profits being potentially generated by ELI. I have not seen documentation confirming this.

I have seen an email from HMRC stating it is restricted in giving any assurance on Transfer Pricing matters. Therefore HMRC is not expected to give a formal or informal ruling on this. ELAS has stated that it intends to use EY insurance industry knowledge to get confirmation that the pricing of the Reinsurance Agreement and MSA are appropriately "arms-length" under both the UK and Irish

Transfer Pricing rules. I have not seen any disagreement from the Irish Revenue on ELAS's proposed treatment.

7.8.4 Reinsurance

EY recommended that the tax position of ELAS as a result of the inward reinsurance business should be discussed and agreed with HMRC. ELAS has informed Revenue of its proposed tax treatment of the reassurance and the Irish Revenue has not challenged its proposal. Any legal provisions needed to achieve the objective of the internal reinsurance should also be agreed and arranged in advance.

A company which is tax resident in Ireland is subject to Irish corporation tax on its worldwide income and gains. To ensure that ELI is considered tax resident only in Ireland, its central management, control and place of effective management should be located in Ireland. Operating guidelines are expected to be developed such that ELI and ELAS personnel are clear on what activities need to be carried out in Ireland / not carried out in the UK to ensure that ELI is regarded as resident in Ireland and not the UK. ELAS has informed me that HMRC has confirmed that the tax residency of ELI (being in Ireland only) will not be challenged by them. I have not seen any documents from the Irish Revenue challenging ELAS on this.

The reinsurance of I minus E business (i.e. old basis business) has special rules that means the Reinsurance Agreement policy is treated as a chargeable asset. ELI should be subject to tax in Ireland on its old basis business on an I minus E basis and on its new basis business on the basis of trade profits.

From the information I have seen, ELAS proposed treatment of reinsurance (inward and outward) has not been challenged by HMRC or the Irish Revenue.

7.8.5 Other tax matters

ELI (as a proprietary) will be subject to tax on its trade profits on an actual rather than deemed basis, at a tax rate of 12.5%, although ELAS expects trade profits to be small. However, the German Business will need to be separated from the Irish branch to determine the proportion of the business that losses can be offset against. Some expenses arising around the operational implications of the Transfer may be deductible for Irish tax purposes (new basis business). However discussions may be needed on how feasible this is and to check if the benefit of doing this outweighs the effort. ELAS proposed to HMRC that it is content to agree that any potential benefit from claiming tax relief on the proportion of expenses arising in relation to the Transfer is not worthwhile pursuing. From the information I have seen, this treatment has not been challenged by HMRC. I have not seen any disagreement from the Irish Revenue on ELAS proposed treatment.

I understand from ELAS that although HMRC rejected its clearance application related to the status of ELAS holding ELI, HMRC has confirmed the acceptance of the treatment of ELI shares as a normal life fund asset subject to an effective low tax rate of 0.6%. ELAS has confirmed that, as it is not expecting ELI shares to notably increase in the short term, a tax rate of 0.6% would not be an onerous burden.

The Irish Revenue has been informed of ELI's expected overall tax profile and has not expressed any major concerns or disagreement with it. EY suggested various clearances, confirmations and agreements which have now been received. I have now seen a document setting out the following confirmations from Irish Revenue:

ITEM	CONFIRMATION
Old Basis Business (OBB)	OBB computation can continue to be prepared on the same basis in ELI as in ELAS. This means that they will continue to be subject to the I-E basis of taxation.
Tax profile	ELI is required to acquire its own tax reference number.
VAT exemptions	The Transfer of the contracts will come within the transfer of business provisions at Section 26 VAT Article 2010. This means VAT exemptions will apply.
Deemed Disposals of Investment Assets	There will be no deemed disposal at the Effective Date of the Scheme in ELAS. For the 12 month period to 31 December 2019, deemed gains and loses can be calculated in ELI.
Carry Forward of Deferred Capital Gains and Losses	Unrealised gains and losses on transferred assets will continue to be spread following the Effective Date of the Scheme.
Capital Gains Tax (CGT) on Irish Government Gilts	The transferred Irish Government Gilts will be taken over by ELI at the same original cost to ELAS and not be treated as disposals for Capital Gains Tax purposes.
Reinsurance arrangement	ELI can bring in the income and gains annually that would have arisen in Ireland in the I-E computation if the reinsurance agreement had not been in place.
Excess Management Expenses	Excess management expenses can be carried forward for offset against future I-E profits in ELI.
Non-Irish Business	All ex-German Business transferred from ELAS into ELI will be New Basis Business (NBB) of ELI.
Determination of NBB Profits	The split of profit before tax may be determined by applying the ratio of OBB mean fund liabilities: NBB fund liabilities.
Losses transferred from ELAS	The split of NBB profits between Irish and German Business, for loss purposes may be determined on a mean liability basis.

ITEM	CONFIRMATION
Exit Tax	ELI will not be required to obtain policyholder non-resident declarations in respect of German Business written by ELAS up to the Effective Date of the Scheme.
Inheritance tax	Any inheritance tax policies written by ELAS will continue to be approved products when transferred to ELI.
Section 980 Clearances	No clearance will be required provided no chargeable assets are being transferred.

7.8.6 Remaining policyholders

Remaining policyholders will have no impact from the tax consequences of the Transfer.

7.8.7 Summary

It is not expected that significant policyholder tax liabilities will arise in relation to the Scheme, however, there may be procedural requirements or potential tax confirmations needed. EY has provided some of these in its tax advice.

Following discussions with ELAS, I understand that a cost of about £25m equates to about 1% of policy values, so would cause the potential uplift under the Scheme of Arrangement to reduce by about 1%. Therefore, as any potential tax liabilities would be expected to be much smaller than this, it would not have a significant impact on the uplift and therefore expected future benefits of Transferring With-Profits Policyholders.

8 Contingency plan

8.1 IF THE SCHEME IS NOT APPROVED

ELAS has a limited contingency plan if the Scheme is not approved. I quote from its management:

"Assuming that it is a 'hard Brexit', in the event that the Part VII did not complete in time for the UK's exit from the EU in March 2019, the Society would seek permission from the regulators to continue to administer the Irish and German Business from our UK operations as we do today, until such time as the Transfer to ELI completed or the Transfer to Reliance Life/LCCG completed and the Society came to an end."

I believe that this contingency plan is highly dependent on the regulators of three countries deciding to make exceptions for these policyholders.

8.2 IF THE SCHEME IS NO LONGER NECESSARY

ELAS has stated its intentions in the event that an Irish subsidiary is no longer needed from March 2019, because a 'hard' Brexit does not take place or because appropriate transitional arrangements are agreed which mean that it is possible for ELAS to continue to operate the Irish and German Business up to the implementation of the Reliance Transfer. I quote from its management below:

"Should that become the position, before the Sanctions Hearing in February 2019, the Society would not continue to set-up an Irish subsidiary, and we would withdraw our application, or apply for ELI to be de-authorised depending on the timing. We would continue to operate the Irish and German Business as now, up until the point at which the business transfers to Reliance Life, on the assumption that took place before an Irish subsidiary was required."

"If it becomes clear that it is not a 'hard' Brexit or if transitionals are agreed between the Sanctions Hearing and before the end of March 2019, our preferred approach would be to not proceed with ELI, though we are still investigating that matter further before we finalise our approach in that scenario."

8.3 MY OPINION ON THE CONTINGENCY PLANS

In my opinion, the second contingency plan is sound. ELAS and its policyholders will have lost the sunk costs of developing the Scheme and pursuing it to that point but a large part of the costs of the Scheme are the continuing costs of running ELI if the Reliance Transfer does not take place. There is a period of risk between the sanctions hearing and the 29th March 2019 when the transaction will need to take place but may prove to be unnecessary.

I believe that the first contingency plan is not entirely credible as it depends upon regulators granting dispensations but it is, in my opinion, the only course of action that may remain to ELAS.

9 Policyholder communications

9.1 OVERVIEW

ELAS has informed us that Transferring Policyholders whose mailing details are available will be sent a communication pack which will contain:

- a covering letter;
- an information booklet, including a section on answers and questions;
- a summary of the Independent Expert's report;
- a summary of the terms of the Scheme itself; and
- a copy of the Legal Notice.

Those Remaining Policyholders who have specifically requested hard copies of all documentation will be sent details of the Transfer. No information will be sent to the other Remaining Policyholders.

However, all policyholders will be able to access the information booklet, this Report, a summary of this Report and reports from the Chief Actuary and With-Profits Actuary on ELAS' website, as well as the PPFM and Customer Friendly PPFM. Alternatively, policyholders will be able to call German or Irish helplines with any enquiries about the Transfer. Copies of all these documents will also be available to view at the ELAS offices. In addition, notices will also be published in two national newspapers in each of the UK, Germany and Ireland as well as the traditional Gazettes in the UK.

Policyholders who feel they will be adversely affected by the Transfer may put their objections to ELAS and may make their views known to the Court. I will also consider them in coming to my view on the appropriateness of the Transfer and will report as appropriate in any supplementary report.

ELAS provided draft cover letters and draft guides to the Transfer that it intends to send to the Transferring Policyholders. I have reviewed these and I am comfortable that the proposed policyholder communications are not unclear and is comprehensive. This is in accordance with the relevant regulations on policyholder communications for Part VII transfers, in terms of my role as an Independent Expert.

ELAS has explained to me how it expects With-Profits business to be managed after the Reliance Transfer. ELAS has confirmed its intentions to communicate this to the relevant policyholders appropriately but, as this will be part of the communications for the Scheme of Arrangement, no communication documents were available at the time of writing this report.

ELAS confirmed to me that, as a standard procedure, letters to its German Policyholders are translated into German and it provides a dedicated telephone, which is manned by German speaking staff.

9.2 TRANSFERRING POLICYHOLDERS

I believe that the proposed mailings and information supplied on the ELAS website will be appropriate and proportionate. I believe that they are clear, comprehensive and comprehensible.

9.3 REMAINING ELAS POLICYHOLDERS

ELAS believes that sending information to policyholders who are not transferring would be disproportionate, given:

- the limited usefulness of the information to those policyholders;
- the high cost of mailing these policyholders which will be borne by the With-Profits policyholders;
- other available information channels; and
- no adverse effect is expected for the Remaining Policyholders.

Given my conclusions in this Report on the likely effects of the Transfer, I am satisfied that the proposal not to send details of the Transfer to Remaining Policyholders, other than those who have specifically asked to receive all documentation, is fair and reasonable.

10 Summary of conclusions

10.1 INTRODUCTION

Based on my analysis of the impact of the proposed Scheme on ELAS's policyholders, my conclusions as described in this Report are set out below.

10.2 MATTERS I HAVE CONSIDERED

The matters I have considered in line with the regulations and guidance given are:

- The financial impact of the Transfer on the Society and the projected financial position of the new company (ELI);
- The impact of the loss of membership rights;
- The impact of the Transfer on rights in the case of a dissolution of the Society;
- The impact on investment management, unit pricing and governance;
- The impact of the Transfer on the quality of administration provided to the policyholders;
- The impact of the Transfer on change in regulatory standards including the policyholder protection provided by various statutory schemes as well as any capital support mechanism;
- Any impact on policyholders of the tax consequences of the Transfer;
- The impact of the Transfer on benefit expectations on policies;
- The Society's contingency plans if the Scheme is not required or if the Scheme is not approved; and
- If the MSA, Reinsurance Agreement and Capital Support Mechanism were all terminated.

10.3 CONCLUSIONS

My conclusions are:

- The Scheme is required to enable ELAS to continue to provide benefits for its policyholders who were underwritten by the branches in Ireland and Germany who would otherwise potentially not be able to receive benefits or make contributions to their policies after the UK leaves the EU. In essence, if the Scheme did not take place, there is a significant risk that these policies would lose their policy value. The Scheme enables the provision of assurance for policyholders that their insurer will be able to settle claims in line with the regulatory rules after the UK's exit from the EU ("Brexit"). Obviously, for the policyholders transferring, being able to continue to claim the benefits of their policies is a very important benefit against the alternative of no Transfer and no benefits being available.

- For all With-Profits policyholders, some small adverse impact will occur due to the costs of establishing ELI, carrying out the Scheme and the extra expenses incurred in the management of ELI on an ongoing basis. This will be small and the expected cost is set out in Section 5.

- For Non-Profit and Unit-Linked policies transferring to ELI, the impact will be negligible. The only effect on these policies will be losing the solvency support from ELAS. However, this is mitigated by ELI's security being enhanced with a Capital Support Mechanism from ELAS.
- For Remaining Non-Profit and Unit-Linked policyholders, the Transfer will have no impact.
- For the With-Profits policyholders transferring to ELI, there is a potential adverse effect from not continuing to share in the full profits of ELAS, but a reinsurance arrangement is proposed between ELI's With-Profits Ring-Fenced Fund and ELAS to mitigate this risk, enabling the Transferring Policyholders to continue to share in the full profits of ELAS, including any dividends paid by ELI. The With-Profits Actuary for ELAS will need to consider whether she has responsibilities to the reinsured policies and consider any conflicts of interest carefully.
- For all Transferring Policies, there will be some changes in regulatory standards applicable, including some loss of policyholder protection. However, as Ireland has comparable CBI regulatory and conduct standards, and the motivation for the Transfer is purely to avoid the risk of being unable to service German and Irish Policies post Brexit, I do not believe the impact of the changes is significant compared to if the Transfer did not take place.
- UK-Style German and Irish With-Profits policies will be placed in a Ring-Fenced Fund. I have been informed that, at the date of the Scheme of Arrangement becoming effective, the asset share will be uplifted in line with the uplift they would have received if they had been converted to Unit-Linked policies under the Scheme of Arrangement, except that they will not receive any additional compensation for the residual value of investment guarantees, as they will remain as With-Profits policies and retain those guarantees. The cost of the guarantees will be met from assets held outside the Ring-Fenced Fund.
- It should be noted that the UK-Style German policies would not have converted to Unit-Linked policies under the Scheme of Arrangement even if the Scheme covered in this report did not take place because the German courts will not recognise the Scheme of Arrangement and switching from with-profits to unit-linked will cause policyholder tax charges in Germany. However, the Irish With-Profits policies would have been converted to Unit-Linked under the Scheme of Arrangement if the Transfer had not taken place. ELAS confirmed that there will not be a penalty for Irish With-Profits policies on switching from With-Profits to Unit-Linked.
- Nonetheless, given that the majority of the policyholders have an option to switch to Unit-Linked, the legal risks involved as well as the additional cost of setting up a parallel Irish Scheme and ELAS's proposal for Irish policyholders to get uplifted asset share and their guarantees, I do not believe the Transfer will significantly affect the Transferring Policyholders in terms of not being converted to Unit-Linked policies under the Scheme of Arrangement.
- If the MSA, Reinsurance Agreement and Capital Support Mechanism were all terminated, I believe ELI could carry on without these agreements without it leading to a material effect on its policyholders.

Overall, after considering and weighing the issues, I can state that all policies will not suffer a material adverse effect from the Transfer.

S. Dixon

11th December 2018

Appendix 1 Terms of Reference

The appointment is for an Independent Expert in accordance with the Financial Services and Markets Act 2000 Part VII section 109 and SUP 18.2.14 of the rule book of the Financial Conduct Authority. The appointment will need PRA and FCA approval.

The scheme is to transfer policyholders' benefits, liabilities and funds from the Equitable Life Assurance Society to a subsidiary created within Ireland. These policyholders make up the current Irish and German Business.

The aim of the parties is to complete the Independent Expert's work and generate draft reports in advance of a Court case which will order the Transfer prior to the UK leaving the EU on 29 March 2019. Obviously, this depends on information and reports relied upon being available as and when required and the date of appointment.

The work will be carried out in accordance with the rules in the PRA and FCA Handbook and with the requirements of the Act. The work will also be carried out in accordance with the standards as laid down by the Financial Reporting Council namely: TAS 100 and TAS 200. The work will also be carried out in accordance with any applicable standards as laid down by the Institute and Faculty of Actuaries.

The Terms of Reference are for us to consider the Transfer and whether there is likely to be any material adverse effect on any group of policyholders in terms of:

- benefit levels
- security of benefits
- service levels

We will carry out the work based on the current regulatory regime.

We will not consider any alternative schemes or arrangements.

The work carried out will be:

- Review the parties existing information and documentation, such as financial results (Pillar I and Pillar 2 bases), previous schemes, service agreements, governance arrangements, intra-group agreements, reinsurance contracts and, investment management contracts.
- Examine expert tax advice provided to the parties. We may place reliance upon the advice given;
- Where appropriate, request additional information, such as results at later dates and answers to queries on issues we raise.
- Review the Scheme Document and the plans for policyholder communications.
- Review objections from policyholders in response to any communications.

In particular, we will review the following aspects:

- effects on different groups of policyholders and members, including policyholders transferred by the Scheme and policyholders remaining with The Equitable Life Assurance

Society after the Scheme, together with any separate distinct sub-groups within these differing groups if appropriate,

- ongoing arrangements for investment management, governance, reinsurance and administration, and
- whether the arrangements for policyholder communications are appropriate.

We will generate reports on our findings. The principal report will be addressed to the Court as well as to the parties involved. Shortened summaries of the main findings will also be designed for the policyholders as appropriate. Supplementary reports and individual replies to queries raised by members or policyholders will also be provided if required.

We will liaise with the PRA and FCA as necessary but normally with the involvement and knowledge of the Client.

Appendix 2 Background to ELAS

A2.1 THE EQUITABLE LIFE ASSURANCE SOCIETY

ELAS was established in 1762 as the Society for Equitable Assurances on Lives and Survivorships and, in 1892, it was registered as an unlimited company with its current name. ELAS is regulated by the PRA and FCA in the UK, and authorised by the PRA to effect and carry on insurance policies in long-term insurance authorisation classes I (Life and annuity) II (Marriage and birth), III (Linked long-term), IV (Permanent health), VI (Capital redemption) and VII (Pension fund management).

The table below has key dates and a description of key events for ELAS.

DATE	DESCRIPTION OF EVENT
1913	ELAS started selling pension business.
1957	ELAS introduced Retirement Annuity contracts as a flexible pension for the self-employed.
1973	ELAS saw growth in direct sales of its pensions and life business.
1980s and 1990s	ELAS experienced rapid growth in its pensions business.
1991	ELAS began writing business in Ireland via Dublin, Cork and Galway.
1993	ELAS began writing UK-Style German and German-Style business via offices in Cologne, Hamburg, Berlin and Munich.
December 2000	ELAS, including its German and Irish branches, were closed to new business.
March 2001	The Unit-Linked business and all Non-Profit business were reinsured to Halifax Life.
February 2002	The UK High Court sanctioned a scheme whereby policyholders relinquished their GAR in favour of uplifts to their policy values.
February 2007	Approximately £4.6 billion of ELAS's UK pension annuity business was transferred to Canada Life.
December 2007	ELAS's With-Profits annuity business with a value of around £1.75 billion was transferred to Prudential.

DATE	DESCRIPTION OF EVENT
April 2011	ELAS started distributing capital to its With-Profits policyholders by enhancing policy values by 12.5%.
April 2012	There was an arrangement with Canada Life to provide annuities at retirement.
July 2013	ELAS signed an agreement with the Trustees of the Staff Pension Scheme such that a policy which eliminated the need for ELAS to hold capital needed for the pension scheme was purchased from Legal and General.
April 2014	The capital distributed to its With-Profits policyholders increased to 25% of policy values.
March 2015	The Unit-Linked and pension term assurance business was recaptured from Halifax Life, reducing ELAS's capital requirement under Solvency II.
April 2015	The capital distributed to its With-Profits policyholders increased to 35% of policy values.
February 2016	The remaining non-reinsured annuity business was transferred to Canada Life. This had a value of approximately £850 million.
November 2016	ELAS reinsured its pension term assurances to Swiss Re.
June 2018	ELAS entered into an agreement to transfer all its policies to Reliance Life, which is part of LCCG. The expectation is that policy guarantees will be removed, in exchange for a higher capital distribution of about 60% or 70%.

The majority of ELAS's business was written in the UK. However, a small proportion was written in Guernsey, Germany and Ireland. The German and Irish policies are expected to be transferred to ELI.

The business written includes With-Profits, Unit-Linked and Non-Profit business. Approximately 98% of the With-Profits business is accumulating With-Profits business and has a guaranteed interest rate of 3.5% or 0%. ELAS uses policy values as a proxy for a smoothed asset share. These reflect premiums paid, less charges plus investment return on the underlying assets. Currently, the increase is 2% per annum for the majority of policies and slightly lower for some policies to allow for tax on investment return. As at 31 December 2017, the With-Profits policy values were £2.3 billion.

As at 31 December 2017, the Unit-Linked policy values were £1.9 billion while Non-Profit policy values were £0.4 billion.

The current investment strategy as stated in the PPFM for ELAS With-Profits business is:

Asset class	Range as a percentage of fund
gilts and corporate bonds	65-100%
cash	0-35%
property related investments	0-5%
equity-type assets	0-5%

A2.2 GERMAN BUSINESS

The German operation was closed in December 2000, which is seven years after it started. The German Business comprises of products designed specifically for the German market as well as UK -Style policies. The German-Style With-Profits policies are backed by a hypothetical portfolio of assets and are fundamentally Non-Profit in terms of return.

The Transferring German Business is about 28% of the total policy values being transferred. It comprises of:

- euro-denominated UK-Style German With-Profits life and pension policies;
- euro-denominated German-Style With-Profits life and pension policies;
- euro-denominated Unit-Linked life and pension policies; and
- euro-denominated Non-Profit life and pension policies.

The policy value for the German Business at 31 December 2017 was £16 million, with approximately 756 benefits.

A2.3 IRISH BUSINESS

The Irish operation was closed in December 2000, which is nine years after it started. The Transferring Irish Business is about 72% of the total policy values being transferred. It comprises

- euro-denominated With-Profits life and pension policies;
- euro-denominated Unit-Linked life and pension policies; and
- euro-denominated Non-Profit life and pension policies.

The policy value for the Irish business at 31 December 2017 was £42 million, with approximately 4,021 benefit.

Appendix 3 Background to ELI

A3.1 INTRODUCTION

ELI is a subsidiary in Ireland which will be set up by ELAS. ELI will be a Designated Activity Company, which will be 100% owned by ELAS. German and Irish policies will transfer to ELI from ELAS via a Part VII Transfer. The German and Irish With-Profits business will be allocated to ELI's With-Profits Fund and reinsured back to the UK. The remainder of the German and Irish business of ELAS will be allocated to the ELI Main Fund.

CBI will be the lead supervisor of ELI with links to the financial regulatory authority for Germany (BaFin).

A3.2 PRODUCTS

ELI's products will be:

- individual pensions,
- group pensions,
- life insurance,
- German-Style With-Profits,
- annuities in payment, and
- deferred annuities.

A3.3 STRUCTURE

The insurance business funds will be:

FUND NAME	TYPE OF BUSINESS	POLICY VALUES (£M)	STATUS
With-Profits Fund	UK-Style German and Irish With-Profits policies	27	closed to new business
Main fund	German and Irish Non-Profit and Unit-Linked policies; GAR Liabilities and German-Style With-Profits Business	31	closed to new business

Appendix 4 Regulatory requirements for Independent Expert report

SUP 18 sets out the FCA's requirements relating to the transfer of long-term insurance business. In particular, SUP 18.2.33-41 set out the relevant guidelines and rules applicable to the Independent Expert's Report. The table below details where each of the relevant requirements has been met within this Report.

SUP 18.2 ITEM NUMBER AND DETAILS		REPORT REFERENCE
SUP 18.2.33G		
(1)	who approved the independent expert and who is bearing the costs	1.3, 1.4
(2)	confirmation that the independent expert has been approved or nominated by the appropriate regulator	1.4
(3)	a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.4
(4)	whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	1.5
(5)	the scope of the Report	4
(6)	the purpose of the scheme	3
(7)	a summary of the terms of the scheme in so far as they are relevant to the Report	3
(8)	what documents, reports and other material information the independent expert has considered in preparing his Report and whether any information that he requested has not been provided	Appendix 5
(9)	the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.9
(10)	the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	1.9

SUP 18.2 ITEM NUMBER AND DETAILS		REPORT REFERENCE
(11)	his opinion on the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
	(a) Transferring Policyholders;	6.1
	(b) policyholders of the Transferor whose contracts will not be transferred; and	6.2
	(c) policyholders of the Transferee;	not applicable
(11A)	his opinion on the likely effects of the scheme on any reinsurer of a Transferor, any of whose contracts of reinsurance are to be transferred by the scheme	7.5
(12)	what matters (if any) that the independent expert has not taken into account or evaluated in the Report that might, in his opinion, be relevant to policyholders' consideration of the scheme	4
(13)	for each opinion that the independent expert expresses in the Report, an outline of his reasons	throughout Report
18.2.35		
(1)	a description of any reinsurance arrangements that it is proposed should pass to the Transferee under the scheme; and	7.5
(2)	a description of any guarantees or additional reinsurance that will cover the Transferred Business or the business of the Transferor that will not be transferred.	6.1, 6.2
SUP 18.2.36G		
(1)	a comparison of the likely effects if it is or is not implemented	throughout Report
(2)	state whether he considered alternative arrangements and, if so, what;	1.3
(3)	where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders	6, 8

SUP 18.2 ITEM NUMBER AND DETAILS		REPORT REFERENCE
(4)	his views on:	
	(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	5
	(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:	7
	(i) the security of policyholders' contractual rights;	7
	(ii) levels of service provided to policyholders; or	7.6
	(iii) for long-term insurance business, the reasonable expectations of policyholders; and	6, 8
	(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	5, 7
SUP 18.2.38G		
(1)	describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders	7.1
(2)	state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and	7.1.2, 7.1.3
(3)	comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	7.1.2, 7.1.3
SUP 18.2.39G		
(1)	describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	6, 8
(2)	if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares	This is not applicable because I do

SUP 18.2 ITEM NUMBER AND DETAILS		REPORT REFERENCE
	with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders	not think rights are diluted.
(3)	describe the likely effect of the scheme on the approach used to determine:	
	(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	7
	(b) the levels of any discretionary charges	6.1.4
(4)	describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm	6
(5)	include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	10
(6)	state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	6.1.4
(7)	state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a With-Profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	7.2

Appendix 5 Information reviewed

The following table lists the items of information that I have received, reviewed and relied on in relation to the preparation of this Report.

NAME OF DOCUMENT	SOURCE
Scheme Document	
draft Scheme document	ELAS, Project Manager
PPFM and related documents	
PPFM Compliance 2017 v1.0 Board	ELAS, Project Manager
PPFM Compliance 2016 v1.0 Board	
PPFMs relevant to the Transferring and Remaining business (ppfm-717.pdf)	Website
annual-report-to-With-Profits-policyholders.pdf	
QRT, RSR and SFCR	
ELAS YE2017 SUBMITTED	ELAS, Company Secretary
ELAS YE2016 SUBMITTED	
SFCR 2017 V1.0	
RSR 2017 V1.0	
RSR DEC2016 V1.0 FINAL	
sfcr-december-2016.pdf	Website
Report and Accounts	
report-and-accounts-2016.pdf	Website
report-and-accounts-2017.pdf	

NAME OF DOCUMENT	SOURCE
The Articles of Association	Website
Relevant previous Schemes	
29 June 2018 email on Equitable Life - previous schemes	ELAS, Risk Director
Canada Life Project Malt High Court of Justice	ELAS, Project Manager
Prudential Order	
Reliance Mutual Deed of Novation	
signed Reliance Mutual Agreement	
Transfer of Non-Profit annuity to Canada Life - Scheme	
Reports on the Scheme	
Proposed Transfer of Business to ELI - Report by Martin Sinkinson - v1.1a	ELAS, Project Manager
ELAS Brexit - WPA report on Part VII 20180704	
ELI ORSA v1 a 040518	
Regulator correspondence	
25 June 2018 email on regulator correspondence	ELAS, Risk Director
Solvency II	
Solvency II Valuation Results Paper 2017 year-end final	ELAS, Project Manager
Communication documents	ELAS, Project Manager
DRAFT COMMUNICATIONS STRATEGY	
Draft Guide to the Transfer for Irish Individuals V0 2	

NAME OF DOCUMENT	SOURCE
Draft Individual Irish WP Hybrid Letter V0 9	
Guide to the Transfer for Irish Group Trustees	
Draft Individual Irish and German UL and NP Letter	
Draft Group Trustee Irish WP Hybrid Letter	
Other	
Answers (includes a list of parties, roles, email addresses and telephone numbers as well as a draft timetable and Heads of agreement on Transfer)	ELAS, Project Manager
EQUITABLE LIFE - DRAFT OUTSOURCING AGREEMENT V14 20180704	ELAS, Project Manager
DRAFT INTERNAL REINSURANCE AGREEMENT	
Application to Central Bank of Ireland to establish a subsidiary	
DRAFT FLOATING CHARGE	
Group Capital Policy	
ELAS Brexit - Tax Analysis	
Board paper - Brexit overview 5.1	
ELAS Irish subsidiary 2018 proposal for tax support	
ORSA 2017 (the latest ELAS ORSA report received at the time of writing this report)	
FCA PRA AND CENTRAL BANK OR IRELAND CONTACTS	
20180906 IE request for information and queries (several versions but this is the latest version that has SDA queries and ELAS's response as well as a list of information requested and received from ELAS)	
Reinsurance summary (a summary of reinsurance treaties)	
R1 Amendments for Hosting 24.1.11	

NAME OF DOCUMENT	SOURCE
Amendment to R1 letter dated 16 October 2012	
R1 Agreement 23.3.11	
Halifax Life Amendment to R1 agreement hosting approach 18.2.14	
Victory Reinsurance Company and ELAS_Group Life Reinsurance	
Mercantile & General_Surplus Reinsurance	
269 Swiss Re and ELAS_Flexible Protection Plans	
Mercantile & General and ELAS_Group Pensions Life Cover	
Mercantile & General and ELAS_Major Medical Cash Plans	
Mercantile & General and ELAS_Critical Illness Plans	
Mercantile & General and ELAS_ELAS Group Pensions Life Cover	
Swiss Re and ELAS_Amendment of Group Pensions Life Cover treaty	
Swiss Re and ELAS_Novation Agreement	
Swiss Re and ELAS Germany_Surplus Reinsurance	
Swiss Re and ELAS Germany_Quota Share Reinsurance	
HLL - Amendment to R1 26.8.14	
IE report (various emails on FSCS and FPSO and BaFin)	ELAS, Project Manager
Extract from minutes of Executive Team meeting on 27.3.18	ELAS, Company Secretary
German Business approach v0.10 (proposal for the treatment of UK-Style German With-Profits business ('UK-Style German WP') after the Scheme of Arrangement)	
Brexit update (Update on treatment of Irish policyholders)	ELAS, Project Manager

NAME OF DOCUMENT	SOURCE
SDA document on Irish_1.0 (draft document explaining how Irish and German With-Profits policies would be managed after the Scheme of Arrangement, assuming Irish policies are not included in the Scheme of Arrangement)	ELAS, Head of Actuarial Reporting
Brexit Diamond proposition (draft and final paper for Board meeting covering treatment and future management of Irish and German WP policies under a hard or soft Brexit)	
Brexit (email dated 11 September 2018 covering questions SDA raised regarding expenses and charges for expenses after the Scheme of Arrangement and Reliance Transfer)	
Advice received from EY regarding switch option (Query re Irish Life policies)	
UL charges (an extract from the sale agreement covering future charges for Unit-Linked policies)	
Brexit - IE report – Taxation (email dated 10 October 2018 setting out progress on tax issues	ELAS, Head of Tax and Finance Operations
Projected expense reserves (email dated 10 October 2018 splitting the additional reserves into component parts)	ELAS, Head of Actuarial Reporting
Additional information 20181102 – Email on further information on taxation dated 2 November 2018	ELAS, Project Manager
RE Recent correspondence and discussions – Email on updates on tax issues from HMRC	ELAS, Project Manager
Equitable Life Ireland-Email on what is expected if transitional arrangements are agreed or if "hard Brexit" and on likely future expectation of MSA, Capital Support policy and Reinsurance agreement.	ELAS, Risk Director
Email dated 20181119 with various documents attached in a folder called 20181119 documents which had clarification and response to IE's queries	ELAS, Project Manager

NAME OF DOCUMENT	SOURCE
Email dated 20181120 on Scheme of Arrange and Reliance Transfer – ELAS providing further clarification on independence on the Scheme of Arrangement and the Reliance Transfer	ELAS, Risk Director
Email dated 20181120 on WPOP waiver – ELAS on reasons it intend to apply for a waiver post recent meeting with the CBI	ELAS, Head of Actuarial Reporting
Email dated 20181121 on WPOP waiver – ELAS providing confirmation that the reinsurance treaty payouts will follow exactly the PPFM of ELAS	ELAS, Head of Actuarial Reporting
Email dated 20181121 on WPOP waiver – ELAS sending draft PPFM for when reinsurance treaty terminates	ELAS, Head of Actuarial Reporting
Email dated 20181121 on Scheme of Arrangement and Reliance Transfer – ELAS providing clarification on independence	ELAS, Head of Actuarial Reporting
Email dated 20181121 on WPOP waiver – ELAS providing more information on draft Principles of Financial Management for when the reinsurance treaty terminates, ELAS and ELI witness statements and confirmation on the status of the CBI application.	ELAS, Project Manager
Email dated 20181123 on update on contingency plan, legal advice on scope and update on communication documents	ELAS, Project Manager
Email dated 20181126 on Reinsurance impact on balance sheet	ELAS, Head of Actuarial Reporting
Email dated 20181127 on various items - ELAS response to further questions resulting from FCA's comments	ELAS, Project Manager
Email dated 20181128 on various responses to the FCA comments on the IE report	ELAS, Head of Actuarial Reporting

NAME OF DOCUMENT	SOURCE
Email dated 20181128 in response to SDA's request for run-off projection and Analysis of Surplus for last two years and expected for future split into Non-Profit, With-Profits and Unit-Linked	ELAS, Head of Actuarial Reporting
Email dated 20181129 on ELAS's justification for having a floating charge	ELAS, Head of Actuarial Reporting

The only information that we have requested that has not been supplied was:

WHAT	WHO	REASON
PPFM for relevant Transferring Policies	ELI	As PPFM is not a requirement in Ireland, there will not be one.
With-Profits Committee report on compliance with PPFM over 2016	ELAS	The With-Profits Committee does not produce a report on compliance with the PPFM.
With-Profits Committee report on compliance with PPFM over 2017		

Appendix 6 Draft Reinsurance Agreement

The table below summarises the principal terms of the draft Reinsurance Agreement that will be put in place to reinsure the Irish and UK-Style German With-Profits contracts back into ELAS.

PRINCIPAL TERMS	DETAIL
Reinsurance agreement and relevant parties	Internal Reinsurance Agreement between ELI and ELAS. With effect from the Effective Date, ELI will cede to ELAS and ELAS will reinsure and indemnify ELI in respect of 100% of the reinsured business, net of any Outwards reinsurance. Further details are in the internal Reinsurance Agreement.
Reinsured Business	With-Profits business of ELI.
Premium amount	Assets for ELI's reinsured business to be added to the ELAS With-Profits fund.
Premium	In return for the reinsurance provided by ELAS to ELI, ELI will pay ELAS the premium amount.
Settlements	Amount payable by ELI to the reinsured policyholder for that reinsured policy, as determined in accordance with the terms of that reinsured policy, discretionary benefits and the PPFM of ELAS (and in each case less any recoveries made in respect of any Outwards Reinsurance).
Discretionary benefits	Amounts payable by ELI to reinsured policyholders to the same proportion and extent as ELAS, at its discretion, decides to pay such discretionary amounts to the equivalent With-Profits policyholders of ELAS.

PRINCIPAL TERMS	DETAIL
When ELAS can terminate the agreement	If it becomes unlawful in any relevant jurisdiction for ELI or ELAS to perform all or any material part of the Agreement and such unlawfulness is not remedied within 30 Business Days after ELAS gives notice in writing to ELI in respect of such unlawfulness. If ELI ceases to hold any authorisation, permission, approval, registration, consent or licence which it requires in order to perform its material obligations under the Agreement and fails to obtain such permission, approval, registration, consent or licence within 30 Business Days of notice in writing from ELAS requiring it to do so.

Appendix 7 Glossary

Asset Share is the fair share a policyholder has built up in an insurance undertaking. It is basically calculated as the premiums the policyholder paid plus growth less expenses less risk benefit costs plus any miscellaneous profits.

Best Estimate Liabilities are calculated by determining a probability-weighted average of future cashflows, and discounting these cashflows using a prescribed risk-free interest rate structure.

BaFin (Federal Financial Supervisory Authority), is the financial regulatory authority for Germany. It is an independent federal institution that is under the supervision of the German Federal Ministry of Finance.

Brexit is the UK's proposed exit from the **EU**.

BLAGAB means Basic Life Assurance and General Annuity Business and is defined as life assurance business not fitting in any other category.

Capital Support Mechanism is a mechanism via which **ELAS** provides additional capital to **ELI** if necessary, provided that doing so does not lead to **ELAS** breaching its own capital policy.

CBI is the Central Bank of Ireland, which regulates firms providing financial services in Ireland and overseas through risk-based supervision, underpinned by a credible threat of enforcement, to ensure financial stability, consumer protection and market integrity. **CBI** therefore has a range of regulatory powers in the areas of authorisation, supervision and enforcement.

CEF is the **Capital Enhancement Factor**, a distribution of capital mechanism used by **ELAS** to help reduce conflict between fairness to policyholders leaving **ELAS** (e.g. through maturity, death or surrender) and those remaining at **ELAS**.

Chief Actuary is the actuary responsible for performing the Chief Actuary Function of a long-term insurer, which includes advising the directors of the insurer on the risks the firm runs, the capital required to support those risks and the monitoring required as well as the valuation of its long-term liabilities.

Effective Date is the date and time the **Scheme** becomes operative. The **Scheme** is expected to become effective at 23.59 hours (GMT) on Thursday 28 March 2019 or such other time and date specified in the Order sanctioning the **Scheme** or such other time and date as may be agreed by the relevant Parties (being a date and time falling after the making of the Order). Unless the **Scheme** becomes effective in its entirety on or before 30 June 2019, it will lapse.

ELAS is Equitable Life Assurance Society.

ELI is Equitable Life Ireland DAC.

EU is the European Union.

EY is Ernst and Young, the Society's advisors on the tax implications of the **Scheme.**

FCA is the Financial Conduct Authority, which is one of the independent, non-governmental bodies that regulates the UK insurance industry.

FCA Handbook sets out rules, guidance and other provisions made by the FCA under powers given to it by the Financial Services and Markets Act 2000.

Financial Ombudsman Service "FOSUK" is an independent public body in the United Kingdom which aims to resolve individual financial services disputes between consumers and businesses.

FSA is the **Financial Services Authority**, which before 1 April 2013, undertook all regulation of financial services institutions.

FSCS is the **UK-based Financial Services Compensation Scheme** which protects customers when financial services firms fail.

FSPO is the Ireland-based **Financial Services and Pensions Ombudsman** which is an independent, impartial, fair and free service that helps resolve complaints with pensions providers and regulated financial service providers.

GAR is a **Guaranteed Annuity Rate**, a guarantee offered by the Society (and other insurers) of a maximum conversion rate from an ELAS pension policy to a pension annuity.

GAR Liabilities are liabilities arising from the policyholder option to convert their retirement fund into a guaranteed income in retirement using conversion rates specified in the policyholder's contract instead of the prevailing market annuity rates.

German Business comprises products designed specifically for the German market, together with **UK-Style German** policies sold in Germany since 1993, via a head office in Cologne and other branches in Hamburg, Berlin and Munich.

German Policies: that part of every policy (including, any lapsed, matured, surrendered, expired or reinstated policy) written by the German branch of ELAS (i.e. Policies being identified by the code "D" on the internal records of ELAS).

German-Style With-Profits is all **With-Profits Business** sold in Germany except **UK-Style German With-Profits.** The **German-Style With-Profits** business are essentially **Non-Profit** policies.

Group Capital Policy is the policy that puts in place the **Capital Support Mechanism**.

Hard Brexit rejects the whole idea of close alignment to the EU. In practice, it means leaving both the single market and customs union.

I minus E business refers to business where tax is paid on Income after allowing for expenses.

Independent Expert refers to Mr Stephen Dixon of SDA, whose appointment, which has been approved by the PRA after discussions with the FCA, involves producing a Report under the requirements of SUP 18.2 of the **PRA Handbook**.

Ireland is Republic of Ireland.

Irish Business comprises (primarily life assurance, individual and personal pension plans, together with some group pensions) business sold in Ireland from 1991 via branches in Dublin, Cork and Galway.

Irish Policies: that part of every policy (including, any lapsed, matured, surrendered, expired or reinstated policy) written by the Republic of Ireland branch of ELAS (i.e. Policies being identified by the code "I" on the internal records of ELAS).

MSA is a master services agreement under which, after the **Transfer**, **ELAS** would perform the majority of administration services for **ELI**.

MCR is the **Minimum Capital Requirement** which defines the point of severe supervisory intervention. The calculation of the MCR combines a linear formula with a floor of 25% and a cap of 45% of the SCR (whether calculated using the standard formula or an internal model). The MCR is subject to an absolute floor, expressed in euros, depending on the nature of the undertaking.

Non-Profit refers to a policy which is not entitled to share in the surplus of the insurer in which it is located, including term assurance and income protection policies where specified benefits are payable on death or incapacity.

ORSA is the Own Risk and Solvency Assessment, a component of the **Solvency II Directive**, specified in Article 45.

Own Funds is the level of capital available to meet the SCR and MCR. It is allocated into tiers depending on its eligibility to meet the SCR and MCR.

PRA is the Prudential Regulatory Authority, which is one of the independent, non-governmental bodies that regulates the UK insurance industry.

PRA Handbook of rules and guidance is issued by the **PRA** from time to time made pursuant to the Financial Services and Markets Act 2000, together with the rules and regulations implemented pursuant thereto.

Principles and Practices of Financial Management ("PPFM") is a public document required to be produced by any life insurer regulated by the **FCA** and writing **With-Profits** business, which expresses the principles and practices governing operation of the **With-Profits** business, including investment policy and bonus policy.

Quota share treaty is a form of reinsurance in which the reinsurer and the insurer share premiums and losses according to an agreed percentage.

Reinsurance Agreement is a new agreement between the **Society** and **ELI** that will reinsure the Irish and **UK-Style German With-Profits** contracts back into the Society to enable **With-Profits Transferring Policyholders** to continue to share in the profits of **ELAS**.

Reliance Transfer is part of the strategic plan immediately after the **Scheme of Arrangement** and involves executing a Part VII and transferring the **Society**'s business in its entirety to a new provider.

Remaining Policyholders are the policyholders in **ELAS** after the **Transfer.**

Remaining Policies are the policies in **ELAS** after the **Transfer.**

Report is this report.

Irish Revenue is **Ireland**'s tax, payments and customs authority

Ring-Fenced Fund is a separately identifiable fund where the amounts that can be debited from and credited to the fund are clearly defined.

Risk Margin is the additional amount that a knowledgeable willing party would require in order to take over the insurance liabilities, due to taking on the risks associated with the liabilities.

Scheme is the proposed transfer of **German Business and Irish Business** from **ELAS** to **ELI** under Section 105 of the 2000 Act. This is also referred to as the Transfer in this report.

Scheme Document means the document setting out the terms of the **Transfer** providing for the Transfer to **ELI** of German and Irish businesses and providing for their management.

Scheme of Arrangement is a scheme of arrangement to fully and fairly distribute all of the **Society**'s **With-Profits** assets to **With-Profits** policyholders by uplifting policy values and removing investment guarantees.

SDA is Steve Dixon Associates llp with its registered office at Oaks House, 12-22 West Street, Epsom, KT18 7RG, UK number OC359741.

Society means **ELAS**.

Solvency II is the system for establishing (among other things) minimum capital requirements under the **Solvency II Directive**.

Solvency II Directive is Directive 2009/138/EC of The European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Solvency Capital Requirement ("SCR") is the key quantitative capital requirement defined in the **Solvency II Directive**. The **SCR** is the amount of capital that an insurer must hold to ensure that it will be capable of meeting its liabilities over the next 12 months with a probability of 99.5%. If an insurer breaches its **SCR**, the regulator must be informed. The **SCR** is a key component in calculating the **Risk Margin** associated with a block of insurance business.

Solvency II is the current solvency regime for all **EU** insurers and reinsurers, which came into effect on 1 January 2016.

State of Commitment means the country or state that the contract was originally entered into and would normally indicate the country or state that the policyholder would have been resident in at the time the contract was commenced.

State of Risk means the country or state that the risk resides in and for life assurance would be the normal residence of the life assured.

SUP 18 is Chapter 18 of the Supervision Manual of the **FCA**'s Handbook of Rules and Guidance for scheme reports relating to the transfer of long-term insurance business.

Surplus share treaty is a reinsurance treaty in which the ceding insurer retains a fixed amount of the claim and the reinsurer takes responsibility for the remaining amount being claimed.

TAS is a Technical Actuarial Standard of the Financial Reporting Council.

Technical Provision is defined in the **Solvency II Directive** as "the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking". Technical Provisions are calculated as the sum of two components – **Best Estimate Liabilities** and a **Risk Margin**.

Terms of Reference defines the purpose and structures of a project, committee or any similar collection of people who have agreed to work together to accomplish a shared objective. It shows how the object in question will be defined, developed as well as how it will be verified.

Transfer is the proposed transfer of **German Business and Irish Business** from **ELAS** to **ELI** under Section 105 of the 2000 Act.

Transferring Business is the business transferring to **ELI** under the **Scheme**.

Transferring Policies are the policies transferring to **ELI** under the **Scheme**. These are the **German Policies** and **Irish Policies**.

Transferring Policyholders are holders of **Transferring Policies**.

Transferee is ELI

Transferor is ELAS

Transitional deduction allows insurers to move to full implementation of Solvency II over a period of time.

UK-Style German With-Profits refers to products sold in Germany that mirror the features of products sold in the UK.

Unit-Linked refers to a policy under which the value of the benefits is or may be measured in whole or in part by reference to the number and price of units allocated to that policy.

Volatility Adjustment is a constant addition to the risk-free curve used to discount cashflows to calculate **Technical Provisions** under **Solvency II**, designed to protect insurers with long-term liabilities from the impact of volatility on their solvency.

With-Profits Actuary is the actuary responsible for advising the directors of a company on discretionary aspects of **With-Profits** business.

With-Profits Fund is a fund where holders of **With-Profits** policies have a right to share in the profits of the company or part thereof.

With-Profits refers to a policy which is entitled to share in some of the profits of the insurer or part thereof.

WPOP is the **With-Profits Operating Principles**, a proposed new requirement for existing insurers in Ireland from 1 January 2020 and for new insurers in Ireland from a likely earlier date. It should detail the principles by which insurers manage their **With-Profits** funds. The **CBI** may grant exemptions based on criteria including fund size, number of members and whether the fund is open to new business.

2000 Act: the Financial Services and Markets Act 2000 together with the rules and regulations implemented pursuant thereto.