THE PROPOSED SCHEME UNDER PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 FOR A TRANSFER OF BUSINESS TO IRISH LIFE ASSURANCE PLC

The Report of the Chief Actuary of Canada Life Limited on the impact of the Scheme

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Content of this report

1 Introduction and Purpose of the Report

1.1 The purpose of this Report (the "Report") is to consider the effects of the proposed insurance business transfer scheme (the "Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The purpose of the Scheme is to transfer long term insurance business from Canada Life Limited ("CLL") to Irish Life Assurance plc ("ILA").

1.2 The business will be transferred pursuant to the terms of the Scheme. The business to be transferred under the Scheme is referred to as the "Transferring Business".

1.3 If approved, the Scheme is expected to take effect at 22.59 GMT on 31/12/2020 (the "Effective Date").

1.4 This Report is written to advise the Board of Directors of CLL on the Scheme in my capacity as Chief Actuary of CLL. The Report will also be made available to the High Court of England and Wales ("the Court"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Independent Expert, and policyholders of CLL and ILA.

1.5 Under the Actuarial Profession Standard "APS L1: Duties and Responsibilities of Life Assurance Actuaries", when a significant change - such as the Scheme - is planned, the Chief Actuary must take all reasonable steps to ensure that the firm appreciates the implications for fairness and the reasonable expectations of its policyholders which need to be taken into account in assessing the liabilities, and capital requirements. This report is intended to satisfy this requirement.

1.6 The Report will address the financial implications of the Scheme and its potential impact on the policyholders of CLL, both those transferring and those remaining with CLL. The Report also considers the fair treatment of policyholders and any changes to policyholder services.

1.7 The Report has been prepared by Chris Lewis. I have been a Fellow of the Institute and Faculty of Actuaries since 1994 and the Chief Actuary of CLL since November 2016.

1.8 I am not a policyholder of either ILA or CLL. I am an employee of CLL. I consider myself to have no conflict of interest in reaching the conclusions detailed in this Report.

1.9 This Report has been prepared in accordance with applicable standards, as determined per the actuarial professional standard "APS X1: Applying Standards to Actuarial Work" issued by the Institute and Faculty of Actuaries, and in particular taking into account the Technical Actuarial Standards ("TAS"s) for actuarial work issued by the Financial Reporting Council, namely TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. In my opinion there are no material departures from the Technical Actuarial Standards noted above.

1.10 The Report has been subject to appropriate peer review in accordance with the actuarial professional standard "APS X2: Review of Actuarial Work" issued by the Institute and Faculty of Actuaries.

1.11 Mr. Jeremy Nurse of Willis Towers Watson has been appointed as the Independent Expert to provide an independent report on the Scheme as required under Section 109 of FSMA. I have read and considered a draft of this report.

Overview of the Purpose of the Scheme

1.12 CLL has 623 Irish and 118 German policies which were written on a cross-border basis by Equitable Life through authorised Irish and German branches respectively. These were transferred to CLL as part of a wider Part VII transfer of insurance business in 2016.

1.13 Following the departure of the United Kingdom from the European Union on 31st January 2020, a transition period until the 31st December 2020 commenced, during which CLL will continue to pay these German and Irish policyholders.

1.14 In order to ensure that payments can continue to be made for these cross-border policies following the end of the transition period, it will be necessary to transfer these policies to an insurance company based in the European Union.

1.15 The benefits payable to policyholders themselves, as set out in their policy documents, are not affected by this transaction, rather the entity which is making the payments will be changing.

Report structure

1.16 Section 2 provides background information on, and an overview of, the business of CLL.

1.17 Section 3 provides background information on, and an overview of, the business of ILA.

1.18 Section 4 contains an overview of the Scheme including the rationale for the Scheme and a description of the business that is proposed to be transferred to ILA.

1.19 Section 5 deals with the financial position of CLL before and after the proposed transfer.

1.20 Section 6 deals with the financial position of ILA before and after the proposed transfer

1.21 Section 7 deals with the effects of the Scheme on non-transferring CLL policyholders.

1.22 Section 8 deals with the effects of the Scheme on transferring policyholders.

1.23 Section 9 deals with other matters, namely the declined Part VII Transfer between Prudential Assurance Company Limited and Rothesay Life PLC, and the impacts of the Coronavirus pandemic.

1.24 Section 10 gives my conclusion from the foregoing analysis that the Scheme will have no material adverse impact on the policyholders of CLL.

2 Overview of Canada Life Limited

Introduction and company history

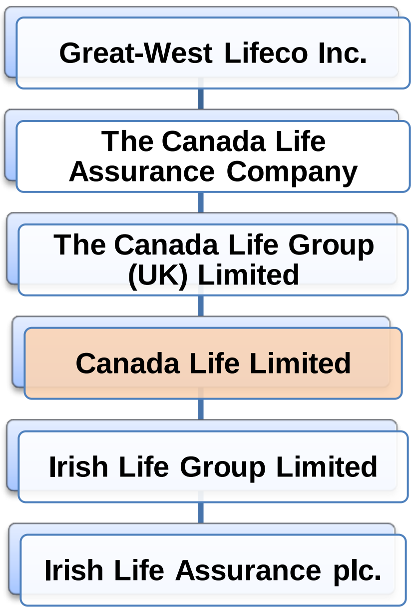
2.1 CLL is a member of the Great-West Life group of companies, one of the world's leading life assurance organisations.

2.2 CLL is a wholly owned subsidiary of The Canada Life Group (U.K.) Limited ("CLG") (incorporated in England and Wales), which itself is a subsidiary of The Canada Life Assurance Company, a leading Canadian insurer with interests in life insurance, health insurance, investment, retirement savings and reinsurance business, primarily in Canada, the US and Europe, a subsidiary of Great-West Lifeco Inc.

2.3 Great-West Lifeco Inc. and its subsidiaries, including The Canada Life Assurance Company, have approximately $1.6 trillion Canadian dollars as at 31 December 2019 in consolidated assets under administration and are members of the Power Financial Corporation Group of companies.

2.4 Irish Life Group Limited, which was acquired by Great-West Lifeco in 2013, forms part of this wider group, and is a wholly owned subsidiary of CLL. Irish Life Assurance plc. is a subsidiary of Irish Life Group Limited.

2.5 A simplified organisational structure is as follows:



2.6 CLL has been providing financial solutions for UK customers since 1903, to meet the retirement, investment and protection needs of both individuals and companies in the UK. CLL sells exclusively through third party advisors.

2.7 In November 2019, CLL transferred approximately 134,000 policies, including all remaining with-profits policies, to Scottish Friendly through a Part VII transfer. This block of business consisted of a mixture of Life and Pensions business.

2.8 A Part VII transfer to incorporate the business of MGM Advantage Life Limited into CLL was completed on 01/01/2020, following its acquisition by CLG. This business comprised a mix of life and annuity policies and equity release mortgages.

The business of CLL

2.9 CLL is open to new business and consists of non-profit life, pension, annuity and permanent health policies.

2.10 CLL also offers other products such as drawdown and unit-linked investment bonds. The group insurance business provides life, income protection and critical illness cover to employees covered by the schemes.

2.11 CLG is the parent of a group of companies, whose principal activity is the transacting of ordinary long-term life assurance business. As a holding company, CLG does not write insurance or reinsurance business.

2.12 CLL is the largest subsidiary of CLG and provides solutions for UK customers to meet their retirement, investment and protection needs. The main areas of new business for CLL are annuity products (both individual and bulk) and group contracts offering life and health insurance. This amounts to approximately 90% of gross written premiums in 2019. The remaining 10% of premiums is associated with unit-linked products.

2.13 The Euro denominated business, which is the subject of this transfer, is a small closed block of annuity business.

2.14 As at 31 December 2019, the technical provisions for CLL by line of business, as determined in accordance with the Solvency II regulations, are detailed below. The figures in this table and subsequent tables in this report do not include the MGMA business which was transferred into CLL on 1 January 2020, unless otherwise specified.

CLL in-force business Solvency II 31 December 2019 £m	Number of Policies***	Best Estimate Liability (1)	TMTP (2)	Risk Margin (3)	Technical Provisions (4) =(1)+(2)+(3)	Reinsurance Asset (5)	Technical Provisions Net of Reinsurance =(4)-(5)
- Annuities – Non MA◊; of which:	288,092	11,079	-920	254	10,413	3,602	6,811
- *Proposed to transfer*	*741*	*73*	*-6**	*2*	*68*	*0*	*68*
- *Proposed to remain*	*287,351*	*11,006*	*-914**	*252**	*10,345*	*3,602*	*6,743*
- Annuities - MA◊	152,850	7,320	-325	448	7,443	68	7,375
- Group Health	366,420	913	-76	82	919	68	852
- Group Life	2,467,444	131	0	22	153	53	100
- Individual Life	21,431	-7	-3	3	-7	-4	-3
- Unit-Linked	25,171	2,264	-6	10	2,267	-	2,267
Total**	**3,321,408**	**21,700**	**-1,329**	**819**	**21,189**	**3,787**	**17,403**
BEL including TMTP		20,370					

◊ Matching Adjustment

**Estimated through approximate apportionment of total by Best Estimate Liability.*

***Totals presented are sums of individual components. Total amalgamated balance sheet is summarised below*

****In the case of group contracts, policy counts included are number of lives not number of schemes*

2.15 The policies being transferred form part of the *Annuities – non MA* row. As at 31/12/2019, the Technical Provisions net of reinsurance of €80m (or £68m) was held in respect of these 741 policies. As noted separately, these policies are not reinsured.

2.16 Solvency II is a harmonised EU-wide insurance regulatory regime, setting out prudential and supervisory requirements for insurance and reinsurance companies, which came into force in January 2016.

2.17 Technical provisions under Solvency II are generally calculated as the sum of a best estimate liability plus a risk margin, although for some lines of business the technical provisions are calculated as a whole.

2.18 Best estimate liabilities ("BEL") are calculated on a policy-by-policy basis using the values of future expected cash flows, allowing for premiums, claims, expenses, lapses and tax. Best estimate liabilities are calculated without allowing for reinsurance.

2.19 Solvency II Long Term Guarantee measures (Matching Adjustment and Volatility Adjustment) give insurers credit for holding certain long-term assets which match the cash flows of a designated portfolio of liabilities.

2.20 CLL has received approval from the PRA to apply a Matching Adjustment in respect of certain lines of business, primarily annuities in payment. This enables CLL to determine its technical provisions for this business using expected yields on the assets held to support the business, through applying an appropriate adjustment to the risk-free rate determined by the European Insurance and Occupational Pensions Authority ("EIOPA"). There are strict conditions which apply to both the assets and liabilities within any matching adjustment fund. These include demonstrating that the expected cash flows from the assets closely match the expected payments to policyholders.

2.21 With effect from 1 January 2020, and as a result of the Part VII transfer of the MGMA business, CLL operates two separate Matching Adjustment funds, one for the existing CLL business and one for the transferred MGMA business. Both funds are open to new business. CLL has recently applied to the PRA to combine these two funds into one.

2.22 CLL has received approval from the PRA to apply a Volatility Adjustment in respect of certain lines of business, primarily annuities in payment not included in the Matching Adjustment funds, income protection claims in payment, individual life business and group insurance business. The level of Volatility Adjustment is determined by EIOPA.

2.23 The Risk Margin is a provision introduced under Solvency II which is intended to be a reflection of the additional compensation a third party would require to accept the insurance liabilities. The risk margin calculation is largely prescribed in the Solvency II rules based on the cost of continuing to hold solvency capital requirements over the remaining life of the policies. The Solvency Capital Requirement ("SCR") for calculating the risk margin is not the same as the SCR for the Company, as the risk margin basis assumes that certain risks can be hedged.

2.24 In addition, CLL has received approval from the PRA to use the Transitional Measure on Technical Provisions ("TMTP"). The TMTP acts to reduce the Technical Provisions under Solvency II enabling a smooth transition from the previous regulatory regime over a 16 year period. This applies exclusively to business sold prior to the implementation of Solvency II, which took place on 1st January 2016.

2.25 Further details of CLL's business can be found in CLL's Solvency and Financial Condition Report ("SFCR") published on its website[1].

Risk Management Framework

2.26 CLL's risk management system is articulated through its Enterprise Risk Management framework which is approved by the CLL Board. The framework allows the Board and management to:

- establish their strategy towards risk taking;
- communicate and monitor adherence to the appetite for risks through the use of risk limits and risk indicators; and
- identify, measure, monitor, manage and report on risks.

2.27 CLL has a risk governance structure based on a three lines of defence model which is widely used within the financial services industry. This model separates ownership and management of risk from oversight and independent assurance.

[1] https://www.canadalife.co.uk/about-us/solvency-2

2.28 The Own Risk and Solvency Assessment ("ORSA") is a key process within the Enterprise Risk Management Framework and provides an ongoing, forward-looking assessment of the risk profile and overall solvency needs of CLL, given its business plan, and taking into account its available capital resources.

Risk profile summary

2.29 CLL's objective in the management of risk is to operate within the risk limits it sets itself. This supports the controlled delivery of its business objectives, in line with its risk strategy, ensuring a balanced approach to risk and reward.

2.30 CLL was granted approval from the PRA to use a Partial Internal Model ("PIM") in respect of longevity, credit and catastrophe risks in November 2019. The use of PIM facilitates CLL calculating its capital requirement (SCR) in a manner which more appropriately reflects the risk profile of the business than the approach under the standard formula. . The SCR is designed to ensure that the company can withstand an adverse event, or combination of events, equivalent to one which might occur once in every 200 years.

2.31 The SCR as at 31 December 2019 is split by risk category in the following table.

As at 31 December 2019	£m
Standard Formula Risks	
Market risk	833
Counterparty default risk	34
Life underwriting risk	100
Health underwriting risk	179
Internal Model Risks	
Credit risk	1,502
Longevity risk	788
Catastrophe risk	341
Other Adjustments	
Operational risk	95
Loss-absorbing capacity of deferred tax	(83)
Total Undiversified Components	3,788
Diversification	(1,287)
Adjustment due to aggregation	50
Solvency Capital Requirement	**2,551**

Capital Management Policy

2.32 In broad terms, CLL's Own Funds are the excess of the value of its assets over the value of its liabilities. As at 31 December 2019, CLL's Own Funds consisted of:

31 December 2019	CLL £m
Tier 1 - unrestricted	
Issued share capital	342
Share premium account	812
Initial funds	397
Reconciliation reserve	2,001
Tier 2	
Subordinated liabilities	451
Tier 3	
Tier 3 assets	0
Own Funds	**4,003**

2.33 Own Funds are divided into three tiers based on their permanence and ability to absorb losses with Tier 1 being the highest quality.

2.34 CLL aims to manage its Own Funds so that its solvency position stays above a trigger level which is specified in the Capital Management Operating Policy. The trigger level is determined to ensure sufficient coverage above the SCR to enable CLL to meet its financial liabilities and have sufficient headroom to continue to operate its strategic plans. .

2.35 CLL has a solvency monitoring framework that provides proactive escalation and reporting to the Board in the event that the solvency ratio begins to deteriorate. Falling below the trigger level would prompt the consideration of planned capital management activities that aim to move the ratio back above that level.

2.36 CLL's Capital Management Operating Policy is supported by its capital management plan. The capital management plan is produced annually and forecasts CLL's solvency position. This plan also includes any additional capital requirements or dividend payments expected to be made in the three year forecast.

2.37 CLL's reported solvency ratio as at 31 December 2019 was 157% as shown below. The table also shows the pro-forma solvency position of CLL as at 31 December 2019 had the MGMA Part VII transfer taken effect on that date, and demonstrates that this had a negligible effect on CLL's solvency ratio.

Solvency II £m	CLL 31 December 2018	CLL 31 December 2019	Post MGMA Part VII pro-forma
Own Funds	4,146	4,003	4,240
Solvency Capital Requirement (SCR)	2,608	2,551	2,710
Excess Own Funds over SCR	1,538	1,452	1,530
Solvency Ratio	**159%**	**157%**	**156%**

CLL reinsured a proportion of its annuity portfolio during the second quarter of 2020, and I will provide an updated solvency position as at 30 June 2020 in my supplementary report.

3 Overview of Irish Life Assurance plc

Introduction and company history

3.1 Irish Life is the largest life and pensions group in Ireland. The Irish Life brand is one of the best known and most recognised financial brands in Ireland. Its brand strength is based on broad distribution, product innovation and customer service.

3.2 ILA is the principal company in the Irish Life Group in Ireland and since 2013, has been part of the Great-West Lifeco group of companies. Irish Life Group Limited, and in turn ILA are 100% owned subsidiaries of CLL.

3.3 ILA's unit-linked business includes individual and group life and pension business. Some unit-linked products have attaching guarantees or capital protection provided either by ILA or third parties. The non-linked business includes annuities, income protection, and term assurances.

3.4 The life assurance business of ILA consists of both participating (or "with-profits") and non-participating policies.

3.5 The Solvency II technical provisions and the reinsurance asset at year-end 2019 are shown below, split between the main product lines:

ILA in-force business Solvency II 31 December 2019 €m	Account Values [1] (1)	Best Estimate Liability (excl Account Values) (2)	Risk Margin[2] (3)	Technical Provisions (4) =(1)+(2)+(3)	Reinsurance Asset (5)	Technical Provisions Net of Reinsurance =(5)-(4)
Non Participating						
- *Individual Insurance*	708	324		1,032	439	593
- *Individual and group investment*	46,291	(572)		45,719	0	45,719
- *Annuities*		3,790		3,790	1,006	2,783
- *Group Risk*		603		603	11	593
- *Former with profits*		2		2	0	2
- *Other products*		69		69	0	69
Risk Margin[2]			383	383		383
Total Non-Participating	46,999	4,216	383	51,598	1,456	50,142
Participating[3]	0	108	0.3	108	0	108
Total	**46,999**	**4,324**	**384**	**51,706**	**1,456**	**50,250**

Notes

[1] *Account values are shown net of a unit-linked reinsurance asset of €22m, which is excluded from the reinsurance asset shown above.*

[2] *The risk margin is calculated on aggregate for non-participating business and participating business.*

[3] *With Profits business*

3.6 Further details of the ILA business can be found in ILA's Solvency and Financial Condition Report ("SFCR") published on its website[2].

Risk Management Model

3.7 The ILA Board manages all risks across the organisation, and has put in place a comprehensive risk management framework. The framework includes a documented Enterprise Risk Management Policy. This establishes responsibilities for all key components of the risk management system, including the ILA Board and ILA Executive Risk Committees. It also details the three lines of defence model used, and establishes responsibilities and requirements for the first, second and third lines of defence.

3.8 The ILA Board has also generated a Risk Appetite Statement and Risk Strategy document, which outline the appetite for each type of risk and the strategy for accepting, managing and mitigating risks. A further suite of risk policies details the management strategies, objectives, processes, and reporting procedures and requirements for all of the risks which it accepts.

3.9 The ILA Chief Risk Officer (CRO) has primary responsibility for implementing the risk management system. The Risk Function, under the leadership of the ILA CRO, has created processes to make sure ILA complies with risk policies. It confirms this compliance each year to the ILA Board Risk Committee as part of the annual review of all risk policies. The Risk Function also monitors and reports on all risks. This includes reporting risk exposures and compliance with risk limits to the ILA Board and Executive Risk Committees every quarter.

3.10 The Enterprise Risk Management (ERM) framework makes sure all material risks can be identified and managed, and that a business strategy can be implemented across the company while fully understanding the risks involved. There are three broad ways in which each risk type can be treated: capitalisation (hold capital in respect of the risk), management and mitigation. The characteristics of each risk are reviewed so that the appropriate treatment can be identified. These reviews weigh up the:

- current and prospective size and complexity of each risk
- potential impact of the risk
- transferability of the risk
- market standard treatment of the risk.

3.11 The ILA Risk Appetite Framework and Risk Strategy documents set out the overall strategy for each type and level of risk which may be assumed. ILA's risk appetite may change as resources and strategic objectives evolve. The risk appetite and tolerance for specific risks are embedded in the business through risk policies. These set out operational procedures, controls and limit structures that establish a risk management framework for each risk type. Together, these risk policies comprise ILA's Risk Policy Framework.

[2] Irish Life SFCR 2019:
https://www.irishlife.ie/sites/retail/files/Irish_Life_Assurance_2019_SFCR_published.pdf?ts=1588176339727

Risk Profile

3.12 ILA's risk profile reflects the main business activities, particularly those activities that are to do with creating and selling life insurance products and unit-linked investment and saving products. Irish Life controls the way it accept risks, using its expertise to manage them and create shareholder value from them. The ILA Board approves the risk appetite at least once a year.

3.13 ILA categorises risk exposures under major risk headings. The Solvency Capital Requirement (SCR), split by risk category, is as follows:

As at 31 December 2019	€m
Market risk	689
Counterparty default risk	33
Life underwriting risk	707
Health underwriting risk	267
Other Adjustments	
Operational risk	59
Loss-absorbing capacity of deferred tax	(163)
Total Undiversified Components	1,592
Diversification	(447)
Solvency Capital Requirement	**1,145**

3.14 The range of risks to which ILA is exposed is similar to those relevant to other large life insurance companies. Risks are identified, assessed, monitored, managed and mitigated through ILA's risk management system.

3.15 Market risk is mitigated by matching assets and liabilities as closely as possible.

3.16 A small proportion of ILAs unit-linked business has investment guarantees. The main guaranteed funds offered by the company are the Secured Performance Fund (SPF), the Exempt Guaranteed Fund (EGF), the Stabilised Profits Fund and the Unitised With-Profits (UWP) Fund. Other guaranteed funds are smaller in size and less financially significant. ILA also has variable annuity business which transferred from Canada Life Ireland in 2014. 100% of the investment and longevity risks on the variable annuity business are reinsured. Investment guarantees are reinsured on the majority of UWP business (the Technical Provisions net of reinsurance for the investment guarantees on the UWP fund are €0.3m at year-end 2019).

3.17 Unit-linked funds with investment guarantees are generally not open for new business. The SPF is closed to all future inflows. The most material fund which remains open to future inflows is the EGF and that fund has been closed to all single premiums and ad-hoc switches, but inflows will continue to arise, mainly due to switches arising from policyholders who have opted for lifestyling strategies which use the EGF as a more secure fund into which pensions money is invested as policyholders near retirement.

3.18 The shareholder is exposed to equity and bond market/interest rate movements through the guarantees provided on these funds. The shareholder's exposure to the unit-linked funds with guarantees is monitored and managed on an on-going basis. Technical provisions are established in respect of the investment guarantees given to policyholders. The total value of the Technical Provisions (net of the reinsurance asset) for unit-linked funds with investment guarantees at 31 December 2019 is €70m. The shareholder is also exposed to the risk of movements in non-unit reserves and reductions in charges which could arise from potential market falls.

3.19 The assets backing non-linked liabilities are invested mainly in corporate bonds and EU government bonds, with a smaller proportion invested in mortgages and in cash. Assets in the Shareholder Fund are mainly invested in a mix of cash, fixed interest and property assets.

3.20 ILA is exposed to counterparty credit risk in relation to fixed interest and cash holdings backing non-linked liabilities, unit-linked liabilities where ILA has provided a credit risk guarantee, and assets held in the Shareholder Fund. In valuing its liabilities ILA makes additional allowance for credit risk on lower rated bond holdings. Cash holdings are well diversified across a range of highly rated international banks.

3.21 ILA uses reinsurance to improve capital efficiency, to protect against adverse claims experience, and to support new business financing. The Technical Provisions at 31 December 2019 are reduced by a €1.5 billion offset in respect of reinsurance ceded. €1.1 billion of this reduction is due to annuity reinsurance for which the backing assets are held in charged collateral accounts.

3.22 ILA monitors and reports the credit quality of reinsurance counterparties to the Executive Risk Committee each quarter. If a company rating falls below the minimum acceptable level then new business is no longer placed with that company.

3.23 ILA will strive to avoid building up an excessive credit exposure to individual reinsurers. Diversification increases the overall security of the reinsurance cover and must form part of the assessment of security.

Capital Management

3.24 ILA's policy is to manage the capital base to a level that enables business plans to be executed and to meet growth objectives, within their risk appetite. The level and quality of capital is actively and regularly reviewed. ILA aims to meet all regulatory requirements and maintain investor, creditor and market confidence. The business planning process, which considers projections over a five year time frame, informs how ILA manages its capital.

3.25 ILAs 'Own Funds' are composed of the excess of its assets over the value of its liabilities. As at 31 December 2019, ILA's Own Funds consisted of:

31 December 2019	€m
Tier 1 - unrestricted	
Issued share capital	1
Share premium account	342
Initial funds	-
Reconciliation reserve	1,593
Tier 2	
Subordinated liabilities	-
Tier 3	
Tier 3 assets	-
Own Funds	**1,934**

3.26 Irish Life calculates its SCR using the standard formula set by EIOPA. The table below summarises the position as at 31 December 2019:

31 December 2019	€m
Own Funds	1,934
Solvency Capital Requirement (SCR)	1,145
Excess Own Funds over SCR	789
Solvency Ratio	**169%**

4 Summary of the Scheme

Rationale for the Scheme

4.1 CLL has 623 Irish and 118 German policies as at 31 December 2019 which were written on a cross-border basis by Equitable Life through authorised Irish and German branches respectively. These were transferred to Canada Life as part of a wider Part VII transfer of insurance business in 2016.

4.2 In order to continue to pay these cross-border policyholders their annuities after the end of the post-Brexit transition period (which is scheduled to end on 31 December 2020), CLL has decided to transfer these policies to an EU authorised affiliate by way of a Part VII transfer.

4.3 As noted in section 3, ILA has a strong market position within Ireland and is felt by CLL to be the most appropriate entity to accept the transfer of the business. Since this is a small block of business, it was not deemed proportionate to carry out a full competitive tender exercise and an internal group company was chosen as the most appropriate choice of transferee company.

4.4 The policies subject to this transfer are currently administered in Ireland through intra-group outsourcing arrangements between CLL and each of Irish Life Financial Services Limited ("ILFS") and Canada Life Group Services Limited ("CLGS"). These intra-group arrangements will be transferred to ILA, and as a result, there will be minimal impact on the administration of the transferring policies.

4.5 There is an additional policy, held by a policyholder resident in Guernsey, which will not be subject to this transfer.

Summary of the Scheme

4.6 The proposal is to transfer CLL's Euro-denominated Irish and German policies from CLL to ILA. This is a closed book of long term annuity business.

4.7 The broad effect of the Scheme is to transfer these policies as at the Effective Date, without affecting the policy benefits or how the policies are managed.

4.8 On the Effective Date ILA will become responsible for all liabilities and risks associated with the Transferring Business;

Transferring Business

4.9 The Transferring Business represents 0.4% of CLL's Technical Provisions net of reinsurance, and 0.2% of ILA's Technical Provisions net of reinsurance, both as at 31 December 2019.

4.10 The Transferring Business comprises annuity business denominated in Euros within a block of business acquired from Equitable Life Assurance Society in 2016.

4.11 All business denominated in Pounds Sterling will remain with CLL. None of the transferring business is reinsured.

4.12 There is no direct impact of the transfer on the wider corporate structure, which is summarised above in section 2; rather this is just a transfer of a subset of business held by CLL into ILA.

Operational considerations

4.13 The transferring policies are currently administered in Ireland through intra-group arrangements between CLL and each of ILGS and CLGSL. As each of these arrangements will be transferred to ILA, there will be minimal impact on administration of the transferring policies.

4.14 CLL will meet all of its own costs and expenses incurred in connection with the Scheme.

4.15 As noted earlier, it is currently envisaged that the Scheme will become effective on 31/12/2020.

5 Financial Position of CLL before and after the Scheme

Impact of Scheme

5.1 Under the terms of the Scheme, CLL will pay an amount equal to the Specified Asset Amount to ILA. ILA will take on all liabilities in respect of the Transferring Business.

Pro forma balance sheet

5.2 The table below shows the Solvency II balance sheet of CLL as at 31 December 2019 both on a standalone basis and on a pro-forma basis assuming that the transfer of the MGMA business had occurred at that date. It also shows the pro-forma balance sheet at that date assuming this Scheme had occurred, taking the post MGMA pro-forma balance sheet as the opening position.

CLL Solvency II balance sheet 31 December 2019	Actual CLL Published	Post MGMA Part VII pro-forma	Pro Forma After the Scheme
	£m	£m	£m
Own Funds	4,003	4,240	4,230
Net SCR	2,551	2,710	2,699
Excess Own Funds	**1,452**	**1,530**	**1,531**
Solvency Ratio	**157%**	**156%**	**157%**

The risk margin and SCR values have been approximated through apportioning the respective totals across the whole business line to the transferring and non-transferring policies.

5.3 As has been noted above, this transfer is in respect of approximately 0.4% of the total business of CLL as measured by CLL's Technical Provisions net of reinsurance, and as such there is minimal impact of this transfer on the balance sheet of CLL.

5.4 It can be seen that CLL's solvency ratio is not materially affected by the scheme.

5.5 The actual impact will be affected by the run-off of the Transferring Business and economic conditions as at the Effective Date but is expected to be materially similar to that stated here.

Risk profile

5.6 The scheme does not have a material impact on the overall risk profile of CLL on account of the low materiality of the business being transferred, as evidenced by the small change in CLL's SCR.

6 Financial Position of ILA before and after the Scheme

Financial Position of ILA before and after the Scheme

6.1 The table below shows the Solvency II balance sheet of ILA as at 31 December 2019 both before the scheme and after the Scheme assuming that the Scheme had taken effect on that date.

ILA Solvency II balance sheet 31 December 2019	Actual	Pro Forma After the Scheme
	€m	€m
Own Funds Net SCR	1,934 1,145	1,939 1,151
Excess Own Funds	**789**	**788**
Solvency Ratio	**169%**	**168%**

6.2 This transfer of the business increases ILAs Technical Provisions net of reinsurance by 0.2%; as such there is minimal impact of this transfer on the balance sheet of ILA.

6.3 ILAs Solvency ratio is not materially affected by the scheme

6.4 The actual impact will be affected by the run off of the book and economic conditions as at the Effective Date but is expected to be materially similar to that stated here.

Risk profile

6.5 The scheme does not have a material impact on the overall risk profile of ILA on account of the low materiality of the business being transferred.

7 Effect of the Scheme on non-transferring CLL Policyholders

Introduction

7.1 In this section I consider the impact of the Scheme on non-transferring CLL Policyholders, in particular considering the security of policy benefits, their benefit expectations and policy administration.

Security

7.2 The security of benefits for CLL policyholders is provided by the assets held to cover the Solvency II capital requirements and the additional requirements of CLL's Capital Management Operating Policy.

7.3 As a result of the Scheme, the ratio of CLL's capital resources to its regulatory capital requirements is not expected to change materially, as outlined in section 5 above.

7.4 The trigger level for CLL's solvency ratio will be unaltered as a result of the Scheme and any movement in the solvency ratio due to the Scheme represents an immaterial impact on the security of policyholder benefits.

7.5 In my view, the security of non-transferring CLL policyholders will not be materially adversely affected by the Scheme.

Policyholder benefit expectations

7.6 There will be no changes to the contractual terms of any non-transferring CLL policies under the terms of the Scheme and there will be no changes to the benefits which any non-transferring CLL policyholder can expect to receive following the implementation of the Scheme.

7.7 As noted previously, following the transfer of business to Scottish Friendly, which took place in 2019, CLL does not have any with-profits customers who would be impacted by this transfer.

Administration

7.8 No changes will occur for the administration of non-transferring CLL policies as a result of the Scheme.

Policyholder communications

7.9 The FSMA regulations require appropriate notice to be sent to all policyholders of the parties involved in a business transfer. Some of the notice requirements may be waived by the Court as the Court considers appropriate.

7.10 A waiver is being sought such that notification will not be sent to non-transferring CLL policyholders, on the grounds that the existing CLL policyholders will not be materially impacted by the Scheme. Hence, individual notifications can be expected to be of limited benefit to non-transferring CLL policyholders whilst giving rise to not inconsiderable cost for CLL's shareholders.

7.11 I believe that the proposed publicity arrangements in respect of existing CLL policyholders are appropriate for this Scheme.

8 Effect of the Scheme on transferring CLL Policyholders

Introduction

8.1 In this section I consider the impact of the Scheme on transferring CLL policyholders, in particular the security of policy benefits, their benefit expectations and policy administration.

8.2 The transferring business is comprised of non-profit annuity business.

Security

8.3 Following the implementation of the Scheme, ILA will be responsible for the benefits of the transferring policyholders.

8.4 At 31 December 2019, the reported own funds and solvency ratios of CLL and ILA were £4,003m and 157%, and £1,934m and 169% respectively.

8.5 Therefore, as a result of the Scheme, the transferring policyholders will be part of a firm, which is sufficiently strong and part of the same wider group.

8.6 In common with CLL, ILA is subject to the Solvency II capital regime. This consistency will mean no step change in capital requirements to support payments to policyholders.

8.7 The Transferring Policies currently have access to the protection provided by the UK Financial Services Compensation Scheme ("FSCS"). In the event that CLL is unable to make payments to policyholders as they fall due, then the FSCS would provide protection for 100% of the annuity payments. There is no such equivalent protection scheme in Ireland, so the Transferring Policies will lose this protection after the Effective Date. This is something which will be clearly communicated to policyholders. I consider that the protection provided by the existing Solvency II capital regime, together with the additional protection provided by CLL's capital management policy, mean that the chances of existing CLL policyholders needing to call upon the FSCS would be an remote event. Similarly, after the Scheme the protection provided by the same Solvency II capital regime in Ireland, plus ILA's capital management policy, mean that the probability of ILA being unable to make its payments to policyholders is also remote. This loss is, in my view outweighed by the benefit of ensuring that policyholders can continue to be paid at the end of the transition period.

8.8 Therefore, while I acknowledge that the Transferring Policyholders will lose access to the FSCS protection, I do not consider that this constitutes a material adverse impact for security of benefits for these policyholders.

8.9 I note that CLL and ILA each have different risk profiles, reflecting the nature of the business which each have sold. CLL is most exposed to credit, market and longevity risk, in light of its large block of annuity business, but also its Group protection and unit linked business. ILA is exposed to market risk and lapse risk arising from its unit linked and life and pension business. Given that ILA is well capitalised in respect of these risks, I do not believe that the security of policyholders' benefits will be materially implemented as a result of the difference in risk profile between that of ILA and that of CLL. In stating the above, I have considered a recently implemented quota share reinsurance transaction between CLL and the Canada Life Assurance Company, which mitigates some of the market risk currently taken on by CLL.

8.10 In my view, the security of benefits for the transferring policyholders will not be materially impacted as a result of the scheme.

Policyholder benefit expectations

8.11 The benefits payable under the transferring policies are set out in the policy terms and conditions. There will be no changes to the contractual terms of any policies under the terms of the Scheme, other than the change of insurer.

Administration

8.12 These policies are currently administered in Ireland through intra-group arrangements between CLL and each of ILFS and CLGS. As the intra group arrangements with each of ILFS and CLGS will be transferred to ILA, there will be minimal impact on the administration of the transferring policyholders.

8.13 The Transferring Policies currently have access to the services of the UK Financial Ombudsman Service (“FOS”) to help resolve any disputes or complaints they may have with their insurance company, in this case CLL. After the Scheme, they will lose this access, but will instead be able to make use of a similar service, the Financial Services and Pensions Ombudsman in Ireland.

8.14 Given that there will be no change to the administration or investment management arrangements after the transfer of the business from CLL, I am satisfied that the Scheme will not have a material impact on the quality of service standards or the quality of investment management services for the transferring policyholders.

Policyholder communications

8.15 The FSMA regulations require appropriate notice to be sent to all policyholders of the parties involved in a business transfer. However, waivers will be sought from the Court as detailed below and taking into consideration the principles governing the application of waivers.

8.16 It is intended that all transferring policyholders will be notified of the Scheme. Notices will also be placed in two national newspapers in each of Ireland and Germany as well as in the UK.

8.17 The waivers sought from the Court would apply to:

- Contingent beneficiaries of a transferring policy (i.e. where the benefits of the policy revert to someone else on death of the policyholder);
- Personal representatives or executors of deceased policyholders; and
- Transferring policyholders that CLL has been unable to trace (from CLL's review of the policyholder registers, it has identified three "gone-away" transferring policyholders, which represents less than one per cent of the transferring policyholders).

8.18 Policyholders are entitled to register their objections to the Scheme and appear in Court in person. Help desk arrangements will be put in place to answer policyholder questions received by phone or by mail (including email). A summary of calls and correspondence will be provided to the Court along with an outline of the substance of any objections raised by policyholders.

8.19 On the basis that the transferring CLL policyholders are not likely to be materially adversely affected by the Scheme, in my opinion the communication strategy appears to be appropriate.

9 Other Matters

Considerations arising from High Court judgment on Prudential/Rothesay Part VII scheme

9.1 On 16 August 2019, the High Court declined to sanction a scheme to transfer a large number of annuities from The Prudential Assurance Company Limited ("PAC") to Rothesay Life PLC ("Rothesay"). A notice of appeal was lodged with the Court of Appeal on 27 September 2019.

9.2 Notwithstanding the appeal, I have considered what I believe to be the key issues from the judgment and their potential application in the context of the current Scheme.

9.3 One notable aspect of the judgment was the fact that the judge considered it to be appropriate to take into account certain factors which individual policyholders may have considered important when deciding to purchase an annuity from PAC, due to the fact that (among other reasons) annuity policyholders are unable to change the insurer after they have purchased the annuity and are dependent on the insurer for life. The factors, which have not customarily been considered material factors in assessing the impact of a Part VII transfer, include the age and established reputation of PAC and the potential access to financial support which PAC may have as part of a larger corporate group.

9.4 CLL and ILA are both part of the Great-West Life insurance group, and consequently there is no change to the ultimate parent company for the Transferring Policyholders' insurer as a result of the Scheme.

9.5 I also note that the judge considered it appropriate to try and balance the commercial objectives of Rothesay and PAC in carrying out the transfer with what he considered to be the adverse impact on policyholders of being transferred to another insurer without their consent. The judge appears to have been particularly influenced in this context by the fact that PAC's commercial objective in carrying out the transfer had (in his view) largely been achieved through the reinsurance arrangement which the parties had entered into when agreeing the sale in 2018, and which would remain in effect notwithstanding that the transfer was not approved.

9.6 A number of the concerns raised in the judgment also appear to be based on the particular characteristics of lifetime annuities, such as the lack of transferability and the long lifetime of the policies. I note that, while all of the transferring policies are lifetime annuities, all were originally taken out with Equitable Life, and that they were subsequently transferred to CLL under a Part VII transfer. Therefore, none of the policyholders actively chose CLL as their insurer.

9.7 Additionally, as noted in Section 4, the sole objective of this Scheme is to ensure that the transferring policyholders can continue to receive their annuity payments as they fall due following the end of the Brexit transition period; there is no additional commercial objective of the Scheme.

Implications of the Coronavirus (COVID-19) Pandemic

9.8 The external environment continues to change quickly as the Coronavirus (COVID-19) pandemic progresses.

9.9 Our policyholder communications will make clear that CLL's call centres are open and processing all mail to ensure that policyholders are kept well informed of the transfer

9.10 CLL and ILA are both likely to be impacted through falling asset values and worsening economic growth outlooks, as well as through higher deaths within their policyholder population. Both companies have undertaken extensive planning and scenario testing to consider a range of possible outcomes. Although the impact will differ for each company due to their different risk profiles, I note that both companies are well capitalised.

9.11 I am mindful of the potential risks which the pandemic may present to the policyholders affected by this transfer, and in particular for the transferring policyholders, whose policies will be moving from a UK domiciled and regulated insurer to one domiciled and regulated in the Republic of Ireland. Should the UK and Irish economies be impacted in a materially different way, then there is the possibility that the financial strength of either CLL or ILA may be adversely impacted as a consequence. However, as noted above, both companies are well capitalised and have appropriate risk management frameworks in place to ensure that the benefits payable to policyholders are appropriately protected.

9.12 The potential impacts of COVID-19 will continue to be monitored in light of external developments, with due consideration applied to both transferring and non-transferring policyholders. I will provide an update on the situation in my Supplementary Report.

10 Conclusions

10.1 In my opinion, the Scheme will not have a material impact on the solvency of CLL. I therefore consider that the security of benefits and expectation of benefits of non-transferring CLL policyholders will not be materially adversely affected by the Scheme.

10.2 No changes will occur for the administration of non-transferring CLL policies as a result of the Scheme.

10.3 ILA is a well-capitalised company and as such I do not consider that there will be any material adverse impact on the security of benefits for transferring policyholders.

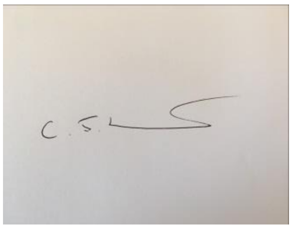
10.4 All transferring policies are non-profit annuities, whose benefits are either fixed or determined by reference to the value of external indices. Therefore, I do not expect any material adverse impact to the benefit expectations of transferring policyholders as a result of the Scheme.

10.5 There will be no changes to the administration of any transferring policies, ensuring that the quality of service is maintained.

10.6 I am satisfied that all groups of CLL policyholders are treated equitably and fairly under the Scheme.

10.7 In preparing this report, I have considered the reasons why the High Court declined to sanction a Part VII transfer between PAC and Rothesay. I have considered the reasons behind this ruling and am satisfied that they do not apply to this transfer.

10.8 In reaching the conclusions outlined above, I am conscious of the developing situation with the COVID-19 pandemic, and I will provide an update in my supplementary report.



Chris Lewis FIA
Chief Actuary, Canada Life Limited
26th August 2020

11 Reliances

I have considered the following key documents and data in the preparation of the Report.

Item	Document Name
The proposed Scheme	Scheme for the transfer of the insurance business of Canada Life Limited to Irish Life Assurance plc. under Part VII of the Financial Services and Markets Act 2000
Irish Life Assurance Chief Actuary Report	The Report of the Chief Actuary on the impact of the Scheme on Policyholders of Irish Life Assurance Company
Irish Life Assurance YE2019 SFCR	Irish Life Assurance Company Solvency and Financial Condition Report December 2019 for the year ended 31 December 2019

Appendix 1 Glossary of Defined Terms and Abbreviations

BEL	Best estimate liabilities
CLG	The Canada Life Group (U.K.) Limited
CLGS	Canada Life Group Services
CLL	Canada Life Limited
Court	High Court of England and Wales
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FOS	Financial Ombudsman Service
ILA	Irish Life Assurance Company plc
ILFS	Irish Life Financial Services Limited
ORSA	Own Risk and Solvency Assessment
PAC	Prudential Assurance Company Limited
PIM	Partial Internal Model
PRA	Prudential Regulation Authority
Report	The report of the Canada Life Limited Chief Actuary on the impact of the Scheme
Residual Policies	Those transferring policies which are not able to be transferred at the Effective Date
Rothesay	Rothesay Life PLC
Scheme	The proposed insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000
Effective Date	Date at which the Scheme is expected to take effect (if approved)
Scottish Friendly	Scottish Friendly Assurance Society Limited
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SLA	Service Level Agreement
TAS	Technical Actuarial Standards
TMTP	Transitional Measure on Technical Provisions
Transferring Business	The business being transferred under the Scheme
Transferring Policies	The policies being transferred to CLL under the Scheme