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

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1. Executive Summary

This Supplementary Report is addressed to the Directors of Aviva Life & Pensions UK Limited ("UKLAP") and is made in my capacity as With Profits Actuary. It concerns the proposed transfer of a subset of the business currently written within UKLAP to its subsidiary Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC"), the rebranded name of Friends First Life Assurance Company Designated Activity Company. The transfer is to be implemented under a Scheme of Transfer (the "Scheme") under Part VII of the Financial Services and Markets Act 2000.

This report should be read in conjunction with my original report entitled "Report to the Directors of Aviva Life & Pensions UK Limited from the With Profits Actuary on the Proposed Transfer of Economic Area Non-UK Life Assurance Business of Aviva Life & Pensions UK Limited to Friends First Life Assurance Company Designated Activity Company" (the "Previous Report"), dated 5 October 2018.

The Previous Report remains available to view on our website at https://transfer.aviva.com/life.

In preparing this Supplementary Report, I have considered relevant events and experience since completing the Previous Report and their effect on the conclusions set out in that report. In particular, I have considered the updated financial position of UKLAP and ALPI DAC as at 30 June 2018 and other relevant developments in the business of UKLAP and ALPI DAC. I have also considered relevant external developments in respect of the UK's planned exit ('Brexit') from the European Union.

I have also considered the correspondence from transferring with-profits policyholders of UKLAP that has taken place in connection with the proposed transfer and responses received up to 6 January 2019.

Allowing for these developments, and consistent with my previous opinion, I conclude that:

- After the implementation of the Scheme, the financial security of existing with-profits policyholders will not be materially adversely affected by the transfer, either those transferring or those remaining in UKLAP. The loss of FSCS protection for some customers is an adverse impact, but not in my view a material one, relative to the importance of being able to continue to service the policies legally post Brexit, and noting the strength of the protection provided by ALPI DAC's Solvency Risk Appetite ("SRA");

- The implementation of the Scheme will have no impact on the expected benefits or the fair treatment of remaining UKLAP with-profits policyholders; and

- The implementation of the Scheme will have no material adverse impact on the expected benefits and fair treatment of transferring with-profits policyholders. In reaching this conclusion I note that there are adverse actual and potential impacts on benefit expectations, relating to tax and additional ongoing costs. These are not, in my view, material adverse impacts relative to the importance of being able to continue to service the policies legally post Brexit, and protections are in place to ensure any potential future impacts are fair to policyholders.

S Lowry

Somerset Lowry, FIA
With Profits Actuary, Aviva Life and Pensions UK Limited

30/1/19

2. Introduction

2.1 Purpose of the Report

2.1.1 The purpose of this Supplementary Report is to review and confirm the conclusions from my Previous Report in light of any changes in circumstances since the report was written. Specifically, I have considered:

- Any changes to the Scheme or Reinsurance Treaty;
- The updated financial positions of UKLAP and ALPI DAC, before and after the transfer on a pro forma basis;
- Developments in respect of the Brexit negotiations; and
- The responses of with-profits policyholders to the communications issued to inform them of the transfer and its expected impact.

2.2 Independence

2.2.1 As noted in the Previous Report, I am an employee of Aviva Employment Services Limited, a fully owned subsidiary of Aviva plc. I hold shares and have contingent share interests in Aviva plc, and have unit-linked pension policies issued by UKLAP.

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

2.3 Other Reports

2.3.1 I have read the Supplementary Report prepared by Mr N Rowley, the Chief Finance Actuary of UKLAP. I have considered his comments on the effect of the Scheme on the various policyholders of UKLAP and ALPI DAC.

2.3.2 Where appropriate I have made reference to the Chief Finance Actuary's report throughout this document to avoid repetition with his report.

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

2.3.4 I have read a draft of the Supplementary Report of Mr T Roff, the Independent Expert.

2.3.5 Copies of this report have been made available to the Independent Expert, to the Chief Finance Actuary and to the Head of Actuarial Function ("HoAF"). The Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") have also received a copy of this report.

2.4 Technical Actuarial Standards Compliance

2.4.1 I have prepared this report such that it, and the work underlying it, meet the requirements of Technical Actuarial Standards issued by the Financial Reporting Council, TAS 100: Principles of Actuarial Technical Work and TAS 200: Insurance.

2.4.2 In addition, in accordance with the requirements of the Actuarial Professional Standard X2, this report has been reviewed by Mr A. Carr, FIA, the Chief Risk Actuary for UKLAP.

3. Developments affecting the Scheme and Reinsurance Agreement

3.1 Scope of business

3.1.1 The defined scope as outlined in Section 3.2 of the Previous Report is unchanged.

3.1.2 Further analysis was still ongoing when my Previous Report was written to confirm whether all products and policies had been correctly identified as in-scope. A small number of products were subsequently found to have been incorrectly included in the scope of the Transfer. This analysis was completed ahead of any of these policyholders being mailed.

3.1.3 An additional product has been added into the Scheme, but this impacts the Belgian sub fund, which does not contain any UK with profits business, and is therefore not considered further in this report.

3.1.4 There were a number of Icelandic and Swedish policies excluded from the transfer. They were excluded as, while the policyholders were not resident in the UK at the point of purchase, they actively chose to take out UK products subject to UK laws. The products were not targeted at local nationals in Sweden and Iceland; as such they did not fall under the scope outlined in the Previous Report of the UKLAP CFA (Section 3.2.1). A small number of these are with-profits policies.

3.1.5 The UKLAP with-profits funds in-scope for the transfer were unchanged, despite the information outlined in 3.1.2 and 3.1.3, and no changes were required to the Legal documentation, except the removal of the one of the affected products from Schedule 1 of the Scheme, and the addition of the Belgian product.

3.2 Scheme developments

3.2.1 There have been no changes to the Scheme that impact the with-profits funds, with the only changes to Schedule 1 as noted above. The funds with in-scope business can be found in Section 4.2 of the Previous Report.

3.3 Internal reinsurance

3.3.1 The reinsurance agreement between UKLAP and ALPI DAC covering the policies immediately reinsured back to UKLAP requires the payment of a premium from ALPI DAC to UKLAP. The methodology for determining this premium has now been agreed by both the UKLAP and ALPI DAC Boards and reviewed externally to ensure it produces what is considered to be a fair price. I am satisfied that the approach taken is appropriate for determining the premium when considered as part of the Scheme transfer. There is a minor update to the reinsurance treaty, which impacts the FP With-Profits Sub-Fund (FP WPSF) and the Old With-Profits Sub-Fund (OWPSF), since the Previous Report to reflect this agreed approach.

3.3.2 The reinsurance agreement includes provisions for the recapture of the reinsurance by ALPI DAC. These are unchanged since the Previous Report. It is important that this termination amount takes into account the investment market conditions at the time of the transfer, the strength of the relevant with-profits funds and any anticipated estate distributions.

3.3.3 As such, it was made clear when agreeing the reinsurance premium that the methodology underpinning the reinsurance premium at inception should not be taken as a precedent for its use in determination of any future termination amount. I am satisfied that this is appropriately documented and that the Scheme requirement for any termination amount to be determined after consultation with the With Profits Committee ("WPC") provides adequate protection.

3.4 *With-profits policyholder protections*

3.4.1 Section 6.8 of the Previous Report described the protection afforded to transferring policyholders by the Scheme, by revisions to the Terms of Reference ("ToR") of the WPC, and by the introduction of Principles and Practices of Financial Management ("PPFM") for the newly established Irish With-Profits Fund ("IWPF"). There have been no further changes to these items since the Previous Report.

3.4.2 As described in the Previous Report, the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II, which relates to protections for with-profits policyholders in Ireland. This did not give rise to any concerns or conflicts with the protections being retained under the Scheme. The consultation ended on 14 September 2018, and the CBI issued a Feedback Statement on 27 November 2018. The proposed changes have largely been accepted and will come into force immediately on transfer. As stated in the Previous Report, these proposals will further reinforce the protections of the PPFM, as they introduce a number of requirements in line with COBS 20 which applies in the UK.

3.5 *Operational Progress*

3.5.1 The Operating Model for the management of the transferred business is still being developed. Any project costs continue to be borne by the shareholders of Aviva Group. There has been no change to this proposed approach.

3.5.2 As described in the Previous Report, following the transfer, the UKLAP Irish With-Profits Sub-Fund ("IWPSF") business which was previously administered by Aviva Life Services Ireland Limited ("ALSIL"), will be administered by ALPI DAC.

3.5.3 The integration principles put in place after the purchase of FFLAC aim to bring together UKLAP and ALPI DAC administration teams, processes and systems using a 'Best of Both' approach. This entails ensuring the overall customer experience from the ALSIL (UKLAP) and ALPI DAC processes are compared and the best chosen, which will define the strategy for people, systems and processes. ALPI DAC will maintain a continued focus on its policyholders, providing clear information and quality of service. The impact on policyholders will be a key consideration in any decisions made about the integration of processes.

3.5.4 The integration work is ongoing. I am satisfied from the progress to date that this strategy is being followed, and that there are sufficient protections to ensure there will be no material adverse impact for transferring UKLAP policyholders in respect of the administration of their policies.

3.5.5 For the with-profits business subject to the internal reinsurance, the strategy remains that the administration remains as it currently is, whether done by UKLAP or third-party suppliers.

3.5.6 Discussions are ongoing between UKLAP and ALPI DAC to ensure the business continues to be modelled in line with CBI regulations. This may require additional ongoing work to ensure ALPI DAC can appropriately oversee this business, and therefore a small increase in costs. However, there are still no plans to charge any increase in costs to with-profits funds. In addition, any future increases in the level of costs to the UKLAP with-profits funds, where the OLAB business sits, remain subject to oversight by the WPC and the UKLAP With Profits Actuary.

3.6 *Comment on progress in Brexit negotiations*

3.6.1 The following paragraphs consider the latest developments in the Brexit negotiations and their possible impact on the Scheme.

3.6.2 It was announced on 14 November that a 'Draft Withdrawal Agreement' had been agreed by UK and EU negotiators and the EU27 formally agreed this on 24 November.

However, this agreement still needs to be approved by the UK Parliament, but there is considerable uncertainty whether the agreement as currently drafted will come into force.

3.6.3 The agreement proposes a transitional arrangement until at least December 2020 with the intention of moving to an equivalence approach for financial services by June 2020. However, this does not give any indication of the retention of passporting rights.

3.6.4 In view of the uncertainty that still exists, I can at this point place no reliance on these potential future arrangements. The draft outline for the future arrangements after any transitional period ends provides no indication of a proposed agreement to allow UK insurers to continue servicing these policies in the long term.

3.6.5 UKLAP will continue to track the progress of the negotiations. My view remains that, given the continuing uncertainty over being able to service these policies legally in the future, transferring policyholders to ALPI DAC is the right action to take. It provides certainty for policyholders and is structured in an appropriate way to protect the security and benefit expectations of with-profits policyholders.

4. Security of policyholder benefits of UKLAP with-profits policyholders

4.1 Introduction

4.1.1 This Section considers the effect of the Scheme on the security of the benefits of UKLAP with-profits policyholders, both those transferring into ALPI DAC and those remaining in UKLAP.

4.1.2 This issue was covered in Section 7 of the Previous Report and only those matters which have changed since then are considered here.

4.2 Financial impacts

4.2.1 The financial impacts of the Scheme are considered in Section 4.2 of the Chief Finance Actuary's Supplementary Report.

4.2.2 There are no material changes in the impact of the Part VII for either UKLAP or ALPI DAC. ALPI DAC remains capitalised to a level of 150% after the transfer, as expected given the Scheme requirement for UKLAP to inject capital to ensure this minimum requirement is met.

4.3 Risk profiles

4.3.1 I have reviewed the risk profiles of ALPI DAC before and after the transfer based on the updated financial analysis. These are materially unchanged from my Previous Report and both companies continue to be exposed to a broad, diversified range of risks.

4.3.2 The risk profile of UKLAP remains materially unchanged by the Transfer due to the business transferring being a small proportion of the overall UKLAP company, the reinsurance of the 'Other non-UK EEA' business and because UKLAP retains indirect exposure to the underlying risks in ALPI DAC, given ALPI DAC is a wholly owned subsidiary of UKLAP.

4.3.3 The risk profiles of the individual with-profits funds remain unchanged by the Transfer.

4.4 Solvency Risk Appetite

4.4.1 There have been no changes to the SRA's of either company since my Previous Report.

4.5 Loss of FSCS Protection

4.5.1 The FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency of a financial services firm authorised by the PRA or FCA. I considered the loss of FSCS protection in Section 7.9 of the Previous Report.

4.5.2 The policyholder responses, as summarised in Section 6, indicate concern about the loss of this protection for transferring policyholders. Nevertheless, as in the Previous Report, I consider the protections over the level of the SRA to be strong enough that it would be very unlikely the SRA could be weakened to the point where I would consider the loss of FSCS protection to be a material adverse effect.

4.6 Conclusion

4.6.1 Overall, I remain satisfied that the Scheme does not have a material adverse effect on the security of benefits of UKLAP with-profits policyholders, whether transferring to ALPI DAC or remaining in UKLAP.

5. Benefit expectations and fair treatment of UKLAP with-profits policyholders

5.1 Purpose

5.1.1 This Section considers the effect of the Scheme on the UKLAP with-profits policyholders with respect to their benefit expectations and fair treatment. This issue was covered in Section 8 of the Previous Report for those policyholders not transferring under the Scheme, in Section 9 for policies transferred under the Scheme and immediately reinsured back to UKLAP and in Section 10 for other transferred policies.

5.2 Policyholders not transferring

5.2.1 At the Directions Hearing on 16 October 2018 the judge granted the waiver, outlined in my Previous Report, from the requirement to mail non-transferring UKLAP policyholders on the basis that these policyholders will not experience any material changes as a result of the Scheme.

5.2.2 I consider this was appropriate, given these policyholders were not transferring and there is no impact on their security or benefit expectations. No changes since my Previous Report have altered this view, with UKLAP solvency still showing a slight increase as a result of the Part VII and no changes to the benefits of any policyholders not transferring.

5.3 Transferring policyholders reinsured back into UKLAP

5.3.1 As outlined in Section 3 there is a minor change to the premium definition in the reinsurance treaty, but this does not impact the benefit expectations or fair treatment of with-profits policyholders.

5.3.2 All administration will continue to be performed by the same parties as before the transfer, as outlined previously.

5.3.3 As outlined in Section 3.5, while there are some additional costs being generated by the ongoing work within the Part VII and integration projects. there has been no change to the approach that with-profits policyholders will not bear these costs.

5.3.4 There have been no changes to the expectation that all costs relating to the Part VII transfer will be met by the shareholder.

5.3.5 There is no change to the expectation that none of the additional tax generated in respect of this business will be charged to policyholders. The robust governance surrounding future decisions of this nature is unchanged.

5.4 UKLAP IWPSF transferring policyholders

5.4.1 There have been no further changes made to the PPFM, HoAF role profile or WPC Terms of Reference driven by the Part VII Transfer, which were key protections outlined in my Previous Report. The IWPSF PPFM is being updated at the end of 2018, in line with other UKLAP funds as part of the annual PPFM review; this is independent of the Part VII transfer, and has no effect on the conclusions in this report. These changes will be carried through into the IWPF PPFM that becomes effective in ALPI DAC after the transfer.

5.4.2 The IWPSF continues to be managed in line with its risk appetite framework and is subject to ongoing management independent of the impending transfer, as illustrated by the changes proposed for the PPFM. It is possible that further changes to the management of the fund may be proposed, before or after the transfer is implemented, but these changes would be independent of the transfer and I would not expect such changes to result in any material disadvantage to customers.

5.4.3 Any changes of this nature before the Transfer will be discussed with the HoAF, along with the normal governance such as WPC engagement.

5.4.4 There are no changes to the tax conclusions from the Previous Report in respect of these policyholders.

5.5 Conclusion

5.5.1 As in the Previous Report, I conclude that the proposed Scheme has no material adverse impact on the fair treatment or benefit expectations of UKLAP with-profits policyholders, whether they are transferring under the Scheme or remaining in UKLAP.

6. Policyholder Communications

6.1 Purpose of Section

6.1.1 Aviva informed policyholders about the proposed Scheme primarily through a direct mailing. This mailing was addressed to all transferring UKLAP policyholders and all ALPI DAC policyholders.

6.1.2 This Section considers the responses received from UKLAP with-profits policyholders.

6.2 With-profits policyholder responses

6.2.1 2 with-profits policyholders who have policies in the IWPSF have raised formal objections. These objections related to the loss of FSCS protection, and concern about the reliability of the Independent Expert's opinion given past association with KPMG and EY. I have considered these objections and the response to them.

6.2.2 I considered the loss of FSCS protection in Section 7.9 of the Previous Report. I concluded that I did not consider the loss to be material, given the need for Aviva to take action due to the high likelihood that it would be unable to service policies legally after Brexit, and the remote likelihood of policyholders requiring the FSCS protection given the protection afforded by the ALPI DAC Solvency Risk Appetite. While I have considered the objections relating to FSCS, and understand the policyholders' concern, my view remains in line with what I stated in the Previous Report.

6.2.3 I have no concerns over the appointment of the Independent Expert, who was approved by the UK regulators. I consider his independence, experience and professional standing are appropriate for the role; I note also his response to these objections in Sections 5.47 to 5.49 of his Supplementary Report.

6.3 Other responses

6.3.1 Further details of all the objections raised by UKLAP policyholders can be found in Section 6 of the CFA Supplementary Report.

6.3.2 I have reviewed a summary of the objections, and do not believe that there are any new issues raised that I have not considered in forming my conclusions. I am satisfied with the responses to these objections as summarised in the CFA Supplementary Report.

7. Conclusions

7.1 It is my view that the conclusions set out in my Previous Report continue to hold:

7.1.1 The financial security of existing with-profits policyholders will not be materially adversely affected by the transfer, either those transferring or those remaining in UKLAP. The loss of FSCS protection for some customers is an adverse impact, but not in my view a material one, relative to the importance of being able to continue to service the policies legally post Brexit, and noting the strength of the protection provided by the ALPI DAC SRA.

7.1.2 There will be no impact on the expected benefits or the fair treatment of remaining UKLAP with-profits policyholders.

7.1.3 There will be no material adverse impact on the expected benefits or fair treatment of transferring with-profits policyholders. In reaching this conclusion I note that there are adverse actual and potential impacts on benefit expectations, relating to tax and additional ongoing costs. These are not, in my view, material adverse impacts relative to the importance of being able to continue to service the policies legally post Brexit, and protections are in place to ensure any potential future impacts are fair to policyholders.

8. Appendix: Glossary of terms

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

FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firms, including the fairness of treatment of customers.
HoAF	The Head of Actuarial Function role is defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II' document.
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA
PRA	Prudential Regulation Authority, the regulator of the financial services industry in the UK responsible for the safety and soundness of firms and securing an appropriate degree of protection for policyholders
Scheme	The insurance business transfer scheme that is the subject of this Report.
Solvency Risk Appetite (SRA)	The Solvency Risk Appetite specifies the amount of capital required to be held in addition to regulatory requirements.
WPA	With Profits Actuary. The With Profits Actuary function (SMF20a, previously SIMF21) is the function having responsibility for advising the Board on the exercise of discretion affecting the with-profits business of the company and whether the assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the Principles and Practices of Financial Management.
WPC	With Profits Committee. The With Profits Committee was established by UKLAP to provide independent oversight and challenge to ensure that fairness and with-profits policyholders' interest are appropriately considered in governance structures and decision making. The With Profits Committee also advises ALPI DAC