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

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30 January 2019

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1 Executive Summary

This supplementary report, made in my capacity as Chief Finance Actuary, is addressed to the Directors of Aviva Life & Pensions UK Limited ("UKLAP") and concerns a Scheme of Transfer (the "Scheme") under Part VII of the Financial Services and Markets Act 2000. It is proposed that certain long-term business of UKLAP is transferred to its subsidiary Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC"), the rebranded name of Friends First Life Assurance Company Designated Activity Company[1]. All references to the receiving company throughout the remainder of this document will make use of the end state company name, ALPI DAC.

This report should be read in conjunction with my original report entitled "Report to the Directors of Aviva Life & Pensions UK Limited from the Chief Finance Actuary on the Proposed Transfer of European Economic Area Non-UK Life Assurance Business of Aviva Life & Pensions UK Limited to Friends First Life Assurance Company Designated Activity Company" (the "Previous Report"), dated 5 October 2018, as made public and submitted to the High Court at the Directions Hearing held on 16 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, experience, and developments in the business of UKLAP and ALPI DAC since completing the Previous Report, which was based on 31 December 2017 data and their effect on the conclusions set out in that report. In particular, I have considered the financial position of UKLAP and ALPI DAC as at 30 June 2018 and the impact on that position of investment market and other changes since the analysis in the Previous Report. I have also considered relevant external developments in respect of the UK's planned exit from the European Union.

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

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

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

Nicholas Mann Rowley

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Date: 30 January 2019

[1] Friends First Life Assurance Company Designated Activity Company will be renamed Aviva Life & Pensions Ireland Designated Activity Company on 29 March 2019.

2 Introduction

2.1 Purpose of the report

2.1.1 The purpose of this report is to consider whether events or experience since I prepared the Previous Report have impacted the conclusions set out there. Only matters in relation to the proposed transfer which have changed or arisen since the Previous Report are addressed in this supplementary report and only to the extent that they may impact on the benefit security, benefit expectations or fair treatment of UKLAP policyholders. This report should be read in conjunction with the Previous Report.

2.1.2 This report covers four main areas:

- Developments affecting the Scheme and Reinsurance Agreement;
- Financial impacts of changes since the Previous Report;
- Relevant external developments relating to the UK's planned exit from the European Union; and
- Policyholder communications and objections.

2.1.3 The Independent Expert appointed in connection with the Scheme has also prepared a supplementary report covering the impact of the Scheme on the benefit security and fair treatment of existing ALPI DAC policyholders and of UKLAP policyholders, both remaining and transferring. The Independent Expert's Report will be considered by the Court at the Sanctions Hearing scheduled for 13 February 2019.

2.1.4 A separate supplementary report has been prepared by the With Profits Actuary ("WPA") of UKLAP considering the areas set out in 2.1.2, but specifically in respect of the with-profits business in UKLAP.

2.1.5 A separate supplementary report has been prepared by the Head of Actuarial Function ("HoAF") of ALPI DAC covering the impact of the transfer on the existing policyholders of ALPI DAC, as well as on the policyholders transferring in from UKLAP.

2.1.6 The Chief Risk Actuary of UKLAP has also provided me with his opinion which is set out in Section 2.3.

2.1.7 Copies of this report have been made available to the Independent Expert, the WPA, and the HoAF. The Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") have also received a copy of this report.

2.2 Regulatory and professional guidance

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

2.2.2 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 of UKLAP.

2.3 Chief Risk Actuary Opinion

2.3.1 It is my view that the conclusions I set out in the Previous Report continue to hold.

3 Developments affecting the Scheme and Reinsurance Agreement

3.1 Description of Scheme

3.1.1 I described the Scheme in Section 6 of my Previous Report. For convenience a summary is given below.

3.1.2 The Scheme proposes to transfer:

- Non-profit 'Irish' policies in the existing non-profit sub-fund ("NPSF") of UKLAP into the non-profit sub-fund of ALPI DAC ("Other Business Fund");
- With-profits 'Irish' policies in the existing with-profits sub-fund of UKLAP (UKLAP Irish WPSF), to a segregated sub-fund in ALPI DAC (ALPI Irish WPF);
- 'Other non-UK EEA' policies in the UKLAP NPSF to the Other Business Fund of ALPI DAC, but immediately reinsure this business back into the UKLAP NPSF;
- 'Other non-UK EEA' policies in four existing UKLAP With-Profits Sub-Funds ("WPSF"), (NWPSF, OWPSF, FP WPSF and FLAS WPSF) into separate sub-funds in ALPI DAC. This generates four new funds, (ALPI New Fund, ALPI Old Fund, ALPI FP Fund and ALPI FLAS Fund). This business will be fully reinsured back into the UKLAP fund from which it transferred; and
- 'Other non-UK EEA' policies in the UKLAP Belgian Sub-Fund into a fifth new fund in ALPI DAC (ALPI Belgian Fund). This business will be fully reinsured back into the UKLAP NPSF. The existing 100% quota share reinsurance, outsourcing and loan arrangements with NN Insurance Belgium will remain in place.

3.2 Scheme Changes

3.2.1 There are two minor changes to the Scheme to remove one product that was previously considered to be in-scope and to add one product that had not previously been included.

3.3 In-scope business

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

3.3.2 Further analysis was still ongoing when my Previous Report was written to confirm all 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. One was added into the Scheme as outlined in 3.2.1 and the others were removed from the Scheme ahead of the Directions Hearing but remained part of the financial analysis within the Previous Report. The updated financial impacts in Section 4 reflect the removal of these products. This analysis was completed ahead of any of these policyholders being mailed.

3.3.3 The UKLAP funds in-scope for the transfer are not impacted by the removal of these products, and therefore no changes were required to the Legal documentation, except the removal of the affected product in Schedule 1 of the Scheme.

3.3.4 In addition, a further c120 policyholders have now been mailed having previously been excluded from the Scheme. This required the addition of one product, an Employer Pension Scheme Product, to the Scheme.

3.3.5 I do not consider that the change to the in-scope policies transferring alters any of the conclusions from my Previous Report.

3.4 Internal Reinsurance

3.4.1 Since finalising the Previous Report, a minor change has been made to the methodology used to determine the reinsurance premium for reinsured business in two of the with-profits funds, the OWPSF and FP WPSF. The impact is not material. Further detail is included in the WPA supplementary report.

3.5 Administration of policies

3.5.1 I have been provided with an update on the progress of the integration of ALPI DAC into Aviva, which shows that the 'Best of Both' approach outlined in the Previous Report is being followed. I am therefore satisfied that the processes/systems will be in place at the Effective Time to ensure a smooth transition for policyholder servicing so that there should be no detriment to policyholders.

4 Financial impacts

4.1 Purpose of Section

4.1.1 This Section provides additional information on the solvency position and risk profiles of UKLAP and ALPI DAC and the impact of the proposed transfer.

4.2 Solvency position

4.2.1 The table below shows the solvency position of UKLAP and ALPI DAC at 30 June 2018 before the transfer, and the pro-forma position of UKLAP and ALPI DAC as if the transfer had happened by then.

Solvency II financial position at 30 June 2018

Solvency II solo positions	Actual		Post Part VII	
	UKLAP (£m)	ALPI DAC (€m)	UKLAP (£m)	ALPI DAC (€m)
Own Funds	13,081	246	12,919	549
Solvency Capital Requirement	8,506	154	8,361	366
Surplus Capital	4,575	92	4,558	183
Solvency Cover Ratio	154%	159%	155%	150%

4.2.2 I have seen a report outlining the approach taken to determining the updated financial position and I am satisfied that the approach is robust and there are no material changes to the impact analysis to those presented in the Previous Report.

4.2.3 The impact of the Scheme on the solvency position of UKLAP is consistent with my Previous Report showing a small increase in Solvency Cover Ratio. It remains well in excess of regulatory capital requirements and significantly above UKLAP's Solvency Risk Appetite ("SRA") required level.

4.2.4 The post transfer Solvency Cover Ratio of ALPI DAC remains consistent with the Previous Report at 150%. This is expected given the Scheme commitment for UKLAP to inject capital to meet this minimum level.

4.2.5 The current estimate for the injection has increased from c£100m (as at end December 2017) to c£136m (as at end June 2018). I have no concerns about this increase from an affordability perspective for UKLAP, or about any reasonably foreseeable further increases in the capital injection that may result from adverse changes in market conditions. The amount of the capital injection will be recalculated at the time the payment is due, expected to be in late February 2019. In addition, the Scheme includes a true-up mechanism to ensure that the published ALPI DAC Solvency Cover Ratio at the Effective Time is 150%.

4.2.6 As discussed in the Previous Report, the Solvency Risk Appetite ("SRA") of each company was a key aspect in assessing policyholder protections. The SRAs of each company are unchanged from the Previous Report.

4.2.7 I have reviewed internal solvency monitoring reports since 30 June 2018 for UKLAP and updated solvency figures (Pre-Transfer) for ALPI DAC. I have also been provided with confidential information by both companies covering projected capital positions, updated risk profiles, updated stress and scenario testing and recovery plans. None of the information provided gives rise to any concerns.

4.2.8 I am satisfied that the UKLAP capital position is able to withstand market volatility that may continue to occur in the lead up to Brexit and that the Scheme requirement to capitalise ALPI DAC to a 150% Solvency Cover Ratio ensures the receiving entity will be sufficiently capitalised.

4.3 Conclusion

4.3.1 Overall, I remain satisfied that the Scheme will have no material adverse impact on the benefit security of either the transferring or the remaining UKLAP policyholders.

5 External events impacting the Transfer

5.1 Purpose of Section

5.1.1 This Section considers the latest developments in the Brexit negotiations and their possible impact on the Scheme.

5.2 Brexit negotiations

5.2.1 It was announced on 14 November that a 'Draft Withdrawal Agreement' had been agreed by UK and EU negotiators, and on 22 November a framework for the future relationship between the UK and the EU was agreed.

5.2.2 The Draft Withdrawal Agreement proposes a transitional arrangement until at least 31 December 2020. This may allow UK insurers to continue servicing policies written under passporting for an extended period beyond 29 March 2019.

5.2.3 However, this Draft Withdrawal Agreement still needs to be approved by the UK Parliament, and there is considerable uncertainty whether the Draft Withdrawal Agreement as currently drafted will come into force. Without certainty that Aviva would be able to continue to service policyholders legally over the long term, I continue to support the transfer.

5.2.4 Furthermore, 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.

5.2.5 While Aviva will continue to track the progress of the negotiations, the developments since the Previous Report do not change my views that transferring in-scope policyholders to ALPI DAC is the right action for UKLAP to take. It significantly reduces the risk that UKLAP would be unable to meet its contractual requirements to continue to service policyholders post Brexit.

6 Policyholder communication and objections

6.1 Purpose of Section

6.1.1 UKLAP 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. At the Directions Hearing on 16 October 2018 the judge granted a waiver of 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.

6.1.2 This Section considers the objections received from UKLAP policyholders.

6.2 Summary of objections

6.2.1 In total, as at 6 January 2019, 3,245 UKLAP policyholders have made contact in relation to the proposed transfer and 137 of these have raised formal objections, two of which are from with-profits policyholders. I have considered the nature of the objections and UKLAP's responses to them.

6.2.2 Some policyholders' objections to the Scheme are not based on a single concern but rather several separate concerns. Consequently, I have allocated some policyholders' objections to multiple categories below. Although each policyholder query is unique, the majority can be summarised into five key categories:

- Loss of FSCS protection;
- Concern about transfer to an Irish company;
- Concern about security of benefits
- Pre-empting the outcome of Brexit negotiations; and
- Concern about the Independent Expert.

6.3 Loss of FSCS protection

6.3.1 98 policyholders have raised objections relating to the loss of the protection provided by the Financial Services Compensation Scheme ('FSCS') on the transfer of their policy to ALPI DAC.

6.3.2 I considered this loss at length in Section 7.11 of the Previous Report, concluding that I did not consider the loss to be material given the remote likelihood of policyholders requiring its protection and the need for Aviva to take action to mitigate the high likelihood that UKLAP would be unable to service policies legally after Brexit.

6.3.3 A small number of these policyholders considered that the loss of FSCS protection constituted a breach of policy terms and conditions. While FSCS is often included within sales literature, it is protection provided by an external body and did not form part of policy terms and conditions.

6.4 Concern about transfer to an Irish Company

6.4.1 18 policyholders have raised objections relating to concerns about transferring to an Irish company.

6.4.2 I covered items relating to the strength and security of ALPI DAC throughout the Previous Report. ALPI DAC will be subject to Irish regulation, which is part of the same EU wide Solvency II regulatory regime that currently applies in the UK. In addition, ALPI DAC, as a subsidiary of UKLAP, will be subject to Aviva standards and controls, will be sufficiently capitalised and is subject to a strong and robust Solvency Risk Appetite. Accordingly, my view remains that the long-term security of policyholder benefits, and fair treatment of policyholders, will not be adversely affected by the transfer to ALPI DAC. In the Previous Report (Section 6.9), I considered areas of Irish regulation relating to with-profits protections that were not as strong as those in the UK and how UKLAP has ensured that these safeguards will be maintained after the transfer.

6.5 Concern about security of benefits

6.5.1 35 policyholders raised concerns about the security of their benefits, with many focusing on the long-term nature of their products.

6.5.2 I covered this issue at length in Section 7 of the Previous Report. I remain satisfied that ALPI DAC will be sufficiently capitalised under the Scheme and that the Solvency II regime, which applies to ALPI DAC as well as UKLAP, and the Aviva Risk Appetite Framework, in particular the Solvency Risk Appetite, mean that ALPI DAC will continue to provide a high level of security for policyholder benefits.

6.6 Pre-empting Brexit Negotiations

6.6.1 6 policyholders have raised objections relating to concerns about proceeding with the transfer before the final Brexit outcomes are known.

6.6.2 As described in Section 3 of the Previous Report, there is a substantial risk that, upon or shortly following Brexit, UKLAP will lose its passporting rights under the single market directives to carry out Long-Term Insurance Business in other non-UK EEA States on a Freedom of Services ("FoS") and Freedom of Establishment ("FoE") basis.

6.6.3 The Scheme is therefore key to providing certainty for customers and mitigating the risk that UKLAP would be unable to legally service the affected policies.

6.6.4 The objections raised and the latest information on the Brexit negotiations, as outlined in Section 5 of this report, do not change my conclusions that the Scheme is necessary to provide certainty to policyholders.

6.7 Concern about the Independent Expert

6.7.1 3 policyholders have raised objections relating to the Independent Expert, such as challenging his independence, and experience.

6.7.2 I have no concerns over the appointment of the Independent Expert, which was approved by the FCA and PRA. I have no concerns over his independence or experience and note his response to these objections in Section 5.47 of his Supplementary Report.

6.8 Other objections

6.8.1 A small number of other objections have been made by policyholders. I am satisfied that they do not alter the conclusions set out in the Previous Report or in this Supplementary Report.

6.9 Conclusion

6.9.1 The objections received as a result of the policyholder communications exercise do not give me any reason to change the conclusions from my Previous Report. I will continue to consider any objections received up to the Sanctions Hearing.

7 Conclusions

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

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

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

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

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

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

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

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.

Board	The board of directors of the relevant company from time to time.
CBI	Central Bank of Ireland, the regulator of the financial service industry in Ireland.
CFA	Chief Finance Actuary. The Chief Finance Actuary provides advice to the management and Board of UKLAP on the financial management of its business, and in particular the management of its solvency position.
CRA	Chief Risk Actuary. The Chief Actuary function (SIMF20) is the function having responsibility for advising the Board on the reliability and accuracy of the technical provisions, including the appropriateness of the data, methodology, models and assumptions used.
Effective Time	The Effective Time, 22.59 (GMT) on 29 March 2019, is the time and date on which, subject to the consent of the Court, the Scheme will take effect.
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firms, including the fairness of treatment of customers.
FLAS WPSF	FLAS With-Profits Sub-Fund, a sub-fund of UKLAP
FP WPSF	FP With-Profits Sub-Fund, a sub-fund of UKLAP
FSCS	Financial Services Compensation Scheme. FSCS is a statutory "fund of last resort" which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA.
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.
Irish Policies	This relates to the policies held within the Non-Profit Sub-Fund of UKLAP that are allocated to the Irish Non-Profit Sub Fund account and to policies held within the Irish With-Profits Sub Fund. (See Section 2.3.2 of the Previous Report for more detail).
NWPSF	New With-Profits Sub-Fund, a sub-fund of UKLAP
Other non-EEA policies	This relates to all other in scope business that is not included under the Irish policies' definition.
Own Funds	Amount of capital that is eligible to cover the regulatory capital requirements
OWPSF	Old With-Profits Sub-Fund, a sub-fund of UKLAP

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 Capital Requirement (SCR)	The capital an entity is required to hold under Solvency II Pillar 1.
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.