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

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Head of Actuarial Function

30 January 2019

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1 Executive Summary

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

This report should be read in conjunction with my original report entitled "Report to the Directors of Friends First Life Assurance Company Designated Activity Company from the Head of Actuarial Function on the Proposed Transfer of European Economic Area Non-UK Life Assurance Business of Aviva Life & Pensions UK Limited to Friends First Life Assurance Company" (the "Previous Report"), dated 10 September 2018, as made public and submitted to the UK courts at the Directions Hearing held on 16 October 2018.

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

In preparing this supplementary report I have considered relevant events, experience, and developments in the business of FFLAC since completing the Previous Report and their effect on the conclusions set out in that report. In particular, I have considered the financial position of FFLAC as at 30 June 2018 and the impact on that position of market and other changes since then.

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

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

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

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

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

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

- Exercise my judgement in a reasoned and justifiable manner;
- Describe and assess the impact on all classes of policyholders;
- Indicate how the Scheme might lead to any changes in the material risks to the benefits of different classes of beneficiaries;
- Indicate the rationale for the proposal for the Scheme to proceed;
- Include (in summary) the most material information on which my opinion is based; and
- Describe the rationale for my opinion.

Richard O'Sullivan FSAI

Head of Actuarial Function

30 January 2019

2 Introduction

2.1 Purpose of the report

2.1.1 The purpose of this report is to consider whether events and 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 or fair treatment of FFLAC policyholders and transferring UKLAP policyholders. This report should be read in conjunction with the Previous Report.

2.1.2 This report covers the following main areas:

- Developments affecting the Scheme;
- Financial impacts of changes since the Previous Report; and
- Policyholder communication 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 FFLAC policyholders and of UKLAP policyholders, both remaining and transferring. This is in addition to the original report from the Independent Expert. The Independent Expert's supplementary 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 Chief Finance Actuary ('CFA") of UKLAP (in addition to the original report from the CFA) addressed to the Board of UKLAP on the effect of the transfer on the existing policyholders of UKLAP and the UKLAP policyholders transferring into FFLAC under the Scheme.

2.1.5 A separate supplementary report has been prepared by the With Profits Actuary ("WPA") of UKLAP (in addition to the original report from the WPA) and considers the equivalent considerations in respect of the with-profits business in UKLAP.

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

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

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

2.2 Compliance with Actuarial Standards

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

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

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

2.2.4 In addition, under the Quality Assurance provisions of ASP PA-2, this report has been reviewed by Mr Kevin Manning FSAI of Milliman who has been engaged to perform an independent peer review. My Previous Report was also peer reviewed by Mr Kevin Manning.

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

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

3 Developments affecting the Scheme

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 FFLAC ("Other Business Fund").
- With-profits 'Irish' policies in the existing with-profits sub-fund of UKLAP (UKLAP Irish WPSF), into a segregated sub-fund in FFLAC (ALPI WPF);
- 'Other non-UK EEA' policies in the UKLAP NPSF into the Other Business Fund of FFLAC, 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 FFLAC. This generates four new funds, (ALPI New Fund, ALPI Old Fund, ALPI FP Fund and ALPI FLAS Fund). This business will be fully reinsured back into the UKLAP WPSF from which it transferred; and
- 'Other non-UK EEA' policies in the UKLAP Belgian Sub-Fund into a fifth new fund in FFLAC (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. This is considered further in the CFA supplementary report.

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

3.3 Administration of policies

3.3.1 I have been provided with an update on the progress of the integration of FFLAC into Aviva Group, and 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 Date to ensure a smooth transition for policyholder servicing so that there should be no detriment to policyholders.

3.4 Regulatory requirements in relation to transferring policies

3.4.1 I have been provided with an update on the progress, and plans, as regards putting in place activities and oversight to enable FFLAC to comply with its regulatory requirements from the Effective Date in respect of the transferring policies. I am assured that this is progressing satisfactorily.

3.4.2 FFLAC will require passporting rights to carry out insurance business in other EEA States on a Freedom of Services ("FoS") and Freedom of Establishment ("FoE") basis in order to service the transferring policies. It has been confirmed to me that the process to ensure FFLAC has these passporting rights is progressing satisfactorily.

3.5 Regulation of with-profits business in Ireland

3.5.1 As described in my Previous Report, the CBI issued CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II, which related to protections for with-profits policyholders in Ireland. The CBI issued a Feedback

Statement regarding CP122 on 27 November 2018. The proposed changes have largely been adopted, coming into force on 1 January 2020, and will apply to FFLAC.

4 Financial impacts

4.1 Purpose of section

4.1.1 This section provides additional information on the solvency position and risk profile of FFLAC and the impact of the proposed transfer.

4.2 Solvency position

4.2.1 The table below shows the solvency position of FFLAC as at 30 June 2018 and the pro forma solvency position at 30 June 2018 as if the transfer had happened by then.

Solvency II financial position at 30 June 2018

Solvency II position	Actual (€m)	Pro forma post transfer (€m)
Own Funds	246	549
Solvency Capital Requirement	154	366
Surplus Capital	92	183
Solvency Cover Ratio	159%	150%

4.2.2 I have seen a detailed analysis explaining the difference between the two sets of figures and I am satisfied that the approach taken to determining the financial impact analysis is robust.

4.2.3 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. This is well in excess of regulatory capital requirements.

4.2.4 The current estimate for the injection from UKLAP into FFLAC has increased from c£100m to c£136m. As noted above I have seen a detailed analysis explaining the difference between the two sets of figures, including the capital injection estimate, and I am satisfied that the approach taken to determining the financial impact analysis is robust and am satisfied that the change in capital injection does not give rise to any concerns in relation to my assessment of the Scheme. I note that the CFA Reports state that the CFA has no concerns about this increase from an affordability perspective for UKLAP. The amount of the capital injection will be recalculated at the time of the payment, expected to be in late February 2019. In addition, the Scheme includes a true up mechanism to ensure that the FFLAC solvency coverage ratio in respect of the Effective Date is 150%.

4.2.5 As discussed in the Previous Report (and the previous reports of the CFA and WPA), 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.

4.2.6 I have reviewed updated solvency figures for FFLAC. I have also been provided with confidential information covering projected capital positions and updated stress and scenario testing. None of the information provided gives rise to any concerns.

4.3 Conclusion

4.3.1 Overall, I remain satisfied that the Scheme will have no material adverse impact on the benefit security of the existing FFLAC policyholders.

5 Policyholder communication and objections

5.1 Purpose of section

5.1.1 FFLAC informed policyholders about the proposed Scheme primarily through a direct mailing.

5.1.2 This section considers the objections received from FFLAC policyholders.

5.2 Summary of objections

5.2.1 As at 6 January 2019 there has been 1 objection from a FFLAC policyholder. This is regarding investment performance of a unit-linked fund.

5.3 Other objections

5.3.1 I will continue to consider any objections received up to the Sanctions Hearing.

5.4 Conclusion

5.4.1 The objection received through the policyholder communications exercise does not give me any reason to change the conclusions from my Previous Report.

6 Conclusions

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

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

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

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

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

6.1.5 There are no mergers of with-profits funds and all the with-profits funds remain separately maintained. The Scheme has put in place adequate protections for the policyholders transferring from the UK COBS regulatory regime, such that there is no material adverse impact for these policyholders either on transfer or subsequently. There are no changes to any with-profits policyholders' benefit expectations.

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

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

7 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.
Effective Date	The date at which the Scheme becomes legally binding.
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
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.
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.