

Second Supplementary Report

For the proposed transfer of the non-life liabilities of Pearl Assurance Limited to BA (GI) Limited, both companies being part of the Phoenix Group Holdings group of companies

16 March 2012

Deloitte LLP and Mr David Hindley (Independent Expert) have prepared this Second Supplementary Report ("Second Supplementary Report for the proposed transfer of the non-life liabilities of Pearl Assurance Limited to BA (GI) Limited, both companies being part of the Phoenix Group Holdings group of companies " dated 16 March 2012) solely in connection with the proposed Transfer considered in the Transfer Report as required by Section 109 of the Financial Services and Markets Act 2000 ("FSMA 2000")

This Second Supplementary Report is addressed to the English High Court of Justice and Pearl/BAGI/Phoenix Group.

This Second Supplementary Report has been prepared for and only for the Court in accordance with Part VII of FSMA 2000 in connection with the Scheme and for no other purpose. A copy of this Second Supplementary Report will be sent to the FSA and it will also be available to policyholders and other members of the public as required by the relevant applicable legislation.

The responsibilities and liabilities of Deloitte LLP and Mr Hindley are limited to the Court and the Sponsor of the Scheme and exist only in the context of their use of this Second Supplementary Report for the purpose set out above. Deloitte LLP and Mr Hindley will not accept any liability or responsibility in relation to the use of this Second Supplementary Report by the Court or the Sponsor of the Scheme for any other purpose.

Save for any responsibility arising under FSMA 2000 (including all orders, regulations and statutory instruments made or issued thereunder) to any person as, and to the extent there provided, and save for the responsibility that Deloitte LLP have expressly agreed to assume to Pearl/BAGI/Phoenix Group under the terms of engagement in place between them, or have expressly agreed to assume under the terms of this Second Supplementary Report, to the fullest extent permitted by law Deloitte LLP and Mr Hindley do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this Second Supplementary Report.

This Second Supplementary Report must be considered in its entirety, as parts taken in isolation may be misleading.

There are restrictions on the use that may be made of this Second Supplementary Report. Those restrictions are set out in Section 2.5 of the Transfer Report

Prepared by
David Hindley FIA, Independent Expert

Deloitte LLP
Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom
Telephone 020 7936 3000 Fax 020 7583 1198

Web site: www.deloitte.co.uk

Audit . Tax . Consulting . Corporate Finance .

Member of
Deloitte Touche Tohmatsu

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

Contents

1	Introduction	3
2	Expert Opinion	5
3	Data.....	6
4	Movements in Claims and Liabilities between 30 June 2011 and 31 December 2011	8
5	Changes in the Level of Financial Security	10
6	Capital Policies and Financial-Support Arrangements.....	13
7	Current Volatility of Capital Markets and Exposure to Sovereign Debt	15
8	Other Transactions and Group Plans	17
9	Other Considerations	18

1 Introduction

1.1 Appointment of Independent Expert

I, David Hindley, have been appointed by Pearl Assurance Limited (“Pearl”) and BA (GI) Limited (“BAGI”), both companies being part of the Phoenix Group Holdings group of companies (“Phoenix Group”), to act as the Independent Expert for the proposed transfer described in the report (“Transfer Report for the proposed transfer of the non-life liabilities of Pearl Assurance Limited to BA (GI) Limited, both companies being part of the Phoenix Group Holdings group of companies”) dated 2 December 2011 (the “Transfer Report”).

I confirm that I fully understand my role as the Independent Expert, as described in SUP 18 and as required by Section 109 of FSMA 2000, as well as my overriding duty to the Court as specified by Part 35 of the Civil Procedure Rules.

In my First Supplementary Report, dated 2 December 2011, I provided an update of my opinion based on data and information as at 30 June 2011. I also considered the impact that the volatility in the Capital Markets in 2011 had on the conclusions in the Transfer Report.

The purpose of this Second Supplementary Report is to consider the impact of any developments since the Transfer Report and my First Supplementary Report on the conclusions in the Transfer Report. I have considered the following matters as part of this work (these items are discussed in turn in the relevant Sections of this Second Supplementary Report as indicated):

- Movements in the paid and incurred claims and estimated liabilities between 30 June 2011 and 31 December 2011 (Section 4);
- Any changes in the level of financial security that the Affected Policyholders will benefit from pre and post-Transfer (Section 5);
- Any changes to the existing Capital Policies and financial-support arrangements (Section 6);
- The volatility in the Capital Markets including the impact on the proposed Transfer of any potential exposure to Sovereign Debt issued by the affected Eurozone countries (Section 7);
- Any other transactions that have taken place in the Phoenix Group and any changes to the proposed future transactions and/or Group plans (Section 8); and
- An update in relation to other matters that I considered in the Transfer Report (Section 9).

This Second Supplementary Report should be read in conjunction with the Transfer Report and my First Supplementary Report.

The Board of Actuarial Standards has issued standards that apply to certain types of actuarial work. I have prepared this Second Supplementary Report, together with the Transfer Report, with the intention that they should meet the requirements of the Insurance Technical Actuarial Standard, Technical Actuarial Standard D:Data, Technical Actuarial Standard M:Modelling, Technical Actuarial Standard R:Reporting and the Transformations Technical Actuarial Standard. I believe that they do.

In Section 2 I restate my expert opinion given in the Transfer Report.

1 Introduction

Capitalised terms not defined in this Second Supplementary Report have the meaning given to them in the Transfer Report.

1.2 Scope of Work

My scope is to produce a report on the impact of the proposed Transfer from the perspective of the Affected Policyholders, namely:

- the Transferring Policyholders (that is all current non-life policyholders of Pearl);
- the Receiving Policyholders (that is all current policyholders of BAGI); and
- the Remaining life assurance Policyholders of Pearl, that are not subject to the proposed Transfer.

Nothing in this Second Supplementary Report or in the Transfer Report dated 2 December 2011 or my First Supplementary Report dated 2 December 2011 should be regarded as providing a legal opinion on the effectiveness of the proposed Transfer.

Draft versions of this report must not be relied upon by any person for any purpose. No reliance should be placed on any advice not given in writing. If reliance is placed contrary to the guidance set out above, Deloitte LLP disclaims any and all liability which may arise.

This Second Supplementary Report is subject to the same restrictions on distribution and use as stated in Section 2.5 of the Transfer Report.

2 Expert Opinion

2.1 Confirmation of Opinion

I confirm my view that the proposed Transfer is unlikely to have a materially adverse impact on any of the Affected Policyholders, both in terms of their financial security and in relation to the way in which their policies and claims are managed and administered. In Section 2.7 of the Transfer Report I explain my intended meaning of the phrase “unlikely to have a material adverse impact”.

The above conclusion is made relative to the Affected Policyholders’ position prior to the proposed Transfer, using data and information as at 31 December 2011. In this Second Supplementary Report, I also comment on any known material developments between 31 December 2011 and the date of this Second Supplementary Report (16 March 2012). Should there be any material developments between the date of this Second Supplementary Report and the anticipated Effective Date of the proposed Transfer of 31 March 2012, I may need to revisit my conclusions in a further Supplementary Report.

2.2 Expert’s Declaration

I confirm that I fully understand my overriding duty to the English High Court of Justice and that I must help the English High Court of Justice on matters within my expertise. I believe that I have complied, and will continue to comply, with this duty.

I confirm that insofar as the facts stated in the Transfer Report, my First Supplementary Report and my Second Supplementary Report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.



David Hindley FIA

16 March 2012

3 Data

3.1 Introduction

This Section lists the items of information that I have received and reviewed, following requests to the Parties, in order to prepare this Second Supplementary Report.

I have relied on the accuracy of the data and information provided by staff employed by the Parties both in writing and orally in meetings. I have considered, and am satisfied with, the reasonableness of this information from my own experience in the insurance industry. I am satisfied that the information provided to me by the Parties has been sufficient for the purpose for which it has been used. The user of this Report is relying on the Parties, not me or Deloitte, for data quality and it should be noted that any misrepresentation in the data could affect the conclusions I have drawn in this Report.

3.2 Pearl Data

I received the following information in relation to Pearl:

- Details of the undiscounted and discounted non-life held reserves as at 30 September 2011 and 31 December 2011, gross and net of outwards reinsurance.
 - A letter containing Pearl's external actuarial advisors' best estimate and 97.5th percentile estimate liabilities for each of the underlying non-life portfolios of business as at 30 September 2011, gross and net of outwards reinsurance.
 - External actuarial reports covering a number of the underlying non-life portfolios of business.
 - Pearl's working file of its provisional Individual Capital Assessment calculation for the non-life policyholders of Pearl as at 31 December 2011.
 - Details of the life held reserves as at 31 December 2011, gross and net of outwards reinsurance.
 - Provisional proforma financial schedules as at 31 December 2011 indicating the capital requirements and capital resources, and the ratio of these items, for the various policyholder groups of Pearl, both pre and post Transfer. These were provided on both a Pillar I and Pillar II basis.
 - Spreadsheets containing more detailed reserve information relating to some of the Pearl non-life portfolios for which I have carried out sensitivity tests.
 - An internal memorandum on Pearl's Capital Policy dated 4 October 2011.
 - A letter from the FSA dated 19 December 2011 about the Individual Capital Assessment Review for Phoenix Life.
-

3 Data

3.3 BAGI Data

I received the following information in relation to BAGI:

- A summary of BAGI's claims position as at 31 December 2011.
 - A copy of "BA (GI) Limited: Individual Capital Assessment Results – 31 December 2010" dated 19 December 2011.
 - A signed letter to the FSA, dated 31 October 2011, referring to BAGI's proposed Capital Policy post-Transfer.
 - A draft letter from Pearl Life Holdings Limited to BA (GI) Limited referring to the financial-support arrangement which it is proposed will be put in place for BAGI post-Transfer.
-

3.4 Other Data

I received the following other information:

- "Directors' Report and Financial Statements for the year ended 31 December 2010" for Pearl Life Holdings Limited.
- "Draft Financial Statements for the year ended 31 December 2011" for Pearl Life Holdings Limited.
- A summary of policyholder enquiries received in relation to proposed Transfer.

In addition, I have been provided with details of the proposed amount on the Balance Sheet of Pearl to be transferred to BAGI.

I have also relied on other information provided to me through discussions with staff at Pearl and BAGI, and their respective professional advisers.

3.5 Data Checks

I have carried out checks on the accuracy, relevance and completeness of appropriate data items, as I deemed necessary for the purpose of this Second Supplementary Report.

4 Movements in Claims and Liabilities between 30 June 2011 and 31 December 2011

4.1 Transferring Policyholders

In my First Supplementary Report, for the Transferring Policyholders, I considered the information provided to me by Pearl in relation to both the non-life held reserves as at 30 June 2011 and the non-life claims paid during the period between 31 December 2010 and 30 June 2011.

For the purposes of this Second Supplementary Report, for the Transferring Policyholders I have reviewed the information provided to me by Pearl in relation to both the non-life held reserves as at 31 December 2011 and the non-life claims paid and incurred during the period between 30 June 2011 and 31 December 2011.

Pearl has provided a breakdown of these amounts by portfolio within the non-life business and has also provided explanations for the more material movements (at a portfolio level). In addition, I have also reviewed a number of external actuarial reports on the reserves of the Transferring Policyholders which have been prepared since my First Supplementary Report. Overall, there have been minimal changes in the gross and net reserves between 30 June 2011 and 31 December 2011, with immaterial claims paid during the period.

I am satisfied that Pearl's explanations for the movements appear reasonable and do not alter my conclusions relating to the Transferring Policyholders.

4.2 Receiving Policyholders

In my First Supplementary Report, for the Receiving Policyholders, I considered the information provided to me by Pearl in relation to both the held reserves as at 30 June 2011 and the movements in the held reserves from 31 December 2010 to 30 June 2011.

Pearl has provided an update of the position in respect of the Receiving Policyholders. The number of Receiving Policyholders with outstanding claims has reduced from two to one between 30 June 2011 and 31 December 2011. The corresponding total gross technical provisions, including an allowance for IBNR claims and claims handling expenses, has decreased from £1.9m to £1.7m between 30 June 2011 and 31 December 2011. The claims paid between 30 June 2011 and 31 December 2011 were £0.1m.

Pearl has provided explanations for these movements and I am satisfied that the explanations appear reasonable and do not alter my conclusions relating to the Receiving Policyholders.

4.3 Remaining Policyholders

I have received an update of the held reserves for the Remaining Policyholders as at 31 December 2011. Given the relative sizes of the reserves for the Remaining Policyholders,

4 Movements in Claims and Liabilities between 30 June 2011 and 31 December 2011

and the reserves for the Transferring Policyholders, the change in reserves does not have a significant bearing on the financial impact of the proposed Transfer on the Remaining Policyholders.

In addition, in Section 5.4 I discuss any changes in the level of financial security that the Remaining Policyholders will benefit from pre and post-Transfer.

4.4 Conclusion

Overall, I am satisfied that there are no material issues arising from the updated data and information discussed above that are likely to have any impact on the analyses underlying my opinion.

5 Changes in the Level of Financial Security

5.1 Introduction

In the Transfer Report, I compared the level of financial security that the Affected Policyholders will benefit from post-Transfer to that which they currently benefit from pre-Transfer.

In considering the potential financial impact of the proposed Transfer on each category of the Affected Policyholders in turn, I made use of the following ratios:

1. A Pillar I Capital Ratio, defined as the ratio of Net Assets to Pillar I Capital Requirements; and
2. A Pillar II Capital Ratio, defined as the ratio of Net Assets to ICA.

As described in the Transfer Report, I reviewed Pearl's calculations for these ratios on a pre and post-Transfer basis and applied various sensitivity tests, as I deemed appropriate.

The calculations provided to me by Pearl for the purpose of the Transfer Report were carried out as at 31 December 2010. Pearl have provided me with a provisional update of these calculations as at 31 December 2011. These calculations are provisional because, at the time of writing, Pearl has not yet finalised and published its financial results for the year ending 31 December 2011. As these calculations include amounts which are not currently in the public domain, it would not be appropriate for me to quote any of these numbers or ratios in this Second Supplementary Report.

I understand that the information provided to me by Pearl in respect of the Remaining Policyholders makes use of its solvency management information, which is monitored on a daily basis. Although Pearl's actual published financial results for the year ending 31 December 2011 may differ from the figures provided to me, because of the presence of the Pearl Capital Policy as described in Section 5.13.1 of the Transfer Report, the impact of any difference between the provisional figures and the actual published figures on the resulting Capital Ratios is unlikely to be material to my opinion regarding the proposed Transfer.

I have reviewed Pearl's updated provisional calculations for the above two ratios on a pre- and post-Transfer basis and applied various sensitivity tests, as I deemed appropriate. I am satisfied that Pearl's calculations are suitable for the purposes of my Second Supplementary Report. In general terms, in line with the approach taken in the Transfer Report, I have placed more weight on the results of the calculations on a Pillar II basis, as I regard this as a more appropriate approach as it is "risk-based", unlike Pillar I.

As discussed in Section 5.4, Pearl has also provided me with additional solvency management information as at 1 March 2012 in relation to the Remaining Policyholders.

My conclusions in this Section are made relative to the Affected Policyholders' position prior to the proposed Transfer using provisional data and information as at 31 December 2011, together with the updated solvency management information as at 1 March 2012 in relation to the Remaining Policyholders. Should there be any material developments up

5 Changes in the Level of Financial Security

until the anticipated Effective Date of the proposed Transfer of 31 March 2012, I may need to revisit my conclusions.

5.2 Transferring Policyholders

I have reviewed the updated provisional calculations as at 31 December 2011 which show the impact of the proposed Transfer on the financial security of the Transferring Policyholders, both on a Pillar I and a Pillar II basis. These calculations do not alter my conclusions in the Transfer Report relating to the Transferring Policyholders. In considering the financial impact of the proposed Transfer on the Transferring Policyholders, in line with the approach taken in the Transfer Report, I considered the relevant subdivision of Pearl policyholders which the Transferring Policyholders effectively share the same security with prior to the proposed Transfer.

In addition, the results of the sensitivity tests I have carried out do not alter my conclusions in the Transfer Report.

5.3 Receiving Policyholders

I have reviewed the updated provisional calculations as at 31 December 2011 which show the impact of the proposed Transfer on the financial security of the Receiving Policyholders, both on a Pillar I and a Pillar II basis. These calculations do not alter my conclusions in the Transfer Report relating to the Receiving Policyholders.

In addition, the results of the sensitivity tests I have carried out do not alter my conclusions in the Transfer Report.

5.4 Remaining Policyholders

I have reviewed the updated provisional calculations as at 31 December 2011 which show the impact of the proposed Transfer on the financial security of the Remaining Policyholders, both on a Pillar I and a Pillar II basis. I have also been provided with:

- additional solvency management information as at 1 March 2012 in relation to the Remaining Policyholders; and
- information regarding the operation of the Pearl Capital Policy.

When reviewing the effect of the provisional calculations and the above information on my conclusions regarding the impact of the proposed Transfer on the Remaining Policyholders, I have also taken into account the fact that:

- the assets and liabilities being transferred are very small in relation to the assets and liabilities associated with the Remaining Policyholders; and

5 Changes in the Level of Financial Security

- the Pearl Capital Policy effectively provides a buffer on top of the regulatory capital requirements.

This review does not alter my conclusions in the Transfer Report relating to the Remaining Policyholders. In considering the financial impact of the proposed Transfer on the Remaining Policyholders, in line with the approach taken in the Transfer Report, I have once again separately considered each of the three subsets of policyholders that constitute the Remaining Policyholders as described in Section 8.1 of the Transfer Report.

In addition, the results of the sensitivity tests I have carried out do not alter my conclusions in the Transfer Report.

5.5 Conclusion

Overall, I am satisfied that there are no material issues arising from the updated calculations discussed above that are likely to have any impact on the analyses underlying my opinion and my conclusions in the Transfer Report are therefore unchanged.

6 Capital Policies and Financial-Support Arrangements

6.1 Pearl Capital Policy

In Section 5.13.1 of the Transfer Report, I referred to the Pearl Capital Policy which Pearl has agreed with the FSA. I understand that since the preparation of the Transfer Report, Pearl's board has approved a change to the Pearl Capital Policy for which Pearl are currently awaiting approval from the FSA. This revised Pearl Capital Policy is more prudent in the sense that it requires a higher level of capital to be maintained in Pearl than the last Pearl Capital Policy to be approved by the FSA (and on which the Capital Ratio calculations detailed in the Transfer Report were based). Consequently the updated provisional calculations provided to me by Pearl as at 31 December 2011 which are discussed in Section 5 of this Second Supplementary Report have been based on the revised Pearl Capital Policy which is awaiting approval by the FSA. I am satisfied that this is a sensible approach and that Pearl's updated provisional calculations are therefore suitable for the purposes of my Second Supplementary Report.

Given that the revised Pearl Capital Policy is currently awaiting approval from the FSA, I have considered whether my conclusions set out in this report would change if the most recent capital policy approved by the FSA were to apply, and am satisfied that they would not.

6.2 BAGI Capital Policy

In Section 5.13.2 of the Transfer Report, I referred to the BAGI Capital Policy which BAGI was in the process of agreeing with the FSA. Since preparing the Transfer Report I understand that this Capital Policy has been submitted to the FSA and that the letter sent to the FSA setting out the BAGI Capital Policy is almost identical to the draft letter referred to in the Transfer Report, with only very minor differences in wording.

The BAGI Capital Policy seeks to ensure that an appropriate level of capital is retained within BAGI. This is achieved through the use of a minimum Pillar II capital ratio of 130% of the prevailing ICA. The Phoenix Group consider it appropriate to monitor the level of capital required in BAGI by reviewing the ICA as at June and December each year, supported by quarterly appraisals of the investments and the held technical reserves. In line with the FSA's requirements, the ICA will also be updated promptly between these dates, if there are any material changes in the risks to which BAGI is exposed. The Phoenix Group have confirmed that they will make use of appropriate expert input when carrying out the necessary tests to monitor the level of the capital ratio. They also propose reviewing all key assumptions to allow for any changes in market conditions over time, as well as any other updates to information which could affect the analysis.

The above approach will help ensure that the level of capital retained within BAGI is at least as great as 130% of the latest ICA, thus reflecting an up to date position of the risks to which BAGI is exposed. I believe this approach is an appropriate mechanism for ensuring a suitable level of capital is retained within BAGI post-Transfer.

6 Capital Policies and Financial-Support Arrangements

6.3 Pearl Life Holdings Limited Financial-Support Arrangement

At the time of writing this Second Supplementary Report, BAGI is in the process of agreeing a financial-support arrangement with its parent company Pearl Life Holdings Limited (“PeLHL”). I have been provided with a draft letter from PeLHL to the Directors of BAGI which sets out details of the proposed financial-support arrangement.

The aim of the arrangement is to provide financial support so that BAGI can meet its capital policy at all times following the proposed Transfer. The financial support under this arrangement is capped at a maximum value of £20 million and will be reviewed in consultation with the FSA two years after the Effective Date.

The maximum value of the financial support offered as part of the proposed arrangement represents a very small proportion of each of the Net Assets and the Current Assets of PeLHL, based on the provisional Financial Statements for PeLHL provided to me for the year ending 31 December 2011.

In addition, I have been informed that the proposed financial-support arrangement represents an unsecured obligation, which ranks alongside all PeLHL’s other obligations. PeLHL has no secured creditors.

I was informed of the specific details of this proposed arrangement after I issued the Transfer Report and my First Supplementary Report. I was able to reach my conclusions in the Transfer Report without the presence of this financial-support arrangement. Because this arrangement provides a clear source of funds to support the BAGI Capital Policy, it is clearly of benefit to both the Transferring Policyholders and the Receiving Policyholders after the proposed Transfer. Its existence therefore reinforces my conclusions in the Transfer Report relating to these two groups of policyholders.

In addition, as the maximum value of the financial support is very small in relation to the Remaining Policyholders’ liabilities, it does not alter my conclusions in the Transfer Report in relation to the impact of the proposed Transfer on the Remaining Policyholders.

Finally, I would add that this financial-support arrangement is separate from the cash buffers referred to in Section 5.7 of the Transfer Report. As noted in that section of the Transfer Report, I determined that those cash buffers were not relevant to my conclusions, and that remains the case.

6.4 Conclusion

Overall, I am satisfied that the above changes to the existing Capital Policies and financial-support arrangements do not change my opinion given in the Transfer Report.

7 Current Volatility of Capital Markets and Exposure to Sovereign Debt

7.1 Introduction

In my First Supplementary Report, I considered whether the volatility in the Capital Markets during 2011 had any impact on the conclusions in the Transfer Report. I deemed it necessary to consider this as my conclusions in the Transfer Report were based largely on analysis of data as at 31 December 2010, and since then it has been apparent that global economic conditions remain highly uncertain.

In this Section, I have considered whether the volatility in the Capital Markets since preparing my First Supplementary Report has any impact on the conclusions in the Transfer Report. I refer to the above items collectively as the “Capital Markets Volatility Effect”.

In addition, I have considered the impact of the potential exposure to Sovereign Debt issued by the affected Eurozone countries on the conclusions in the Transfer Report.

7.2 Remaining Policyholders

Clearly, as the Remaining Policyholders are life policyholders, the Capital Markets Volatility Effect could have a material financial impact on Pearl. However, since the proposed Transfer itself involves the removal of the non-life policyholders from Pearl, whose liabilities are very small relative to the Remaining Policyholders’ liabilities, I consider that the proposed Transfer itself does not change the impact of the Capital Markets Volatility Effect on the Remaining Policyholders. Therefore, I do not consider that the Capital Markets Volatility Effect has any effect on my conclusions regarding the impact of the proposed Transfer on the Remaining Policyholders.

7.3 Transferring and Receiving Policyholders

In theory, the Capital Markets Volatility Effect could cause the market risk component of BAGI’s ICA post-Transfer to change, thus impacting the security of BAGI post-Transfer.

I have received an updated provisional ICA calculation as at 31 December 2011 for the Transferring Policyholders. This indicates that the market risk component is lower than it was as at 31 December 2010.

In addition, I note that the contribution of the market risk component to Pearl’s provisional non-life ICA calculation as at 31 December 2011 was approximately 5% of the ICA (prior to any allowance for diversification between risk types). I would regard this as a suitable proxy for the contribution of market risk to BAGI’s ICA Post-Transfer. Therefore, I consider that the use of a capital policy of 130% of ICA in BAGI post-Transfer provides an effective buffer against changes in the ICA caused by factors such as the Capital Markets Volatility Effect.

7 Current Volatility of Capital Markets and Exposure to Sovereign Debt

7.4 Exposure to Sovereign Debt Issued by Affected Eurozone Countries

As a result of recent economic developments in the Eurozone, in particular relating to the level of security associated with investments in Sovereign Debt, I am aware that the Phoenix Group has formed a Eurozone Crisis Committee. I have had discussions with Pearl and understand that Pearl is currently assessing its exposure to Sovereign Debt issued by the affected Eurozone countries. I have set out below a summary of the impact of this issue on each group of the Affected Policyholders:

- **The Receiving Policyholders:** I understand that there is no exposure to Sovereign Debt in the affected Eurozone countries in either BAGI's current assets or in the assets that are to be transferred from Pearl to BAGI in connection with the proposed Transfer. This issue therefore does not alter my conclusions in the Transfer Report relating to Receiving Policyholders;
- **The Transferring Policyholders:** I understand that there may potentially be some exposure to Sovereign Debt issued by the affected Eurozone countries within the current assets of Pearl. However, as discussed above, there is no exposure to Sovereign Debt in the affected Eurozone countries in either BAGI's current assets or in the assets that are to be transferred from Pearl to BAGI in connection with the proposed Transfer. The proposed Transfer will therefore remove any potential exposure that the Transferring Policyholders may have to Sovereign Debt in the affected Eurozone countries. This issue therefore does not alter my conclusions in the Transfer Report relating to Receiving Policyholders; and
- **The Remaining Policyholders:** The assets that are to be transferred from Pearl to BAGI in connection with the proposed Transfer are small in relation to the total assets of Pearl. Consequently, the proposed Transfer will have minimal impact on any potential exposure that the Remaining Policyholders may have to Sovereign Debt in the affected Eurozone countries. This issue therefore does not alter my conclusions in the Transfer Report relating to Remaining Policyholders.

7.5 Conclusion

Overall, I am satisfied that the Capital Markets Volatility Effect and the potential exposure to Sovereign Debt in the affected Eurozone countries do not change my opinion given in the Transfer Report.

8 Other Transactions and Group Plans

8.1 Other Transactions and Group Plans

In Section 5.11 of the Transfer Report I referred to a life Part VII transfer elsewhere within the Phoenix Group between companies that are not affected by the proposed Transfer considered in this Second Supplementary Report, which is still currently proposed to have an effective date prior to the Effective Date of the proposed Transfer considered in this Second Supplementary Report. I understand that this transfer has not yet taken place. However, since this transfer does not affect the companies involved in the proposed Transfer considered in this Second Supplementary Report, I do not believe that it changes my opinion given in the Transfer Report.

In Section 5.11 of the Transfer Report, I also referred to another potential life Part VII transfer. I understand that this transfer is progressing and involves the proposed transfer of life business to Pearl. However, I understand that if this transfer goes ahead, it will have an effective date after the Effective Date of the proposed Transfer considered in this Second Supplementary Report. Accordingly, I do not believe that it changes my opinion given in the Transfer Report.

Similarly, in Section 5.11 of the Transfer Report I referred to a future non-life Part VII transfer involving a company in the Phoenix Group that is not affected by the proposed Transfer considered in this Second Supplementary Report, which was also likely to have an effective date before the Effective Date of the proposed Transfer considered in this Second Supplementary Report. I understand that this transfer has now taken place and became effective on 1 January 2012. Since this transfer did not affect the companies involved in the proposed Transfer considered in this Second Supplementary Report, I do not believe that it changes my opinion given in the Transfer Report.

Furthermore, Pearl has advised me that there have been no other transactions that have taken place in the Phoenix Group since the date of my First Supplementary Report. Moreover, Pearl has also confirmed that there have been no changes to any proposed future transactions and/or Group plans which Pearl have committed to since the date of my First Supplementary Report.

8.2 Conclusion

Overall, I am satisfied that there have been no transactions that have taken place in the Phoenix Group or any changes to the proposed future transactions and/or Group plans which change my opinion given in the Transfer Report.

9 Other Considerations

9.1 Policyholder enquiries and objections

Following implementation of the policyholder communication process, as outlined in Section 5.16 of the Transfer Report, I understand that there have been a number of enquiries received from policyholders, but that none of these were objections to the proposed Transfer. I have reviewed the nature of these enquiries and am satisfied that they have no impact on my consideration of the proposed Transfer.

9.2 ILU Guarantees

In paragraph 5.8 of the Transfer Report, I referred to the existence of certain ILU Guarantees. I noted in that section that Pearl intended to ask the ILU to agree to the guarantee being transferred, as part of the proposed Transfer. Pearl have advised me that, as part of the application to the Court, they have taken steps to ensure that the guarantee does transfer. I am satisfied therefore that this matter does not alter my conclusions regarding the proposed Transfer.

9.3 Other Considerations

I made reference to various other considerations in the Transfer Report. Where, I have not commented explicitly on these matters in this Second Supplementary Report, I am not aware of any developments which will affect my opinion given in the Transfer Report. These other considerations include the following:

- The changes being brought about by the forthcoming Solvency II regulations and the Phoenix Group's Solvency II readiness programme;
 - Pearl and BAGI's proposed approach for notifying the Affected Policyholders of the proposed Transfer;
 - The arrangements for Pearl and BAGI's administration of policies and claims following the proposed Transfer;
 - The structure of The Phoenix Group, except where I have commented specifically on transactions in Section 8 of this Second Supplementary Report;
 - The Chain of Security, except where I have commented specifically on the capital policies and financial-support arrangements in Section 6 of this Second Supplementary Report;
 - Any Individual Capital Guidance provided to the Phoenix Group by the FSA;
 - Any tax implications associated with the proposed Transfer; and
 - The transaction relating to Pearl's Canadian Branch.
-