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**Supplemental Report of the Independent Expert on
the proposed Scheme to transfer the entire business
of Abbey Life Assurance Company Limited to
Phoenix Life Limited**

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1 Introduction

Purpose of the Report

- 1.1 I prepared a previous report dated 12 July 2018 ("Report"), in my capacity as Independent Expert, in which I considered the impact of the proposed Scheme to transfer the entire business of Abbey Life Assurance Company Limited ("Abbey Life") to Phoenix Life Limited ("Phoenix") on policyholders and other affected parties.
- 1.2 The purpose of this report ("Supplemental Report") is to provide the Court with an updated assessment of the likely effect of the proposed Scheme (including the Jersey and Guernsey Schemes) and to consider whether or not the conclusions reached in my Report remain unchanged after taking into account the most recent financial information for Abbey Life and Phoenix that has been made available to me. I have also taken into account any other significant relevant developments since 12 July 2018, including any objections received from policyholders in relation to the proposed Scheme.
- 1.3 The Prudential Regulatory Authority ("PRA") has approved my appointment as Independent Expert, after consultation with the Financial Conduct Authority ("FCA").
- 1.4 Details of the scope of my appointment, my qualifications, limitations and reliances are contained in the Report. The additional information that I have relied on in preparing this Supplemental Report is set out in Appendix A.
- 1.5 My independence has remained unchanged since the preparation of the Report.
- 1.6 This Supplemental Report should be read in conjunction with the Report. For the avoidance of doubt, any terms used in this Supplemental Report have been defined in Appendix B. Unless otherwise defined in this Supplemental Report, all capitalised terms retain the same meaning as in the Report.
- 1.7 The Supplemental Report will be available to the Court and published on both Abbey Life's and Phoenix's website prior to the Court hearing to sanction the Scheme.

Background to the Scheme

- 1.8 Abbey Life and Phoenix are separate insurance companies within the Phoenix Group. Under the Scheme, all the long-term business of Abbey Life will transfer to Phoenix's non-profit fund at the Transfer Date.
- 1.9 The terms of the Scheme include a conversion of the with-profits business within Abbey Life to non-profit at the time of the transfer, allowing the two existing Abbey Life with-profits funds to be closed.
- 1.10 The main motivation for Abbey Life and Phoenix to enter into the Scheme are:
 - improving capital efficiency by increasing the diversity of risks within Phoenix and thus reducing the capital required;
 - both Abbey Life and Phoenix are separate life insurance entities of Phoenix group with similar governance and policies. The Part VII transfer will help in reducing costs of operating the internal reinsurance for Abbey Life policies and running multiple regulated entities within the same Group; and
 - facilitating the Conversion of with-profits policies to non-profit in a manner that is cost effective and that provides increased protection for policyholders.

Regulatory and professional guidance

- 1.11 The Supplemental Report has been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") and the Statement of Policy: The PRA's approach to insurance business transfers. I have also paid regard to the FCA's guidance FG18/4: The FCA's approach to the review of Part VII insurance business transfers.
- 1.12 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this Supplemental Report, with the intention that it, and the work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 (Principles for Technical

Actuarial Work) and TAS 200 (Insurance). I believe that this Supplemental Report and my work underlying it does so in all material respects.

- 1.13 I confirm that I have also complied with the Actuarial Practice Standard X2: Review of actuarial work and considered APS L1: Duties and Responsibilities of Life Assurance Actuaries, issued by the Institute and Faculty of Actuaries.

Duty to the Court

- 1.14 I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the relevant Practice Direction, and the Guidance for the Instruction of Experts in Civil Claims.
- 1.15 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to Abbey Life or Phoenix. I confirm that I have complied with this duty.

Statement of truth

- 1.16 I confirm that I have made clear which facts and matters referred to in this Supplemental Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.17 The Supplemental Report has been peer reviewed by a fellow Actuary at Grant Thornton, Derek Smith who has over 30 years of experience in the insurance industry and specialises in reviewing insurance transactions, including in a peer review capacity.
- 1.18 Finally, Abbey Life and Phoenix have seen my Supplemental Report and each has agreed that it is correct in terms of all factual elements of the transfer.

2 Summary of conclusions

- 2.1 There have been no changes to any of my opinions set out in the Report.
- 2.2 In summary, it is my opinion that the implementation of the proposed Scheme at the Transfer Date will not have a material adverse effect on the security of benefits or the future benefit expectations of policyholders of Abbey Life, or the Current Policyholders of Phoenix.
- 2.3 It is also my opinion that the Scheme will have no material impact on the service standards experienced by the Transferring Policyholders or the Current Policyholders of Phoenix.
- 2.4 In reaching these opinions, I have considered the effect of the Scheme on the Transferring Policyholders, Current Policyholders of Phoenix, and any other party that may be affected. All the current policyholders of Abbey Life are expected to transfer to Phoenix under the Scheme. In particular, I have concluded that:
- there will be no change to the capital policy or the governance of the capital policy for Phoenix and it is still able to meet the requirements of the capital policy post the implementation of the Scheme;
 - there will be no change in the policy terms and conditions of the Transferring Non-profit and Unit-linked Policyholders as a result of the Scheme;
 - the Conversion of the with-profits policies to non-profit is on fair terms and will not adversely impact policyholder's benefit expectations;
 - there will be no material change in the benefit expectations and contractual rights of the Transferring Policyholders as a result of the Scheme;
 - there will be no material effect on the security of the benefits of any Transferring Policyholders as a result of the Scheme;
 - there will be no material impact on the service standards Transferring Policyholders can expect as a result of the Scheme and
 - there will be no material adverse impact on the Current Policyholders of Phoenix as a result of the Scheme.
- 2.5 Further, it is my opinion that the Scheme will have no material impact on any of the current external reinsurers of Abbey Life whose contracts of reinsurance cover the Transferring Policyholders.
- 2.6 I confirm that overall, I am satisfied that the Scheme does not materially adversely impact the policyholders of Abbey Life or Phoenix and I see no reason why the Scheme should not go ahead.

3 Updated financial and non-financial information

Changes to the Scheme

- 3.1 It is my understanding that there have been no changes to the terms of the proposed Scheme subsequent to the publication of the Report.

Changes to external reinsurance arrangements as a result of the Scheme

- 3.2 It is my understanding that there have been no changes to the arrangements under the proposed novation of the external reinsurance arrangements from Abbey Life to Phoenix for Transferring Policyholders.

Update on Tax Approvals

- 3.3 Phoenix has received confirmations from HMRC that there will be no impact to the tax status of life assurance policies and pension schemes as a result of the Scheme.

Developments affecting Abbey Life following the publication of the Report

- 3.4 I have reviewed the key developments since 30 June 2018 that will affect the current and future financial position of Abbey Life. The impact of these developments is not included in the Solvency II results shown in paragraph 3.12 below.
- Valuation Assumptions – Abbey Life has undertaken a reserving and reporting exercise of the valuation of its assets and liabilities as at 30 September 2018. The proposed changes have been approved by the Board and I can confirm that they do not change the solvency position of the company.
 - Review of Capital Policy – In August 2018, the Abbey Life Board reviewed the parameters of its capital policy and decided to make no change to it.
 - Changes in market conditions since 30 June 2018 - The impact of changes in market conditions and run-off of policies since then indicate that the solvency position as at the date of the Supplemental Report is similar to that shown in 3.12 and Abbey Life continues to meet the requirements of its capital policy.
- 3.5 Overall, I am satisfied that the financial impact of these developments does not affect my conclusions.
- 3.6 In November 2018, Abbey Life's Board approved a dividend payment of £200m. The impact of this is included in my financial analysis below.

Developments affecting Phoenix following the publication of the Report

- 3.7 I have reviewed the key developments since 30 June 2018 that will affect the current and future financial position of Phoenix. The impact of these developments is not included in the Solvency II results shown in paragraph 3.17 below.
- Valuation Assumptions - Phoenix has undertaken a reserving and reporting exercise of the valuation of its assets and liabilities as at 30 September 2018. The proposed changes have been approved by the Board and I can confirm that they do not adversely impact the solvency position of the company.
 - Review of Capital Policy parameters –
 - In August 2018, the Phoenix Board reviewed the parameters of its capital policy. I am satisfied that this review has been undertaken to ensure that the capital policy continues to meet its objective of meeting its capital requirements in internally specified stress scenarios which corresponds to a 1-in-10 year all risk event.

- As a result of the review the amount of capital that Phoenix must hold under its capital policy is equal to 29 percent of the SCR (compared to the 31% used in the Report) in addition to the capital necessary to meet the SCR itself. A change in the percentage target level does not mean that there is any change to the objective or strength of the capital policy.
 - Impact of PRA's CP13/18 on Equity Release Mortgages – In October 2018 the PRA announced that they will not introduce any changes resulting from the CP13/18 consultation related to Equity Release Mortgages until at least 31 December 2019. Phoenix has carried out an impact assessment based on its anticipated response to the current proposals and these suggest that the proposals will reduce the Own Funds of Phoenix and increase their SCR. There remains some uncertainty until the PRA concludes its consultation process but based on the results of the impact assessment I am satisfied that Phoenix has sufficient Own Funds to continue to meet its regulatory requirements as well as its capital policy requirements when the proposals are implemented.
 - Matching Adjustment Application – Phoenix intends to make a further matching adjustment application in December 2018 to include Equity Release Mortgages and deferred pensioner buy-ins. If approved, it is expected that the matching adjustment will have no immediate financial impact on the Scheme. In future the impact will lead to an increase in the SCR cover for Phoenix.
 - Internal Model Application – A major model change application will be submitted to the PRA in December 2018. This application intends to address governance and policy changes related to the Internal Model. This application will not have any direct impact on the SCR calculation for Phoenix and its solvency position.
 - Changes in market conditions since 30 June 2018 - The impact of changes in market conditions, new business written and run-off of policies since then indicate that the solvency position as at the date of the Supplemental Report is similar to that shown in 3.17 and Phoenix continues to meet the requirements of its capital policy.
- 3.8 Overall, I am satisfied that the financial impact of these developments does not affect my conclusions.
- 3.9 In November 2018, the Phoenix Board approved a dividend payment of £80m. The impact of this is included in my financial analysis below.

Developments affecting Phoenix Group following the publication of the Report

- 3.10 Standard Life Acquisition – Since the date of my Report, Phoenix Group has confirmed the acquisition of Standard Life Assurance Limited and subsidiary companies (“Standard Life”). I have been informed that there are no plans for either Phoenix or Abbey Life to own any part of Standard Life or for Standard Life to be a part of Phoenix Life Holdings Limited in the short-term. I am satisfied that this acquisition will therefore not directly affect Phoenix, Abbey Life or this Scheme. Overtime, Phoenix expects there to be some harmonization across the Group. However, any future transfer of Standard Life business under a Part VII scheme would be subject to a robust approval process including approval by the High court and appropriate level of scrutiny and review by an independent expert.
- 3.11 Brexit - Phoenix has applied for a third country branch in Ireland to continue to service its policies sold under EU passporting rights. The outcome of the Brexit negotiations is still unclear and if there are any transitional arrangements then Phoenix will reconsider its application regarding a third country branch. I do not expect this to have any impact on the Scheme.

Updated Solvency II capital position of Abbey Life

- 3.12 The table below sets out the Solvency II Pillar 1 results for Abbey Life as at 31 March 2018 as set out in the Report (which took into account a dividend of £250m declared in June 2018) and the updated position as at 30 June 2018. The numbers in the table below take into account the dividend payment of £200m approved by Abbey Life's Board in November 2018. The financial impact of the developments outlined in paragraph 3.4 are not included in the table below.

£m	30 June 2018	31 March 2018
Total Assets	7,488	7,481
Total Liabilities	7,411	7,202
Excess of assets over liabilities	78	279
SCR Tiering Restrictions	(2)	0
Total available Own Fund to meet SCR	75	279
SCR	26	22
Excess capital over SCR	50	257
SCR Cover	292%	1,284%

Note: The numbers in the table are rounded to the nearest whole number.

- 3.13 The above table has been calculated using the Phoenix Internal Model that has been approved by the PRA for regulatory reporting. Abbey Life does not include TMTP, MA or VA when calculating its Solvency II results.
- 3.14 The main reason for the change in SCR Cover is due to the dividend declared in November 2018 reducing the Own Funds. There is small impact of the implementation of a model change resulting in an increase in SCR over the quarter.
- 3.15 As can be seen from the table above, Abbey Life continues to cover its capital requirement on a Solvency II basis and I confirm that the SCR Cover is above the more onerous requirements of its capital policy. I have seen estimated solvency results as at 30 September 2018 and am satisfied that these do not change my conclusions.
- 3.16 There has been no change to the key risks for Abbey Life.

Updated Solvency II capital position of Phoenix

- 3.17 The table below sets out the Solvency II Pillar 1 results for Phoenix as at 31 March 2018 as set out in the Report and the updated position as at 30 June 2018. The numbers in the table below take into account the dividend payment of £80m approved by the Phoenix Board in November 2018. The financial impact of the developments outlined in paragraph 3.7 are not included in the table below.

£m	30 June 2018	31 March 2018
Total Assets	47,923	46,799
Total Liabilities	45,424	44,598
Excess of assets over liabilities	2,499	2,201
TMTP	1,740	1,740
RFF Restrictions	(366)	(170)
Total available Own Fund to meet SCR	3,873	3,771
SCR	2,971	2,902
Excess capital over SCR	902	869
SCR Cover (exc Unsupported Funds)	151%	145%

Note: The numbers in the table are rounded to the nearest whole number.

- 3.18 The above table has been calculated using the Phoenix Internal Model that has been approved by the PRA for regulatory reporting and includes TMTP and MA.
- 3.19 I have reviewed the analysis of change from 31 March 2018 to 30 June 2018, the main reason for the change in SCR Cover is due to assumption changes, model and methodology changes and the dividend declared in November 2018. The changes implemented have been approved by the Board.
- 3.20 As can be seen from the table above Phoenix continues to cover its capital requirement on a Solvency II basis and I confirm that the SCR Cover is above the more onerous requirements of its capital policy. I have seen estimated solvency results as at 30 September 2018 and am satisfied that these do not change my conclusions.
- 3.21 There has been no change to the key risks for Phoenix.

Update on tracing of the With-Profits Policyholders

- 3.22 The companies are continuing the tracing exercise to identify and verify policyholders' current address. Since my Report the Companies have managed to reduce the number of untraced policyholders. However, it is reasonable to expect that some policyholders will not be traced by the Transfer Date and part of the potential surplus arising from policyholders who may not claim as a result will be distributed as a Special Bonus.
- 3.23 The percentage of potential surplus to be distributed to policyholders in each with-profits fund is at least as large as that shown in my Report. The final percentage will be determined at the end of the tracing exercise and will be based on the total number of untraced policyholders who are unlikely to claim and the total value of their respective claims. I am satisfied that the Companies are taking reasonable measures to trace and verify the current address of Abbey Life's With-profits Policyholders to ensure appropriate distribution of the surplus arising from policies unlikely to claim.
- 3.24 The remaining proportion of the potential surplus from policies not expected to claim will be allocated to the non-profit fund of Phoenix, which will be responsible for paying all future claims on the transferred policies, including any of those which are currently being treated as not expected to claim.

4 Impact of the Scheme on the Abbey Life Policyholders

Policyholders' benefit expectations and contractual rights

- 4.1 As set out in the Report, there will be no change to any of the terms and conditions of the Transferring Non-Profit and Unit-Linked Policies as a result of the Scheme. In addition, there will be no change to the way discretion will be applied to non-profit and unit-linked business nor the governance around the discretion as a result of the Scheme. The additional powers granted by the Scheme for unit-linked policies include appropriate governance and reflect good market practice.
- 4.2 As nothing has happened that changes the statements in 4.1 above, I am satisfied that the Scheme will not have any material impact on the benefit expectations and contractual rights of the Transferring Non-Profit and Unit-Linked Policyholders.
- 4.3 The with-profits policies will lose their rights to participate in the profits of their respective sub-funds and be converted to non-profit policies. I summarised the terms of Conversion in my Report. There have been no changes to the terms of the Conversion. I am satisfied that the Scheme will not have any material impact on the benefit expectations and contractual rights of the Transferring With-profits Policyholders for reasons set out in paragraph 8.20 of my Report.

Security of policyholder benefits

- 4.4 The table below shows the financial position of Abbey Life and Phoenix as at 30 June 2018 taking into account the dividend declarations in November 2018 assuming the Scheme was implemented then.

30 June 2018 £m	Abbey Life pre-transfer	Phoenix post-transfer
Total Assets	7,488	55,403
Total Liabilities	7,411	52,834
Excess of assets over liabilities	78	2,569
TMTF	0	1,750
RFF Restrictions	(2)	(366)
Total available Own Fund to meet SCR	75	3,953
SCR	26	2,987
Excess capital over SCR	50	966
SCR Cover (exc Unsupported Funds)	292%	154%

- 4.5 The SCR cover above indicates that Phoenix would continue to meet its regulatory capital requirements as well as the requirements of its own capital policy after the Scheme has been implemented. There have been no changes to the risk profile or market conditions that would trigger a recalculation of the TMTF since my Report. I am satisfied that my conclusions in the Report are unchanged and the TMTF value is appropriate and its amortisation will not adversely impact the solvency levels of the company.
- 4.6 I consider the high SCR ratio of Abbey Life as shown in the table above and the table in paragraph 3.12 to be a temporary feature while the group is restructuring and understand that it would normally operate at a level close to target. Assets in excess of capital policy can be paid away, for example by way of dividends such as the £200m declared by Abbey Life in November 2018, and consequently are not to be relied on in forming views of security.
- 4.7 As part of their capital policy, both Abbey Life and Phoenix require additional capital in excess of the regulatory capital to cover a 1-in-10 year all risk assessment. The governance arrangements of the capital policies are the same for both companies and will be unchanged as a result of the Scheme.
- 4.8 The risk management framework, risk appetite and risk limits are also the same for both companies and both companies operate under the same risk based regulatory regimes.
- 4.9 Overall, I remain satisfied that the Scheme will not have any material adverse impact on the security of benefits of the Transferring Policyholders.

Tax

- 4.10 There will be no impact to the tax status of the Transferring Policyholders as a result of the Scheme as confirmed by HMRC.

Service standards and administration

- 4.11 It is my understanding that there have been no changes to the arrangements under the proposed transfer of the outsourcing arrangements from Abbey Life to Phoenix. Therefore, there is no reason to expect that the quality and level of service provided to the Transferring Policyholders will deteriorate as a result of the Scheme.

Conclusion

- 4.12 In particular, I reaffirm my opinion that there is no material adverse impact on the Transferring Policyholders as a result of the Scheme.

5 Impact of the Scheme on the Current Policyholders of Phoenix

Policyholders benefit expectations and contractual rights

- 5.1 I noted in my Report that the Scheme would have no impact on the benefit expectations of Current Phoenix policyholders. The developments since my Report, described in Section 3, do not affect my conclusions and, therefore, my opinion remains that the benefit expectations and contractual rights of the Current Policyholders in Phoenix will not be affected by the implementation of the Scheme.

Security of policyholder benefits

- 5.2 The key points in my Report with regard to the effect of the Scheme on the security of benefits of Current Policyholders in Phoenix were:
- Phoenix meeting its regulatory capital requirements;
 - Phoenix meeting its additional capital requirements under its own capital policy;
 - governance around the capital policy and
 - Phoenix's risk management framework.
- 5.3 The table below compares the Solvency II, Pillar I capital position of Phoenix before and after the Scheme assuming that the Scheme came in to effect on 30 June 2018. The numbers take into account the dividends declared in November 2018.

30 June 2018 £m	Before Scheme	After Scheme
Total Assets	47,923	55,403
Total Liabilities	45,424	52,834
Excess of assets over liabilities	2,499	2,569
TMP	1,740	1,750
RFF Restrictions	(366)	(366)
Total available Own Fund to meet SCR	3,873	3,953
SCR	2,971	2,987
Excess capital over SCR	902	966
SCR Cover (exc Unsupported Funds)	151%	154%

Note: The numbers in the table are rounded to the nearest whole number.

- 5.4 The financial position of Phoenix will be improved following implementation of the Scheme. The table above indicates that Phoenix would continue to meet its regulatory capital requirements and the more onerous requirements of its capital policy after the implementation of the Scheme.
- 5.5 There are no changes to the governance of the capital policy and Phoenix's risk management framework as a result of the Scheme.
- 5.6 Therefore, my opinion remains unchanged that the implementation of the Scheme will not have a materially adverse impact on the security of benefits for the policyholders of Phoenix.

Operational Issues

- 5.7 There are no changes to governance arrangements, tax, service standards and administration as a consequence of the Scheme.

Conclusion

- 5.8 Overall, I reaffirm my opinion that there is no material adverse impact on the Current Policyholders of Phoenix as a result of the Scheme.

6 Consideration of the policyholder communication process and objections and representations received

- 6.1 At the Directions Hearing on 23 July 2018, the Court granted Phoenix a waiver from the requirement to communicate directly with its Current Policyholders in respect of the Scheme.
- 6.2 The Companies requested that the PRA should notify the supervisory authorities in all EEA states in respect of the Scheme in order to initiate the EEA regulator consultation. Some supervisory authorities, for example the Irish and Dutch regulators have requested that the Companies carry out additional advertising of the Scheme and the Companies have complied with these requests. At the time of writing this report, there have been no objections from supervisory authorities.
- 6.3 Abbey Life has confirmed to me that it has carried out its communications with the Transferring Policyholders in line with the Directions Order¹. I note that the main mailing to Transferring Policyholders was completed by 3 October 2018 which is approximately 8 weeks prior to the Final Hearing. A sweep up mailing, in respect of policyholders for whom a new address was verified, after the initial address data was extracted for the main mailing, was completed on 15 October 2018, which is approximately 7 weeks before the Final Hearing. Therefore, policyholders in both mailings have had more notice than the minimum under the FCA's and PRA's guidance.
- 6.4 Abbey Life has also confirmed that out of the approximately 514,000 communication packs sent out 2% have been returned as undeliverable. For such cases where a new address was found and validated, a pack was subsequently sent to the new address.
- 6.5 At regular intervals, I have been provided with management information on the responses that the Companies have received from policyholders. As at 16 November 2018 the Companies had received 2,021 letters/telephone calls from Transferring Policyholders relating to the Scheme of which 14 were confirmed as objections and no letters/telephone calls from the Current Policyholders of Phoenix.
- 6.6 The Companies have corresponded with these policyholders by letter and also by telephone. I have been provided with copies of the correspondence with those policyholders raising objections up to 16 November 2018 including transcripts of telephone calls where necessary.
- 6.7 Based on my analysis of the objections received, the objections raised can be summarised into the following categories:
- Transferring Policyholders concerned that changes to their with-profits policy will result in an adverse impact on their benefits
 - Transferring Policyholders believe that the company has no legal right to change the terms and conditions of their with-profits policy without their agreement
 - Transferring Policyholders would like to remain with Abbey Life or take a refund of all premiums paid to date with interest
 - Transferring Policyholders concerned with the financial strength of Phoenix
 - Transferring Policyholders concerned that there is no consideration given to the impact of the Scheme on the policyholder
 - Transferring Policyholders concerned regarding Phoenix
 - Transferring Policyholders whose objection refers to an ongoing or settled complain
 - Transferring Policyholder concerned that policyholders of Phoenix were not sent a policyholder pack

¹ An order was made by Deputy ICC Judge Jones in the High Court of Justice ((Insolvency and Companies List (ChD)) on 23 July 2018 (the Directions Order) upon the Claim Form dated 12 July 2018.

I have considered each of these types of objections below:

Transferring Policyholders concerned that changes to their with-profits policy will result in an adverse impact on their benefits

- 6.8 I have considered the Conversion of the With-Profits Fund to Non-Profit in detail in my Report. I confirm that there have been no changes to the terms of Conversion since my Report. I am satisfied that the Conversion will not adversely impact the benefits of With-profits Policyholders as:
- the Conversion provides more certainty for death and maturity benefits and expense charges for the policies;
 - the method used to distribute the surplus in the fund as a final bonus to policyholders is in line with past practice and market practice and based on best estimate assumptions as to the future;
 - the surrender basis will continue to reflect the fair value of policies including the final and special bonus and be fixed. The actual surrender amount will be determined at the time of surrender using the discount rate applicable on surrender;
 - a significant portion of the potential surplus arising from the policies unlikely to claim will be distributed as a special bonus among the remaining With-profits Policyholders at the Transfer Date. In the past, policyholders did not share in the surplus of policies that did not claim so the special bonus is in addition to policyholders' expectations;
 - post transfer shareholders will bear the risk of potential claims on policies which are currently being treated as not expected to claim. It is proposed to hold the remaining portion of the surplus arising from the policies unlikely to claim in the non-profit fund and
 - apart from the point above, shareholders only share in 10% of the surplus distributed, in line with the constitution and past practice of the Abbey Life with-profits funds.

Transferring Policyholders believe that the company has no legal right to change the terms and conditions of their with-profits policy without their agreement

- 6.9 As described in my Report the Scheme will transfer the entire business of Abbey Life to Phoenix under Section 111 of Part VII of the Financial Services and Market Act 2000. This process allows UK insurance companies to transfer insurance policies to another UK insurance company subject to satisfying certain policyholder protection requirements and obtaining the approval of the High Court and it also permits the High Court to make ancillary orders, including in relation to changes to the policy terms. Transferring of policies under this process does not require the insurer to obtain policyholder consent or permission. However, policyholders can raise objections regarding the Transfer which will be considered by the Court before making their decision.
- 6.10 With-profits policies in the Hill Samuel PB Fund are managed in accordance with the PPFM which is published on Abbey Life's website. The PPFM refers to a sunset clause which allows Abbey Life to convert the with-profits policies to non-profit once the fund size falls below 1000 policies. This is expected to occur in 2019. Once the sunset clause is triggered the company can convert the policies to non-profit policies and this process will not be subject to external review. However, using the Scheme to convert the fund to Non-Profit a year early offers the benefit of lower costs, a more robust legal and regulatory review process that will ensure greater protection of policyholders' interests. The Abbey Life PB Fund does not have a sunset clause. However, it is proposed to use the Scheme to close this small with-profits fund which is in the final stage of run-off and distribute the surplus in the fund fairly among the policyholders.
- 6.11 Having considered the impact of the Scheme on Abbey Life With-profits Policyholders, I am satisfied that the Scheme will not have any adverse material impact on the benefit expectations of the Transferring With-profits Policyholders. In particular, I believe that it is sensible to use a Part VII scheme to close small with-profits funds and to distribute any remaining surplus fairly among the remaining policyholders.

Transferring Policyholders would like to remain with Abbey Life or take a refund of all premiums paid to date with interest

- 6.12 The policies are transferring under a Part VII transfer which does not offer individual policyholders an option to opt out of the transfer. After the Scheme is approved by the High Court, Abbey Life intends to seek permission from the regulators to cease operating as an insurance company, which means that policies cannot be left behind in Abbey Life.
- 6.13 There are no changes to the terms and conditions of the non-profit and unit-linked policies other than the fact the Phoenix will now pay for the claims on these policies. The with-profits policies will be converted to non-profit as discussed in my Report and Phoenix will be responsible for paying claims on these policies. As the transferring policies will continue after the transfer and there is no change to the policies except the fact that Phoenix will be responsible for paying claims in the future, Abbey Life cannot refund premiums on these policies as a result of the Transfer.
- 6.14 Abbey Life is already part of the Phoenix Group and whether or not the Scheme is sanctioned they will continue to remain a part of the Phoenix Group.

Transferring Policyholders concerned with the financial strength of Phoenix

- 6.15 I have reviewed the financial strength of Phoenix in my Report as well as in section 3 of this Supplemental Report. I have also compared the impact of the transfer on the security of benefits for the Transferring Policyholders in Section 4 of this report and summarised my conclusions below:
- Phoenix will continue to meet its regulatory capital requirements as well as the requirements of its own capital policy after the Scheme has been implemented;
 - the governance arrangements of the capital policies are the same for both companies and will be unchanged as a result of the Scheme and
 - the risk management framework, risk appetite and risk limits are also the same for both companies and both companies operate under the same risk based regulatory regime.
- 6.16 Overall, I am satisfied that the Scheme will not have any material adverse impact on the security of benefits of the Transferring Policyholders

Transferring policyholders concerned that there is no consideration given to the impact of the Scheme on the policyholder

- 6.17 A Part VII transfer requires that an Independent Expert considers the impact of the Scheme on all relevant policyholders and submits his report to the Court. In my Report I have considered the impact of the Scheme on policyholder benefit expectations, security, governance arrangements and service standards. I concluded that I am satisfied that the Scheme does not materially adversely impact the policyholders of Abbey Life or Phoenix and I see no reason why the Scheme should not go ahead.
- 6.18 Some policyholders are concerned that the Scheme benefits the shareholders at the detriment of the policyholders. I have considered this when preparing my Report and confirm that the Scheme does not materially adversely impact the benefit expectations of the policyholders.

Transferring Policyholders concerned regarding Phoenix

- 6.19 Policyholders have raised concerns regarding Phoenix relating to the following:
- the policyholders have a negative impression of Phoenix or the policyholders have had a negative previous experience with Phoenix and /or the Phoenix Group;
 - the policyholders feel that Phoenix will not honour the commitments given by Abbey Life and
 - Phoenix intend to make profit from the transfer of business.
- 6.20 Abbey Life is already part of the Phoenix Group and whether or not the Scheme is sanctioned they will continue to remain a part of the Phoenix Group. Phoenix is a long established UK company which is regulated by the PRA and FCA, and must abide by their rules which contain adequate measures for policyholder protection.

- 6.21 Following the transfer, Phoenix will take over the rights and obligations relating to the transferring policies. The policyholders will be entitled to the same rights against Phoenix as they have against Abbey Life.
- 6.22 The main motivation for Abbey Life and Phoenix to enter into the Scheme is to improve capital efficiency, reduce costs and facilitate the Conversion of with-profits policies to non-profit in a manner that is cost effective and that provides increased protection for policyholders. All costs and expenses relating to the Scheme will be met by the shareholders of Phoenix.
- 6.23 Given there are no material changes to the policies and as Abbey Life is already a part of Phoenix Group and follows their Group policies. I have previously concluded and am satisfied that the security of benefits, policyholder benefit expectations and service and governance standards will not be materially different under Phoenix.

Transferring Policyholders whose objection refers to an ongoing or settled complain

- 6.24 Under the Scheme, Phoenix will take over all the rights and obligations relating to Abbey Life policies. Transferring Policyholders will be entitled to the same rights against Phoenix as they have against Abbey Life. The outcome of any ongoing complaint investigations will not be affected as a result of the Scheme. Following the transfer, Phoenix will continue to investigate any ongoing complaints in the same manner as Abbey Life. Transferring Policyholders who are not satisfied with the outcome of the investigation into their complaint are entitled to take their complaint to the Financial Ombudsman Service for independent review.
- 6.25 Overall, I am satisfied that the Scheme will not impact the process or outcome of policyholder complaints.

Transferring Policyholder concerned policyholders of Phoenix were not sent a policyholder pack

- 6.26 At the Directions Hearing on 23 July 2018 the High Court granted a waiver from the requirement to send a policyholder pack to the policyholders of Phoenix as there were no material changes to the terms and conditions or operations of these policies.
- 6.27 It was considered that these policyholders could obtain information about the Scheme from the details of the Transfer that were made available on the Phoenix Life website and published in five national UK newspapers.

Conclusion

- 6.28 I confirm that at the time of writing the Supplemental Report the Companies are dealing with the objections received and trying to address policyholders' concerns by responding to each of the objections. Policyholders have not raised any issues that were not considered in the work leading up to the Report and therefore I am satisfied that there are no reasons to change the conclusions in my Report.



Tim Roff FIA
Partner
Grant Thornton UK LLP

22 November 2018

A Information/documents reviewed/relied upon

The table below sets out the key additional documents I have relied on in preparing this Supplemental Report. Some of this information is company confidential and is not publicly available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with senior management and staff at Abbey Life and Phoenix.

Document	Source
Abbey Life Chief Actuary Report	Abbey Life Chief Actuary
Phoenix Chief Actuary Report	Phoenix Chief Actuary
CP Review Board Paper	Phoenix Management
HMRC Confirmation	Abbey Life Management
ERM CP13/18 initial view	Phoenix Management
HY2018 Solvency II Results Board Paper	Abbey Life and Phoenix Management
MI related to policyholder responses and Objections	Abbey Life and Phoenix Management
Valuation Assumptions, Model & Methodology changes – Q3 2018 Board Paper	Abbey Life and Phoenix Management
Equity Release Mortgages – CP13/18 Board Paper	Phoenix Management
Q3 Solvency MI	Abbey Life and Phoenix Management
ALAC Board Capital Release	Abbey Life Management
PLL Board Capital Release	Phoenix Life Management
Financials including impact of dividend at Q2	Abbey Life and Phoenix Management

I have checked that the information listed above has been audited or supplied by an Approved Person or by a person appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.

B Glossary

Term	Definition
Abbey Life	Abbey Life Assurance Company Limited
Brexit	The term used to describe the UK's exit from the EU, following the vote taken in the EU referendum on 23 June 2016
Conversion	Conversion of the with-profits policies to non-profit policies under the Scheme
Current Policyholders	The existing policyholders of Phoenix, prior to the transfer
ERMs	Equity Release Mortgages
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model or the Standard Formula
MA	Matching adjustment. This is an adjustment to the risk-free interest rates used to discount insurance obligations, calculated by firms based on a specifically identified portfolio of assets and liabilities
Material adverse impact	A negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in company's investment portfolio, or from the reporting of a particularly large but not extreme claim to a company's liabilities. In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis
Phoenix	Phoenix Life Limited
PRA	Prudential Regulation Authority
Report	The report from the Independent Expert
SCR	Solvency Capital Requirement. A capital regulatory requirement under the Solvency II regime
Solvency II	A new regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries
Standard Life	Standard Life Assurance Limited and subsidiary companies

SUP 18	Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance
Supplemental Report	An updated report of the Independent Expert that reflects updated financial information or circumstances in respect of the Scheme nearer the date of the final Court hearing
TMTTP	Transitional measures on technical provisions. This is calculated as the difference between the technical provisions calculated under the previous regulatory regime (Solvency I) and the Solvency II technical provisions, and decreases linearly over a 16 year period
The Court	The High Court of Justice of England and Wales, the High Court in Jersey and the High Court in Guernsey (as the case maybe)
The Regulators	The PRA and the FCA together
The Scheme	The transfer of insurance business from Abbey Life Assurance Company Limited to Phoenix Life Limited
The Transfer Date	23:59 GMT on 31 December 2018 or such other time and date as Abbey Life and Phoenix may agree, being a date and time after the making of the Order sanctioning the Scheme
Transferring Non-profit Policyholders	Non-profit policyholders of Abbey Life Assurance Company Limited that will transfer to Phoenix Life Limited as a result of the Scheme
Transferring Policyholders	Policyholders of Abbey Life Assurance Company Limited that will be transferred to Phoenix Life Limited as a result of the Scheme
Transferring Unit-linked Policyholders	Unit-linked policyholders of Abbey Life Assurance Company Limited that will be transferred to Phoenix Life Limited as a result of the Scheme
Transferring With-profits Policyholders	With-profits policyholders of Abbey Life Assurance Company Limited that will be transferred to Phoenix Life Limited as a result of the Scheme
Unsupported Funds	With-profit funds that do not need support from the shareholder fund to meet their regulatory and or capital policy requirements
VA	Volatility Adjustment. Under Solvency II the volatility adjustment is an increase to the discount rate used in the calculation of the BEL which aims to prevent forced sale of assets in the event of extreme bond spread movements



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