Supplementary Report of the Independent Expert on the Proposed Scheme to Transfer Long-Term Insurance Business from Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited to Guardian Assurance Limited

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Contents

1. Introduction

The Independent Expert

1.1. When a scheme for the transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales (the "Court") for approval, it has to be accompanied by a report from an Independent Expert. This is a requirement of Section 109 of the Financial Services and Markets Act 2000 ("FSMA") and the report must be made in a form approved by the appropriate Regulators (as defined in Section 5 of my Report).

1.2. I have been appointed as the Independent Expert to provide the required report on a proposed scheme for the transfer of designated blocks of long-term insurance immediate annuity business (the "Transferring Policies") from Phoenix Life Limited ("PLL"), Phoenix Life Assurance Limited ("PLA"), and National Provident Life Limited ("NPLL") (PLL, PLA and NPLL together being the "Phoenix Companies" and each a "Phoenix Company") to Guardian Assurance Limited ("GAL"), which have been reinsured to GAL since 1 July 2012. For this proposed scheme of transfer (the "Scheme"), I have been appointed jointly by PLL, PLA, NPLL and GAL ("the Companies") and my appointment has been approved by the Regulators. The costs associated with my work are being split between the Phoenix Companies and GAL.

1.3. This report (my "Supplementary Report") is supplementary to my report entitled "Report of the Independent Expert on the Proposed Scheme to Transfer Long-Term Insurance Business from Phoenix Life Limited, Phoenix Life Assurance Limited and National Provident Life Limited to Guardian Assurance Limited" dated 30 April 2013 ("my Report"). My Supplementary Report should be read in conjunction with my Report (together "my Reports") and both should be considered in their entirety.

1.4. The Scheme will be submitted to the Court for sanction under Section 111 of the FSMA. If approved, it is expected that the Scheme will become operative and take effect on 30 September 2013 (the "Transfer Date"). My Reports will be presented to the Court who will consider the contents of these Reports in deciding whether to sanction the Scheme.

1.5. All definitions and abbreviations used in my Report apply equally to my Supplementary Report, unless stated otherwise. Readers of my Supplementary Report may wish to refer to the Glossary in my Report.

The Scope of my Supplementary Report

1.6. The purpose of my Supplementary Report is to consider any developments since I issued my Report which might materially affect policyholders of the Companies. The scope includes consideration of updated financial information, my review of concerns and formal objections raised by policyholders, and other matters as discussed in my Supplementary Report. I explain whether these developments have affected the conclusions in my Report. In doing so, I consider the impact of the Scheme for the policyholders of PLL, PLA, NPLL and GAL separately.

1.7. To the best of my knowledge, I have taken account of all material facts at the date of this Supplementary Report in assessing the impact of the Scheme and in preparing my Supplementary Report.

1.8. I am required to comment on the proposed Scheme and my Supplementary Report is not concerned with possible alternatives to the Scheme.

Regulatory and Professional Guidance

1.9. My Reports have been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the Regulator's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business. See Appendix 2 of my Report for details of how these requirements have been met.

1.10. The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this Report, which is a component report under the relevant FRC definitions, with the intention that it, and the work underlying it, should meet the requirements of Technical Actuarial Standards TAS D, TAS M, TAS R (which cover, respectively, data, modelling, and reporting actuarial information), Insurance TAS, and Transformations TAS. I believe that it and my work underlying it does so in all material respects. I have applied all of the principles outlined in the Transformations TAS in reaching the opinions stated in my Reports.

Terms of Reference

1.11. The terms of reference for my Reports have been agreed with the Regulator and the Companies and are set out in full in Appendix 1 of my Report.

1.12. 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 the Companies from whom I have received instructions. I am aware of the duties and requirements regarding experts set out in Part 35 of the Civil Procedure Rules.

1.13. My Reports should be read in conjunction with the terms of the Scheme and with the reports and supplementary reports prepared by the AFHs of GAL, PLA, PLL and NPLL and the Appendix in the NPLL AFH report from the With-Profits Actuary of NPLL.

Reliances

1.14. In performing my review and preparing my Reports, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by the Companies. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life assurance industry but have not otherwise verified it.

1.15. I have used the audited financial information as at 31 December 2012 in my Reports to consider the size and mix of the business in the Companies. My analysis of the solvency position of the Companies is based on estimates of the pre- and post-Scheme financial position as at 30 June 2013 produced by the Companies and summarised in Appendix 2. I have been in regular contact with the Companies and have taken account of significant known or expected changes since 30 June 2013.

1.16. The Report also comments on a second set of solvency calculations that the Regulators require long-term insurance companies to produce. Known as the "Pillar 2" or Individual Capital Adequacy Standard ("ICAS") calculations, these are not audited, but are submitted to the Regulators on request, who also expect to see evidence that the calculations are used in the risk management of the insurer concerned. I have considered the most recent Pillar 2 financial information (including recent estimates of what the post-Scheme Pillar 2 positions would have been as at 30 June 2013) in forming my conclusions in relation to the Scheme. The information I have used in this regard is listed in Appendix 1.

1.17. I note that the economic position at the Transfer Date cannot be predicted with certainty. The absolute solvency level may therefore differ from that shown in the Supplementary Report, but I would not expect the impact of the Scheme to vary significantly from the estimates shown and it is this impact which is my primary consideration (alongside the Companies continuing to satisfy regulatory solvency requirements, as is currently the case).

1.18. Selected financial information, written information and data upon which I have relied for this Supplementary Report is noted in Appendix 1.

1.19. I am not aware of any events since 30 June 2013, nor has anything been drawn to my attention by the Companies, that would materially change the analysis and stated conclusions in my Supplementary Report. I have also considered sensitivity information to assess the likely impact on GAL's balance sheet and its ability to meet its capital requirements under a range of economic scenarios. Should conditions change between now and the Final Hearing to such an extent that GAL might not be able to meet its Capital Policy targets, I will inform the Court of any concerns I might have regarding the appropriateness of the Scheme being implemented.

Limitations

1.20. My Supplementary Report is issued subject to the same limitations as my Report (as set out in paragraphs 1.22 to 1.26 of my Report) and may be provided to the same parties as my Report.

1.21. A copy of my Reports may be published on the websites of the Companies and made available for inspection at the offices of the Companies' solicitors. Otherwise, these Reports (or any extract from them) should not be published without the prior written consent of Deloitte.

1.22. This Report has been prepared in accordance with agreed terms of reference and for a specific purpose. No liability will be accepted for the use of this Report for a purpose for which it was not intended or for the results of any misunderstandings by any user of this Report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.

Guardian internal Part VII transfer

1.23. Under the Guardian Scheme, the business currently held in the subsidiaries of the GAL NPF, GPM and GLLA is expected to transfer into the GAL NPF at the same time as this Scheme. The impact of the Guardian Scheme is considered fully in a separate report, but the transfer does not impact materially the levels of capital available nor the aggregate risk exposure within GAL and, consequently, the expected level of security of policyholder benefits for either the Transferring Policies or the Existing GAL Policies.

2. Scheme Update and Financial Analysis

Introduction

2.1 In this Section, I comment on any changes to the Scheme since my Report and the most recent available financial analyses of the expected impact of the Scheme. I also consider the most recent assessment of whether the Companies are expected to meet the various regulatory capital requirements and internal capital policies to which they are subject, both before and after the implementation of the Scheme.

2.2 In Section 3, I consider the expected impact of the Scheme on policyholder benefit expectations, benefit security and service standards.

2.3 Information relating to the Scheme has been sent to relevant policyholders (as described in Section 12 of my Report), providing them with the opportunity to comment, ask questions and object. In Section 4, I comment on the views expressed by policyholders and how I have considered these views in reaching my conclusions.

Scheme Update

2.4 The most notable amendment to the Scheme since it was presented to the Court at the Directions Hearing on 7 May 2013 relates to the addition of specific provisions relating to certain annuities issued under “master” policies held by group pension schemes. These policies are primarily pension savings policies but the terms of the policies also provide for an annuity to be issued to a member of the group scheme when they reach retirement. The Phoenix Companies and GAL have agreed to transfer annuities already issued under such policies but do not wish to transfer other rights and obligations under the terms of those policies. The additional provisions therefore set out the basis on which rights and obligations under the policies will be split between GAL and the Phoenix Companies following the transfer.

2.5 I have discussed this change with the Companies and, specifically, considered the potential tax impact and the impact on policyholder service standards.

2.6 The Companies have discussed the proposed splitting arrangements with HMRC’s Pension Scheme Office, who stated that the splitting arrangements did not affect the tax confirmations issued by HMRC and that the Scheme will not affect the tax status of the Transferring Policies.

2.7 As a result of the agreements with the Outsource Service Partners, the policies issued under the “master” policies will continue to be administered by the existing outsource service provider immediately after the Transfer Date. One of the Outsource Service Partners (Diligenta) has highlighted the potential need for additional development in the event that new policies have to be issued following a wind-up of the original group scheme. Guardian has confirmed that they are aware of this issue and would ensure continuity of payment for the policyholder by issuing a new policy directly on the Guardian systems or through a deed of assignment.

2.8 As a result of these confirmations and assurances, I am satisfied that this change to the Scheme does not lead to a materially adverse impact for this subset of the Transferring Policyholders.

2.9 The Scheme has been amended to include a clause allowing the Companies to effect the transfer at any time after the Scheme has been approved up to 31 December 2013.

2.10 While it remains the intention and the expectation of the Companies that the Transfer Date will be 30 September 2013, this clause protects against the situation where the Companies are not in a position to complete the transfer on 30 September 2013 (in particular guarding against the scenario where the Outsource Service Partners are not able to guarantee the continuity of service to the Transferring Policyholders). As such, I am satisfied that the inclusion of this clause helps protect against an adverse impact on policyholder service standards if such a situation were to occur.

2.11 This Supplementary Report and any oral updates provided to the Court provide my conclusions in respect of the potential impact of the Scheme as at the time of the Final Hearing. It is possible that market or organisational events after this time but in advance of the Transfer Date could impact one or more of my conclusions. The inclusion of the clause mentioned in 2.9 increases the potential time period over which such an event could occur. Having considered sensitivity data in relation to GAL's financial position, I am satisfied that, all else being equal, it would require an extreme market movement to result in GAL being unable to meet the level of capital targeted under the GAL Capital Policy. The existence of such an event would be evident to all the Companies. As such, I place reliance on the AFHs of the Companies to highlight any concerns about a potential materially adverse impact on policyholders arising from such a market event occurring after the Final Hearing but before the Transfer Date. Significant organisational events during this period, such as the payment of an additional dividend or the entering into of another, substantial, transaction, would not necessarily be evident to all the Companies, but I would it expect the AFH of the relevant company to be aware of any such issue and to highlight it accordingly.

2.12 There have also been a small number of additional minor changes to the Scheme, namely:

- minor clarifications to the definition of "proceedings" and the section of the Scheme relating to continuity of proceeds;
- confirmation of the filenames for the electronic databases setting out the transferring policies; and
- confirmation of the value of the initial expense reserve assets which are to be transferred to GAL.

2.13 I do not believe that any of the above changes represent a material change to the Scheme or have a material impact on any group of policyholders.

Updated Financial Analysis

2.14 The financial analysis in my Report focussed on the solvency of the Companies under the two key reporting measures used to monitor the financial position of insurance companies in the UK, known as Pillar 1 and Pillar 2. I provided an overview of these measures in Section 5 of my Report. As Pillar 2 data is private between the Companies and the Regulators, I do not quote the actual Pillar 2 figures.

2.15 The Pillar 1 analysis in my Report was based on audited data as at 31 December 2012. As described in paragraphs 1.15 and 1.16, the Pillar 1 and Pillar 2 analysis in my Supplementary Report is based on the 30 June 2013 position and any significant known changes since then.

2.16 The significant changes since my Report that have been reflected in the financial analysis include:

- the payment of dividends by the Companies (see paragraph 2.19 for details);
- in August 2013, the Boards of the Phoenix Companies approved revised ICAs, which were based on a review of the methodology and on data as at 31 December 2012. These changes decreased the amount of ICA for PLL and PLAL and increased it for NPLL; and
- the change in financial conditions since the date of the figures used in my Report. My Report was based on financial conditions as at 31 December 2012. Since 31 December 2012, movements in some key indicators of financial conditions were:

  (i) equity values increased slightly over the period with the FTSE 100 equity index as at 28 June 2013 standing at 6,215, compared to 5,898 at 31 December 2012 – an increase of 5.4%;

  (ii) property values increased by around 3% over the period based on "Total Return Index" of the Investment Property Databank ("IPD") UK Monthly Property Index;

  (iii) the yield per annum on UK government bonds at the 15 year duration increased by 68 bps; and

  (iv) corporate bond spreads for bonds all decreased from 31 December 2012 to 30 June 2013, with AAA bond spreads falling by less than the other ratings.

Financial Position of the Companies

Capital Policies of the Companies

2.17 In Section 5 of my Report, I discussed the capital policies that are used by the Companies to define the level of capital targeted in excess of the level required by the regulations. I considered the impact on the benefit security of the Transferring Policyholders of the differences in the Companies' capital policies in paragraphs 8.11 to 8.26

of my Report, concluding that the differences did not lead to a materially adverse impact on benefit security of these policyholders.

2.18 There have been no changes to the capital policies since the time of my Report. In line with their normal practice, the Phoenix Companies are in the process of reviewing the parameters used in their capital policies (but not the principles around the level of additional security that is to be targeted). Any changes approved by the Boards will not be implemented until they are approved by the PRA. Consequently, I am satisfied that such a review should not lead to a material reduction in the level of policyholder benefit security provided by the capital policies. As a result, I do not consider this potential change further in my Supplementary Report. GAL has confirmed that there are no changes proposed in advance of the expected Transfer Date of 30 September 2013.

Dividends paid

2.19 The financial analysis in my Report was based on the financial position at 31 December 2012. The following dividends have been paid since that point:

- GAL paid a dividend of £88m on 25 March 2013;
- PLL paid a dividend of £250m in March 2013;
- PLA paid a dividend of £150m in March 2013; and
- NPLL paid a dividend of £85m in March 2013.

2.20 Table A2.11 in Appendix 2 shows the estimated effect of dividends on the 31 December 2012 figures as if the dividends had been paid on that date. These adjusted 31 December 2012 figures provide a comparison against the equivalent 30 June 2013 figures, stripping out the reduction in the solvency position as a result of the dividends. Excluding the impact of the dividends paid, the solvency position for each of the Companies with the exception of NPLL has improved since 31 December 2012. This supports what has been said in the supplementary reports produced by these Companies' AFHs, that the overall reduction in solvency position between 31 December 2012 and 30 June 2013 can be largely attributed to dividends. For NPLL, the dividend payment explains the majority of the decrease in the solvency position, with the remaining decrease as a result of other known experience variations over the period.

Estimated Pillar 1 Solvency Position

2.21 Using information provided to me by the Companies, I have reviewed the Pillar 1 solvency position of the Companies as at 30 June 2013 before and after the implementation of the Scheme. This is set out in Tables 2.1 and 2.2 below, together with the equivalent information from my Report.

Table 2.1 Pillar 1 solvency position, as at 30 June 2013

Company	Using actual figures as at 30 June 2013		Figures in my Report (using 31 December 2012 base data)	
	Pre-Scheme	**Post-Scheme**	**Pre-Scheme**	**Post-Scheme**
PLL	117%	122%	121%	127%
PLA	137%	146%	142%	151%
NPLL	197%	216%	276%	298%
GAL	136%	136%	140%	140%

Table 2.2 Pillar 1 solvency position, as at 30 June 2013, excluding with-profits funds in surplus

Company	Using actual figures as at 30 June 2013		Figures in my Report (using 31 December 2012 base data)	
	Pre-Scheme	**Post-Scheme**	**Pre-Scheme**	**Post-Scheme**
PLL	166%	238%	195%	274%

Company	Using actual figures as at 30 June 2013		Figures in my Report (using 31 December 2012 base data)	
PLA	223%	290%	244%	310%
NPLL	197%	216%	276%	298%
GAL	277%	277%	278%	278%

2.22 Based on the estimates as at 30 June 2013, the Companies have sufficient assets to meet their respective Pillar 1 capital requirements and the associated internal capital policies both before and after the implementation of the Scheme.

2.23 Tables 2.1 and 2.2 show that there has been a reduction in the level of surplus assets in the Companies. As discussed in 2.20 above, this is primarily as a result of the dividends paid since 31 December 2012.

2.24 Consistent with the analysis provided in my Report based on the financial position at 31 December 2012, the updated impact estimates above confirm that the Scheme is still expected to have a positive impact on the financial position of the Phoenix Companies and no material impact on the financial position of GAL.

2.25 I have also reviewed more recent management information, including the estimated high level Pillar 1 financial information as at 31 July 2013 provided by the Companies. This information shows that the internal capital policies and regulatory requirements of the Companies were met at that date.

Estimated Pillar 2 Solvency Position

2.26 I have reviewed the Companies' estimates of the expected Pillar 2 solvency positions immediately before and after the implementation of the Scheme using the 30 June 2013 position as a base. These show that the Companies are expected to have sufficient surplus assets to meet their respective Pillar 2 capital requirements and associated internal capital policies both before and after the implementation of the Scheme.

2.27 I have also reviewed more recent management information, including the estimated high level Pillar 2 financial information as at 31 July 2013 provided by the Companies. This information shows that the internal capital policies and Pillar 2 capital requirements of the Companies were met at that date.

Sensitivity of the Solvency Position of the Companies

2.28 I have reviewed the sensitivity of the solvency position of GAL to changes in the economic environment, including to movements in interest rates, changes in the level of equities and the spread of corporate bonds. These demonstrate that GAL is expected to still be able to meet their capital requirements under a range of adverse scenarios. Market movements since 30 June 2013 have not been more adverse than the scenarios considered in the sensitivity analysis. I will continue to monitor movements in these key market indicators until the Final Hearing and will comment at the Final Hearing if there have been any movements significant enough to materially adversely impact GAL's ability to meet its capital policy.

Solvency II

2.29 In Section 5 of my Report, I discussed the potential impact of the Solvency II regulatory regime, which is due to be implemented by 1 January 2016 at the earliest. I noted that there remained a significant amount of uncertainty relating to the final form of the new regulatory regime and, as such, the impact that it would have on the financial position of the Companies. I also noted that the ability of the Companies to meet any increased capital requirement would depend on how the Companies were run over the coming years before implementation and the finalised form of the Solvency II rules, including the existence of any transitional measures.

2.30 Since the Directions Hearing, the European regulator has released the findings from the Long Term Guarantee Assessment. This included consideration of the discount rate to be used in the calculation of annuity liabilities. I consider that, despite the release of this information, there is still too much uncertainty relating to Solvency II to allow an informed assessment of the relative abilities of the Companies to meet their capital requirements once Solvency II is implemented.

Tax considerations

2.31 In Section 11 of my Report, I discussed the tax considerations arising from the Scheme. As part of this, I noted that the Companies were seeking a number of tax clearances and confirmations. The Companies have since confirmed to me that they have received the necessary clearances and confirmations.

2.32 For the reasons stated in my Report and as a result of the clearances and confirmations obtained, I remain of the opinion that there should be no materially adverse tax effects on the Transferring Policyholders, Non-Transferring Policyholders or Existing GAL Policyholders on account of the implementation of the Scheme.

Guardian Scheme

2.33 As discussed in my Report, the Guardian Scheme is expected to occur concurrently with this Scheme, although neither is contingent on the implementation of the other.

2.34 In my Report, I concluded that the analysis of the impact of the Scheme was not materially impacted by whether the Guardian Scheme proceeded or not. Further details on the Guardian Scheme are provided in the Independent Expert report (and supplementary report) for that scheme, but there have been no significant changes to the Guardian Scheme that have caused me to revise my conclusion regarding its impact on the Scheme that is the subject of this Supplementary Report.

3. Expected Impact of the Scheme on Different Groups of Policyholders

Overview

3.1 As Independent Expert, my primary responsibility relates to assessing the potential impact of the Scheme on policyholder benefit security, policyholder benefit expectations and policyholder service standards. In this section I comment on these areas in respect of each group of policyholders affected by the Scheme.

Existing GAL Policyholders

Benefit security for Existing GAL Policyholders

3.2 In Section 7 of my Report I commented on the benefit security of Existing GAL Policyholders. I noted that the benefit security of the Existing GAL Policyholders is primarily dependent on the level of surplus assets available to meet the capital requirements of the business. The GAL Capital Policy described in Section 5 of my Report sets out a target level of capital in excess of the regulatory capital requirements.

3.3 As noted above, the GAL Capital Policy has not changed since the time of my Report.

3.4 The financial position shown in Section 2 indicates that the level of surplus capital in GAL has not reduced significantly when compared to the 31 December position used in my Report. The reduction is primarily due to the payment of the dividend in March 2013 and does not result in GAL being unable to meet the level of excess capital targeted in the GAL Capital Policy.

3.5 I concluded in paragraph 7.26 of my Report that I was satisfied that the Scheme would not have a material adverse impact on the benefit security of Existing GAL Policyholders. Having considered the change in financial conditions and the significant events that have occurred since the date of my Report (as described in Section 2), this conclusion still stands.

Benefit expectations for Existing GAL Policyholders

3.6 In Section 7 of my Report I commented on the benefit expectations of the Existing GAL Policyholders. I considered policyholders in the GAL NPF, shareholder fund and PHI fund separately to policyholders in the GAL WPF and I do so again below for ease of reference.

Non-profit, shareholder and PHI funds

3.7 I noted in paragraphs 7.27 to 7.29 of my Report that the Scheme will have no impact on the terms and conditions of the existing non-profit policies (including the small amount of General Insurance in the shareholder fund and the business in the PHI fund). As a result, I concluded that I was satisfied that there was no materially adverse impact on the benefit expectations for these policyholders. This remains the case.

3.8 Paragraph 7.30 of my Report notes that there is a small amount of with-profits business within the GAL NPF. The guarantees on this business are heavily in the money and, as a result, there is limited scope for the exercise of management discretion in relation to this business. Additionally, I noted that the Scheme does not change the terms and conditions for this business and that the Scheme does not change the PPFM applicable to this business. As a result, I concluded that I was satisfied that there was no materially adverse impact on the benefit expectations for these policyholders. This remains the case.

GAL WPF

3.9 I concluded in paragraphs 7.31 to 7.34 of my Report that I was satisfied that the Scheme would not have a material impact on benefit expectations of the business within the GAL WPF as it does not change the PPFM or the expenses allocated to the fund, there are not expected to be any material tax impacts and the Scheme does not materially impact the financial position of the company. These conditions continue to apply, so I have no reason to change my conclusion.

Non-profit fund subsidiaries

3.10 Under the Guardian Scheme, the business held within GPLL and GPM is expected to be transferred into the GAL NPF at the same time as the Scheme. In paragraph 7.35 of my Report, I concluded that there would be no materially adverse impact on benefit expectations for these contracts as a result of the Scheme, due to the fact that the Scheme does not require any changes to the exercise of discretion in relation to this business. This remains the case.

Transferring Policyholders

Benefit security for Transferring Policyholders

3.11 In Section 8 of my Report I commented on the benefit security of the Transferring Policyholders. As stated in paragraph 8.5 of my Report, the level of surplus assets available to meet the capital requirements of the business is very important to policyholder security. My assessment of the impact of the Scheme on the benefit security of the Transferring Policyholders was primarily based on the relative strengths of the capital policies which specify the level of excess assets over the regulatory requirements targeted by each company. Although the capital policies differ between the Companies, I concluded that I was satisfied that there was no materially adverse impact on policyholder benefit security for the Transferring Policyholders.

3.12 There have been no changes to any of the capital policies in force within the Companies since my Report. While I have noted, in paragraph 2.18, that the Phoenix Companies are currently reviewing the parameters in their capital policies, this review is not changing the principles underlying the policies and, also, the implementation of its outcome is subject to regulatory review. Thus, the presence of this parameter review does not alter my view on the impact of the Scheme on the policyholder benefit security for the Transferring Policyholders.

3.13 Based on the financial position at 30 June 2013, estimates beyond that point and the sensitivities provided to me, GAL is expected to have sufficient capital to meet its capital policy at the Transfer Date, currently expected to be 30 September 2013. Consequently, I have no reason to change my conclusion that I am satisfied that there is no materially adverse impact on policyholder benefit security for the Transferring Policyholders as a result of the Scheme.

3.14 As highlighted in paragraph 2.9, the Boards of the Phoenix Companies have approved a number of changes to the Pillar 2 basis used to calculate the regulatory capital requirement. Subsequent to these changes, I have compared the key elements of the respective Pillar 2 bases of the Companies and believe these to be sufficiently comparable for the purposes of my analysis.

Benefit expectations for Transferring Policyholders

3.15 As noted in paragraph 8.33 of my Report, the Transferring Policies have no discretionary elements and the terms and conditions are not changed by the Scheme. This remains the case.

Non-Transferring Policyholders

Benefit security for Non-Transferring Policyholders

3.16 In Section 9 of my Report I commented on the benefit security of the Non-Transferring Policyholders within the Phoenix Companies. I concluded that I was satisfied that the Scheme had no adverse impact on the benefit security of the Non-Transferring Policyholders as the Scheme did not change the capital policies of the Phoenix Policies and was expected to have a positive impact on the financial position of the Phoenix Companies. There have been no changes to the Phoenix Companies' capital policies and it remains the case (based on analysis as at 30 June 2013) that the Scheme will have a positive impact on the financial position of the Phoenix Companies, so I have no reason to change my conclusion.

Benefit expectations for Non-Transferring Policyholders

3.17 In Section 9 of my Report, I considered the impact of the Scheme on the benefit expectations of the Non-Transferring Policyholders. I considered separately the policyholders in the PLL and PLA non-profit funds, the policyholders in the PLL and PLA with-profits funds, the policyholders in the NPLL long-term fund and any Residual Policyholders and I do so again below for ease of reference.

PLL and PLA non-profit funds

3.18 The Scheme does not change the terms and conditions of these policies and does not, of itself, change the way in which this business is managed. Consequently, even where there are elements of management discretion in relation to this business (for example, in the setting of unit-linked charges), I concluded in paragraph 9.24 of my Report that I was satisfied that the Scheme will have no impact on the benefit expectations of these policyholders.

3.19 There have been no changes to the Scheme since my Report that have caused me to change this conclusion.

PLL and PLA with-profits funds

3.20 The business in these funds includes business where the benefits and charges have discretionary elements. However, the business is not transferring from these funds and the Scheme does not have a material impact on the financial position of the fund. Consequently, I concluded in paragraph 9.27 of my Report that I was satisfied that the Scheme does not give rise to a material impact on the benefit expectations for the Non-Transferring Policyholders of these funds.

3.21 As shown in Appendix 2 of this report, based on 30 June 2013, the Scheme will not have a material impact on the financial position of these funds. Consequently, I have no reason to change my conclusion that the benefit expectations of these Non-Transferring Policyholders will not be materially impacted by the Scheme.

NPLL policyholders

3.22 In paragraphs 9.28 to 9.36 of my Report I noted that, even where there were policies with benefits dependent on the exercise of management discretion, the Scheme did not, of itself, change the terms and conditions of these policies or the applicable PPFM.

3.23 This rationale still holds and the Scheme is not expected to, based on the results at 30 June 2013, have a materially adverse impact on the financial position of the fund. Consequently, I am satisfied that my conclusion that the Scheme will not give rise to a material impact on the benefit expectations for the Non-Transferring Policyholders of NPLL is still valid.

Residual Policies

3.24 In paragraph 9.20 of my Report, I noted that the analysis considered for the other Non-Transferring Policies would also hold for any Residual Policies. The Phoenix Companies have confirmed that there are not expected to be any residual Policies and, consequently, I am satisfied that my original conclusion is still valid.

Service Standards and Investment Management

3.25 In Section 10 of my Report, I considered the potential impact on the service standards and investment management of the various groups of policyholders. In this Section, I provide an update on the proposed administration arrangements and consider whether the conclusions formed in my Report are impacted by any of the developments since I wrote my Report.

Transferring Policies

3.26 As I noted in paragraph 10.3 of my Report, GAL are entering into outsourcing agreements with two (Diligenta and Capita) of the three Outsource Service Partners currently used by the Phoenix Companies. These agreements were signed on 29 August 2013. For these policies, I am satisfied that there should be no deterioration in the service standards for these policyholders as:

- there will be no change in the teams servicing the policyholders as a result of the Scheme;
- these agreements are Acceptable Offers (as defined in my Report), a principle of which is that there should be no deterioration in the level of service standards for these policyholders; and
- Guardian will establish governance arrangements to manage and monitor the outsource agreements. I have reviewed the proposed arrangements and comment on them below.

3.27 There are a limited number (around 27,000) of contracts currently administered by HCL. It is intended that these policies will be migrated to the GAL administration systems, and managed in-house, at a date soon after the Transfer date. As this migration will not be achieved by the anticipated Transfer Date, GAL is entering into an outsourcing contract for a period of five months, within which the policy migration will be undertaken. The data migration is going to be subject to testing and validation to mitigate against the risk of errors in the migration. The principles of the outsource agreement with HCL (including in relation to the service standards and governance requirements) are consistent with the Diligenta and Capita agreements. The agreement was signed on 29 August 2013.

3.28 I have reviewed the proposed governance oversight arrangements for managing these outsourcing contracts within GAL and have consulted with an outsourcing subject matter expert. These oversight arrangements provide for monthly meetings to review metrics relating to the service levels of the Outsource Service Partners (including the number of customer complaints and any feedback), with findings reported to the Guardian executive.

3.29 The outsource agreements include details of the regular reporting provided by the Outsource Service Partners to Guardian. This includes the requirement to produce at least the same reports that are currently provided to the Phoenix Companies.

3.30 The outsource agreements include provisions to manage any changes required as a result of project work or changes to the regulations (both known and unknown) as well as escalation procedures to address any disputes.

3.31 I am satisfied that, if implemented as intended, the requirements of the outsource agreements and the governance arrangements will allow GAL to provide effective oversight of the Outsource Service Partners and, consequently, protect against any materially adverse impact for the service standards of Transferring Policyholders.

Existing GAL Policyholders

3.32 As I noted in paragraph 10.6 of my Report, the Scheme is not intended to lead to any changes in the administration arrangements of the Existing GAL Policies. This allowed me to conclude that I was satisfied that there will be no materially negative impact on the service standards for these policies as a result of the Scheme. This remains the case.

Non-Transferring Policyholders

3.33 As I noted in paragraph 10.7 of my Report, the Scheme will not lead to any changes in the existing administration arrangements of the Non-Transferring Policies. This allowed me to conclude that I was satisfied that there will be no materially negative impact on the service standards for these policies as a result of the Scheme. This remains the case.

Investment Management

3.34 In paragraphs 10.8 to 10.11 of my Report, I considered the potential impact of the Scheme on investment management within the Companies, as it relates to policyholders. I concluded that I was satisfied that the Scheme did not have a materially adverse impact on policyholders in relation to any potential changes in investment management. Since the time of my Report, I have not had any reason to change my conclusion.

4. Policyholder Communications, Objections and Scheme-Related Queries

Communication activity

4.1 The Companies have undertaken an extensive exercise to communicate with policyholders in accordance with the proposals put to the Court at the Directions Hearing. These communications are described in detail in Section 12 of my Report.

4.2 The Companies have provided me with regular updates of the communications received from policyholders in relation to the Scheme. This has included a breakdown of the types of communications received, details of any objections and concerns received and copies of the responses sent to objecting policyholders. I have relied on the Companies' categorisation of the communication and the accuracy of the figures provided to me.

4.3 As at 30 August 2013, the Phoenix Companies had sent information packs to 302,054 policyholders and had received 3,274 queries. The majority of these queries were either not directly related to the Scheme (2,450) or were requests for general information about the Scheme (748). The remaining communications were either specific queries requiring a written response (52) or potential objections to the Scheme (24). I consider the objections in additional detail below. In addition, an objection was received on 2 September 2013 and I have included this in my considerations below.

4.4 As at 30 August 2013, GAL had sent information packs to 268,162 policyholders and had received 7,227 queries (split 7,194 telephone queries and 33 written queries) in relation to the Scheme and the Guardian Scheme. As with the queries from the policyholders of the Phoenix Companies, the vast majority of these queries were either not directly related to the Scheme or were requests for general information about the Scheme, with only 12 policyholders raising objections or concerns about the Scheme or the Guardian Scheme. Three of these policyholder communications relate solely to the Guardian Scheme. I consider the nine remaining objections or concerns (where GAL has responded directly to the policyholder) below.

Phoenix Companies: Policyholder queries and objections

4.5 I have reviewed all of the currently identified potential objections to the Scheme and any significant technical queries made by policyholders and received by the Phoenix Companies up to 30 August 2013. I have relied upon the Phoenix Companies' recording and analysis of the general queries received and have not considered these queries further. I have carefully considered each of the 24 objections received by 30 August 2013 and the objection received on 2 September 2013 to see if they raise issues in the Scheme that might be unfair to policyholders. I have summarised the objections below, along with my view on the extent to which each point raised might impact my assessment of the Scheme as the Independent Expert.

4.6 Nine of the objections included requests for additional information about the commercial rationale behind the proposed transfer.

- While I understand that some policyholders might want additional details on the commercial rationale for the Scheme, the existence of these requests, and the material supplied in response, is not directly relevant to my assessment of whether policyholders are materially adversely impacted by the Scheme, particularly as the Transferring Policyholders are annuities in payment, with no profit participation features.

4.7 Twelve policyholders expressed a desire not to transfer, in some cases as a result of having been transferred as a result of previous schemes or for personal reasons.

- While it may be frustrating and possibly confusing for policyholders to have to keep track of their policies through one or more changes in the provider's name (or they may have a particular affinity to the firm they originally bought the policy from), there are legitimate reasons why such changes may occur. The Part VII process includes various protections to ensure that policyholders are not materially disadvantaged, and I believe these have been followed.

4.8 As part of their objections, eight policyholders requested additional guarantees and confirmations that benefit amounts and servicing will remain the same in the event that the Scheme is approved. This includes one policyholder who expressed dissatisfaction relating to the use of the word "should" in the summary of my Report provided to policyholders.

- The nature of actuarial analysis is such that there will always be a degree of uncertainty in any conclusions reached. The conclusions in my Report included language (such as "should") to reflect this uncertainty. While it is not possible for me to give any explicit guarantees relating to any potential impacts of the Scheme, I concluded in my Report that I was satisfied that the Scheme will not have a materially adverse impact on the Transferring Policyholders. As I state elsewhere in this Supplementary Report, I continue to hold that view.

- In relation to the specific use of the word "should" highlighted by the policyholder ("*I am satisfied that, on implementation of the Scheme, all groups of policyholders should benefit from solvency coverage that is targeted to be maintained at a level well in excess of that required by UK regulations. So long as that continues to be the case, I do not consider that the Scheme will materially adversely affect the security of benefits for any group of policyholders.*"), I can confirm that I am satisfied that the Companies all have capital policies that target a level of solvency coverage at a level well in excess of that required by UK regulations. Additionally, I can confirm that there are safeguards in place to provide protection for policyholders against reductions in the level of capital targeted. I am satisfied that the Scheme does not have a materially adverse impact on policyholder benefit security.

4.9 Three policyholders raised objections in relation to how the Scheme will impact the handling of complaints, particularly for complaints that are currently in the process of being addressed. In particular, one policyholder has objected on the grounds that they have an existing complaint with the Financial Ombudsman relating to their policy.

- After the Transfer Date, GAL will be responsible for dealing with any complaints in relation to the Transferring Policies. In the event that GAL is unable to address any complaints satisfactorily, the policyholders impacted would still have the right to bring their complaint to the Financial Ombudsman. Thus, the fact that, after the Transfer Date, the consideration of any complaints (either relating to events before that date or after it) will involve a different management team should not impact the ultimate outcome that the policyholders impacted receive.

- There are a very small number of complaints currently being processed and the Phoenix Companies have stated that they are working with the Outsource Service Partners to close these complaints before the Transfer Date. In the event this is not possible, handover letters will be sent to the relevant policyholders. I am satisfied that, as a result of the processes in place to address these complaints and the fact that the transfer should not impact the ultimate outcome of the complaint, the Scheme will not materially adversely impact the policyholders in respect of ongoing complaints.

- In respect of the complaint currently being reviewed by the Financial Ombudsman, I note that, of itself, the Scheme will not impact how the Financial Ombudsman addresses the complaint made.

- I therefore do not consider that these objections give grounds to prevent the Scheme from proceeding.

4.10 Five policyholders objected on the grounds that GAL is smaller than the aggregate size of the Phoenix Companies, stating their belief that this, of itself, reduces policyholder benefit security.

- My Report considered the impact on policyholder benefit security as a result of the Scheme, concluding that the Scheme will have no materially adverse impact on the benefit security for Transferring Policyholders. I highlighted that the relative strength of the capital policies of the Companies is the aspect that I place most reliance upon when assessing the impact of the Scheme on policyholder benefit security. In particular, I believe that the levels of capital resources in excess of Pillar 1 and Pillar 2 capital requirements targeted under the respective capital policies are better measures for this purpose than the relative absolute sizes of the Companies. The total amount of an insurer's balance sheet assets is not necessarily an indicator of the level of capital available to provide benefit security to its policyholders. I remain satisfied that, for the reasons outlined in my Report and confirmed in this Supplementary Report, the benefit security of the Transferring Policyholders will not be materially adversely impacted by the Scheme.

4.11 Four policyholders raised concerns about the relative level of policyholder benefit security, without specifying any particular reason for these concerns. Within these objections, two policyholders queried what protections would be in place in the event of the insolvency of GAL and the protection provided by the Financial Services Compensation Scheme. Additionally, one policyholder queried whether there should be some form of policyholder compensation to reflect any perceived change in the riskiness of the benefit security as a result of the Scheme.

- In Section 8 of my Report, I considered the impact on policyholder benefit security as a result of the Scheme, concluding that the Scheme will have no materially adverse impact on the benefit security for Transferring Policyholders. I remain of this view. As a result, I do not believe that there is any requirement to compensate the Transferring Policyholders.
- In the extremely unlikely event that GAL fails, the Transferring Policyholders would be protected under the Financial Services Compensation Scheme. This protection is not impacted by the Scheme. In my Report, I consider such a scenario and conclude that the Scheme does not materially adversely impact the benefit security of Transferring Policyholders.

4.12 One policyholder queried who would be paying for the costs of the Scheme (including the Independent Expert fees).

- As confirmed in my Report, the costs associated with the Independent Expert are split equally between GAL and the Phoenix Companies. The costs of the Scheme are being met by the shareholder funds of the Companies.

4.13 One policyholder objected on the basis of the level of publicity about the Scheme.

- I considered policyholder communications in Section 12 of my Report and concluded that I was satisfied with the arrangements made. I note that the Companies have followed the proper process for approving this type of transfer and that there has been interaction with the Regulators throughout the process. I also note that, in raising this objection, the policyholder is highlighting that an important control in the process is operating effectively and that they were able to raise their objection well in advance of the Final Hearing (and could attend the Final Hearing if they want to). Consequently, I am satisfied that the publicity for the Scheme was appropriate.

4.14 Two policyholders objected on the grounds that they had concerns over the ability of GAL to administer the Transferring Policies. One of these objections related to the policyholder's specific policy and communications with HMRC, while the other expressed a more general concern around GAL's ability to administer the policies.

- The Companies have confirmed that they are able to process the policyholder's payments and that they have a process in place with HMRC to help avoid any complication with policyholders' tax status.
- In relation to the general query, I discuss the impact on service standards in this Supplementary Report and conclude that I am satisfied that policyholder service standards will not be materially adversely impacted by the Scheme.

4.15 An objection from one policyholder was received on 2 September 2013, immediately before I finalised this Supplementary Report. At the time of writing this Supplementary Report, I have not reviewed the response provided by the Phoenix Companies but I will continue to monitor this correspondence and, if appropriate, will provide additional comment at the Final Hearing. The policyholder's objection was based on the following concerns:

- The policyholder believes that there will be an adverse impact on the security of policyholder benefits as a result of moving to a smaller company. I have considered this concern in paragraph 4.10 above and am satisfied that the benefit security of the Transferring Policyholders will not be materially adversely impacted by the Scheme.

- The policyholder requests additional guarantees and arrangements in relation to the security of their benefits, specifically requesting that the Phoenix Companies continue to provide a guarantee and that GAL enters into reinsurance of a similar form to the existing Reinsurance Agreements between the Phoenix Companies and GAL. I have concluded that I am satisfied that the benefit security of the Transferring Policyholders will not be materially adversely impacted by the Scheme, and so do not believe that these additional guarantees and arrangements are required in order for the Scheme to proceed.

- The policyholder expresses concern that the transfer into a non-profit fund may lead to a reduction in their contractual or discretionary benefits. I note that all the Transferring Policies are non-profit in nature, with no discretionary elements, and that the terms and the conditions of the Transferring Policies are not impacted by the Scheme. Consequently, I am satisfied that the Scheme will have no impact on policyholder benefit expectations for the Transferring Policyholders.

- The policyholder expresses concern about my ability to perform my duty as an Independent Expert, as a result of the fact that the Phoenix Companies were involved in my appointment and meet part of the costs of my work. As part of the process of appointing me as Independent Expert, my appointment was approved by the Regulator. This included consideration of my independence from the Companies. I recognise that, as an Independent Expert, I have a duty to the High Court and that this duty overrides any obligations to the Companies.

- The policyholder also expresses concern about the number of transfers that have impacted them as a result of previous schemes. I address this concern in paragraph 4.7 above.

- I therefore do not consider that these objections give grounds to prevent the Scheme from proceeding.

4.16 I have reviewed a sample of the specific queries where the Phoenix Companies provided a further written response and am satisfied that, for the sample considered, the response provided was appropriate to the query raised. I note that the responses include a section inviting future correspondence in the event that the policyholders did not believe that their query had been appropriately addressed. The majority of the queries related to issues covered by my consideration of the objections above. I consider one additional query that was raised below.

4.17 One policyholder raised a query in relation to the fact that Guardian are owned by the private equity firm Cinven.

- Although Guardian is a part of Cinven, GAL is regulated by the Regulators and, as discussed elsewhere, is subject to the GAL Capital Policy which includes targets for the amount of capital in excess of the amount required by the regulations that is held within GAL. In particular, it includes restrictions on the dividends payable (the amount of capital taken out of GAL) and the Scheme includes provisions relating to future changes in the GAL Capital Policy. Consequently, I am satisfied that the fact that Guardian is part of Cinven does not materially adversely impact the Transferring Policyholders.

GAL: Policyholder queries and objections and concerns

4.18 I have reviewed all of the objections and concerns about the Scheme made by policyholders and received by GAL up to 30 August 2013. I have relied upon GAL's recording and analysis of the policyholder communications received and have not considered any general queries or queries unrelated to the Scheme in additional detail. All the written policyholder correspondence I have reviewed includes details of how to escalate a query further and how to get information about attending the Final Hearing. This helps reduce the risk of a particular query being mis-categorised.

4.19 I have carefully considered each of the objections and concerns to see if they raise issues in the Scheme that might be unfair to policyholders. I have summarised each objection or concern below, along with my view on the extent to which each point raised might impact my assessment of the Scheme as the Independent Expert.

4.20 One objection or concern is in relation to the change in the risk profile of GAL as a result of the Reinsurance Agreements entered into in 2012.

- In paragraph 2.10 of my Report, I outlined my reasons for not considering the Reinsurance Agreements as part of my assessment of the impact on policyholders. I note that the Reinsurance Agreements were subject to a non-objection from the Regulator and that there was no requirement for GAL to obtain agreement from policyholders or the Court in order to establish the Reinsurance Agreements. However, I also note that GAL holds capital at a level targeted by the GAL Capital Policy which is in excess of that required by UK regulations. This target capital is reflective of the risks taken by GAL and so allows for the risks transferred under the Reinsurance Agreements. I therefore do not consider that this objection or concern gives grounds to prevent the Scheme from proceeding.

4.21 One policyholder has raised an objection or concern about the Scheme on the basis that there were too many assumptions within my Report.

- Actuarial analysis, by its very nature, involves assessing the potential impact of future contingent events and, consequently, requires a number of assumptions to be made. I believe that the assumptions made in my Report are reasonable and that, in particular, my Report considers the likelihood and potential policyholder impact of an appropriate range of possible scenarios in my assessment of the impact of the Scheme. I therefore do not consider that this objection or concern gives grounds to prevent the Scheme from proceeding or impacts my assessment of it as the Independent Expert.

4.22 Two policyholders have raised objections or concerns on the grounds that the transfer of the Transferring Policies could result in a negative impact on the benefit security of GAL policies, without raising any additional specific concerns.

- My Report considers the impact on policyholder security and, particularly, notes that GAL is expected to be able to meet the GAL Capital Policy after the transfer. I consider the impact on the benefit security of Existing GAL Policyholders in Section 7 of my Report and in this Supplementary Report and remain of the view that the Scheme will have no materially adverse impact on the benefit security of these policyholders.

4.23 One policyholder raised an objection or concern on the grounds that they believed the Scheme would reduce the value of their with-profits policy, as well as expressing dissatisfaction about the performance of the policy over its duration.

- My Report considers the impact on policyholder benefit expectations, including for with-profits policyholders. The objection or concern did not raise any additional points that require me to reconsider this conclusion.

- While I can understand that, from time to time, some policyholders may be dissatisfied with the performance of their policies, I do not believe that such concerns are relevant to my consideration of the impact of the Scheme. I note that the Scheme will not impact the policyholder's ability to continue to pursue any complaint against Guardian.

4.24 One policyholder wrote asking whether the Scheme could lead to any future unexpected liabilities for GAL, specifically relating to compensation for mis-selling of the Transferring Policies. The Scheme does transfer these liabilities to GAL and the emergence of a significant unexpected liability of this sort could lead to a reduction in benefit security. However, I note that:

- I do not believe that the Scheme, of itself, increases the likelihood of a mis-selling liability arising;

- There are provisions in the Scheme limiting the extent of the transfer of the liabilities (specifically in relation to fines imposed by regulatory or governmental bodies); and

- The Phoenix Companies are not currently holding any explicit mis-selling provisions in relation to the Transferring Policies.

Other than in the case where the annuity terms were specified as part of the original policy (for example a deferred annuity that has since vested), the extent of any mis-selling liabilities transferred under the Scheme is restricted to just the purchase of the annuity policies being transferred. In order for a mis-selling liability to materially adversely impact the financial position of GAL, I believe that such a liability would have to be systematic in nature. Under the current circumstances, and given the nature of the policies being transferred by the Scheme, I do not consider that such a systematic issue is likely to arise to the extent that it could impact policyholder benefit security in GAL. I would expect systematic mis-selling risks to be considered by the Companies in relation to their calculation of the Pillar 2 Operational Risk capital requirement. Provided that this is the case, any future changes to the likelihood of such a systematic mis-selling risk will be reflected in the level of capital targeted under the Companies' respective capital policies.

GAL has confirmed that its Pillar 2 Operational Risk methodology considers mis-selling risk and that the Transferring Policies are already considered in the calculation of the Operational Risk capital requirement. Consequently, I am satisfied that the benefit security of Existing GAL Policyholders is not likely to be materially adversely impacted by the Scheme in relation to the exposure to currently unknown mis-selling liabilities.

4.25 One policyholder raised an objection or concern related to the risk exposure transferred as a result of the Scheme and queried whether the assets backing the annuities would be ring-fenced after the transfer.

- My Report notes that the majority of the risk associated with the Transferring Policies is already held within GAL, as a result of the Reinsurance Agreements. As a result, the Scheme, of itself, does not result in a material transfer of risk.

- GAL has confirmed that the assets backing the Transferring Policies will not be kept ring-fenced within the GAL NPF. For policies in the GAL WPF, the fund is already managed on a ring-fenced basis and I discuss this in paragraph 7.11 of my Report. This is not changed by the Scheme. For policies within the GAL NPF, the benefit security is impacted by the financial position of the whole fund (as any notional ring-fencing within the fund would be expected to break down in the unlikely event of the insolvency of GAL) and, as a result, I do not believe that the decision to not ring-fence these assets impacts the benefit security of policyholders in this fund. Consequently, I am satisfied that the conclusion in my Report that there is no materially adverse impact on the benefit security of Existing GAL Policyholders remains valid.

4.26 One policyholder queried the possibility of opting out of the transfer, without any additional specific objections or concerns about the Scheme.

- I note that there is no option for individual policyholders to opt out of the transfer. The objection or concern did not raise any additional points that require me to reconsider the conclusions in my Report.

4.27 One policyholder raised an objection or concern in relation to the appointment of an Independent Expert to review the "likely" impact of the Scheme and the requirement to use an Independent Expert rather than internal resource. The policyholder also raised a general objection or concern about the Scheme, highlighting that they did not want their policy to change.

- As I note in paragraphs 4.8 and 4.21 above, the nature of actuarial analysis is such that there will always be a degree of uncertainty in any conclusions reached. Consequently, my Report considers the likelihood and potential policyholder impact of an appropriate range of possible scenarios in my assessment of the impact of the Scheme. I do not consider that this objection or concern gives grounds to prevent the Scheme from proceeding or impacts my assessment of it as the Independent Expert.

- I note that the appointment of an expert independent of the Companies is a requirement of the relevant regulations and provides an additional degree of protection to the policyholders.

- I note that this policyholder's policy will not transfer as a result of the Scheme or the Guardian Scheme. The policyholder has not raised any specific additional objections or concerns and, consequently, I do not consider that this objection or concern gives grounds to prevent the Scheme from proceeding.

4.28 The friend of one policyholder phoned to object, but did not confirm the details of the impacted policy. I have not considered this potential objection or concern further.

5. Overall conclusions

Scheme Changes

5.1. I note that there have been some amendments to the Scheme since the date of my Report. I have considered these and do not believe that they affect the conclusions of my Report.

Security of Policyholder Benefits

5.2. In Sections 6, 7, 8, 9 and 10 of my Report I considered various aspects of the proposed transfer that might have an impact on the security of benefits for policyholders affected by the Scheme. In carrying out my review for this Supplementary Report, nothing has come to my attention to change my opinion on any of these aspects. I continue to gain comfort from the operation of the GAL Capital Policy that will govern the management of the funds following the implementation of the Scheme. The GAL Capital Policy is unchanged from the date of my Report, and will provide policyholders with considerable additional security above that required by minimum regulatory requirements.

5.3. I have reviewed updated financial information as at 30 June 2013 on the solvency position of the Companies. I am satisfied following this analysis that, if the Scheme had been implemented on 30 June 2013, there would have been sufficient capital resources to satisfy the GAL Capital Policy, and to meet the regulatory capital requirements of the enlarged GAL on both a Pillar 1 and Pillar 2 basis. Transferring Policyholders and Existing GAL Policyholders would each continue to benefit from the availability of a considerable capital margin to absorb adverse experience (for example, in equity and bond markets).

5.4. The Companies have processes in place to track their solvency position and I am in regular dialogue with them to understand developments. I have asked the Companies to notify me if there is a significant change before the Final Hearing to the position I have set out in this Supplementary Report. If that occurs, I will bring it to the Court's attention.

5.5. In my Report I concluded that I do not consider that the Scheme will materially disadvantage the security of benefits for any group of policyholders. I remain of this view.

Policyholder Benefit Expectations

5.6. In my Report I concluded that all groups of policyholders will experience no material adverse change to their benefit expectations as a result of the Scheme. I remain of this view.

Policyholder Communications, Objections and Scheme-Related Queries

5.7. In Section 12 of my Report I considered the approach to policyholder communications for different groups of policyholders, both transferring and non-transferring, in the Companies. Having reviewed the correspondence with policyholders and the objections and concerns received up to 30 August 2013, nothing has come to my attention that affects the conclusions in my Report.

Other Conclusions and Considerations

5.8. My Report also considered other factors and their possible impact on the Companies' policyholders, specifically governance arrangements, tax, service standards and investment management. The Companies have confirmed that they are not aware of any material changes from the arrangements that I described in my Report and I remain satisfied that there should be no material change for policyholders in respect of any of these areas.

Overall conclusions

David Hare FIA

Independent Expert

3 September 2013

Appendix 1: Data and Reliances

The following Sections list the items of information that I have received, reviewed and relied upon in relation to the preparation of my Supplementary Report, in addition to those listed in Appendix 1 of my Report:

General	Date	Received from
I have relied upon information provided by the Phoenix Companies and Guardian Assurance Limited GAL. This includes various emails and documents received from management of the Companies as well as the respective With-Profits Actuaries and Actuarial Function Holders of the Companies. Key documents which I have considered and relied upon are listed below:		
Scheme documents		
Scheme document	Sep-13	Phoenix
Second Witness statement of Phoenix	Aug-13	Phoenix
Witness statements from Guardian	Sep-13	Guardian
Actuarial Function Holder and With Profits Actuary reports on the Scheme		
Supplementary Report by the Actuarial Function Holder and With Profits Actuary on the impact of the Phoenix Scheme on policyholders of Guardian Assurance Limited.	Jul-13	Guardian
Supplementary Report by the Actuarial Function Holder and With Profits Actuary on the impact of the Scheme on policyholders of Phoenix Life Limited (PLL).	Aug-13	Phoenix
Supplementary Report by the Actuarial Function Holder and With Profits Actuary on the impact of the Scheme on policyholders of Phoenix Life Assurance Limited (PLA).	Aug-13	Phoenix
Supplementary Report by the Actuarial Function Holder and With Profits Actuary on the impact of the Scheme on policyholders of National Provident Life Limited (NPLL).	Aug-13	Phoenix
Scheme related financials		
Extracts from monthly MI pack	Jul-13	Guardian & Phoenix
Half-year financial analysis (actual figures)	Jun-13	Guardian & Phoenix
ICA reports		
Guardian ICA basis	Jul-13	Guardian
Phoenix Companies ICA basis (extract)	Jul-13	Phoenix
Phoenix Companies – update to ICA basis	Aug-13	Phoenix
Solvency updates	Aug-13	Phoenix
Pillar 1 and 2 sensitivities	Aug-13	Guardian
Customer communications		
Copies of customer call transcripts and correspondence relating to objections from policyholders from the Phoenix Companies.	June 2013 - August 2013	Phoenix
Copies of customer call transcripts and correspondence relating to objections and concerns from policyholders from GAL.	June 2013 - August 2013	Guardian

Letters of response to complaints	June 2013 - August 2013	Phoenix & Guardian
Tax		
Tax clearances and confirmations	Aug-13	Phoenix & Guardian
Other		
Details of service standards and outsourcing arrangements after the Scheme.	Aug-13	Guardian
Comments from Phoenix and Guardian regarding reviews of draft supplementary scheme document.	June 2013 - August 2013	Phoenix & Guardian
Details of interaction with the regulators	June 2013 - August 2013	Phoenix & Guardian

Appendix 2: Financial information

Summary Pillar 1 Financial Information

Introduction

This appendix provides an estimate of the fund-level breakdown of the financial impact of the Scheme, had it been implemented as at 30 June 2013, as summarised in Section 2 of this Supplementary Report.

The LTICR is calculated at a company level and the LTICR shown for individual funds is included for additional information. I note that the failure of an individual fund to hold sufficient capital to cover its LTICR does not mean that the company is failing to meet its regulatory capital requirements.

Pre-scheme Pillar 1 solvency position

Notes:

(1) Admissible assets less Pillar 1 liabilities (both calculated under Regulatory Peak), subject to the Regulator's rules on capital tiers.

(2) Long-Term Insurance Capital Requirement plus With-Profits Insurance Capital Component plus CRR of regulated subsidiary.

(3) Capital Resources less Capital Required (where the latter is that part of the entity-level requirements that arises in respect of the relevant fund).

(4) Capital Resources divided by Capital Resources Requirement.

Table A2.1 – GAL pre-scheme solvency position (including GAL WPF), values at 30 June 2013

£m	WPF	NPF	SH TFR	SHF	PHI	Total
Capital Resources (1)	**1,124**	**605**	**110**	**90**	**3**	**1,932**
LTICR	58	276	0	0	3	337
RCR	0	0	0	0	0	0
CRR Regulated Subsidiary	0	13	0	0	0	13
WPICC	1,066	0	0	0	0	1,066
Capital Requirement (2)	**1,124**	**289**	**0**	**0**	**3**	**1,416**
Surplus assets in excess of Capital Requirement (3)	**0**	**316**	**110**	**90**	**0**	**516**
Cover for Capital Requirement (4)						***136%***

Table A2.2 – GAL pre-scheme solvency position (excluding GAL WPF), values at 30 June 2013

£m	NPF	SH TFR	SHF	PHI	Total
Capital Resources (1)	**605**	**110**	**90**	**3**	**808**
LTICR	276	0	0	3	279
RCR	0	0	0	0	0
CRR Regulated Subsidiary	13	0	0	0	13
WPICC	0	0	0	0	0
Capital Requirement (2)	**289**	**0**	**0**	**3**	**292**
Surplus assets in excess of Capital Requirement (3)	**316**	**110**	**90**	**0**	**516**
Cover for Capital Requirement (4)					***277%***

Table A2.3 – PLL pre-Scheme solvency position, values at 30 June 2013

£m	ALBA	BIB	BWP	PWP	90%	100%	SMA	SPI	SAL	NPI	Non Annuity	Annuity	NPIL Annuity	SHF	Total
Capital Resources (1)	**9**	**132**	**1,306**	**697**	**49**	**67**	**210**	**699**	**530**	**0**	**85**	**42**	**16**	**548**	**4,390**
LTICR	73	8	124	157	3	1	89	75	180	2	136	178	23	0	1,049
CRR Regulated Subsidiary	0	0	0	0	0	0	0	0	0	0	0	0	0	8	8
WPICC	0	110	1,015	459	42	66	114	584	303	0	0	0	0	0	2,697
Capital Requirement (2)	**73**	**118**	**1139**	**616**	**45**	**67**	**203**	**659**	**483**	**2**	**136**	**178**	**23**	**8**	**3,750**
Surplus assets in excess of Capital Requirement (3)	**-63**	**14**	**167**	**81**	**4**	**0**	**7**	**40**	**47**	**-2**	**-51**	**-137**	**-8**	**540**	**640**
Cover for Capital Requirement (4)															***117%***

Table A2.4 – PLA pre-Scheme solvency position, values at 30 June 2013

£m	PWP	SERP	LL WP	Non Annuity	Annuity	Opal	SHF	Total
Capital Resources (1)	**1,343**	**5**	**5**	**34**	**4**	**-5**	**621**	**2,007**
LTICR	230	48	28	13	82	0	0	401
CRR Regulated Subsidiary	0	0	0	0	0	0	127	127
WPICC	934	0	0	0	0	0	0	934
Capital Requirement (2)	**1,164**	**48**	**28**	**13**	**82**	**0**	**127**	**1,462**
Surplus assets in excess of Capital Requirement (3)	**179**	**-43**	**-23**	**21**	**-78**	**-5**	**494**	**545**
Cover for Capital Requirement (4)								***137%***

Table A2.5 – NPLL pre-Scheme solvency position, values at 30 June 2013

£m	LTF	SHF	Total
Capital Resources (1)	**1**	**249**	**250**
LTICR	127	0	127
CRR Regulated Subsidiary	0	0	0
WPICC	0	0	0
Capital Requirement (2)	**127**	**0**	**127**
Surplus assets in excess of Capital Requirement (3)	**-126**	**249**	**123**
Cover for Capital Requirement (4)			***197%***

Post-scheme Pillar 1 solvency position

Notes:

(1) Admissible assets less Pillar 1 liabilities (both calculated under Regulatory Peak), subject to the Regulator's rules on capital tiers.
(2) Long-Term Insurance Capital Requirement plus With-Profits Insurance Capital Component plus CRR of regulated subsidiary.
(3) Capital Resources less Capital Required (where the latter is that part of the entity-level requirements that arises in respect of the relevant fund).
(4) Capital Resources divided by Capital Resources Requirement.

Table A2.6 – GAL post-Scheme solvency position (including GAL WPF), values at 30 June 2013

£m	WPF	NPF	SH TFR	SHF	PHI	Total
Capital Resources (1)	**1,124**	**605**	**110**	**90**	**3**	**1,932**
LTICR	58	276	0	0	3	337
RCR	0	0	0	0	0	0
CRR Regulated Subsidiary	0	13	0	0	0	13
WPICC	1,066	0	0	0	0	1,066
Capital Requirement (2)	**1,124**	**289**	**0**	**0**	**3**	**1,416**
Surplus assets in excess of Capital Requirement (3)	**0**	**316**	**110**	**90**	**0**	**516**
Cover for Capital Requirement (4)						***136%***

Table A2.7 – GAL post-Scheme solvency position (excluding GAL WPF), values at 30 June 2013

£m	NPF	SH TFR	SHF	PHI	Total
Capital Resources [1]	**605**	**110**	**90**	**3**	**808**
LTICR	276	0	0	3	279
RCR	0	0	0	0	0
CRR Regulated Subsidiary	13	0	0	0	13
WPICC	0	0	0	0	0
Capital Requirement [2]	**289**	**0**	**0**	**3**	**292**
Surplus assets in excess of Capital Requirement [3]	**316**	**110**	**90**	**0**	**516**
Cover for Capital Requirement [4]					***277%***

Table A2.8 – PLL post-Scheme solvency position, values at 30 June 2013

£m	ALBA	BIB	BWP	PWP	90%	100%	SMA	SPI	SAL	NPI	Non Annuity	Annuity	NPIL Annuity	SHF	Total
Capital Resources [1]	**9**	**132**	**1,306**	**697**	**49**	**67**	**210**	**699**	**530**	**0**	**85**	**95**	**54**	**546**	**4,478**
LTICR	60	8	124	155	3	1	89	75	180	0	113	145	5	0	958
CRR Regulated Subsidiary	0	0	0	0	0	0	0	0	0	0	0	0	0	8	8
WPICC	0	110	1,015	459	42	66	114	584	303	0	0	0	0	0	2,697
Capital Requirement [2]	**60**	**118**	**1139**	**614**	**45**	**67**	**203**	**659**	**483**	**0**	**113**	**145**	**5**	**8**	**3659**
Surplus assets in excess of Capital Requirement [3]	**-51**	**14**	**167**	**83**	**4**	**0**	**7**	**40**	**47**	**0**	**-28**	**-50**	**49**	**538**	**819**
Cover for Capital Requirement [4]															***122%***

Table A2.9 – PLA post-Scheme solvency position, values at 30 June 2013

£m	PWP	SERP	LL WP	Non Annuity	Annuity	Opal	SHF	Total
Capital Resources [1]	**1343**	**5**	**5**	**34**	**59**	**-5**	**631**	**2073**
LTICR	230	48	28	13	42	0	0	361
CRR Regulated Subsidiary	0	0	0	0	0	0	121	121
WPICC	934	0	0			0	0	934
Capital Requirement [2]	**1164**	**48**	**28**	**13**	**42**	**0**	**121**	**1416**
Surplus assets in excess of Capital Requirement [3]	**179**	**-43**	**-23**	**21**	**18**	**-5**	**510**	**657**
Cover for Capital Requirement [4]								***146%***

Table A2.10 – NPLL post-Scheme solvency position, values at 30 June 2013

£m	LTF	SHF	Total
Capital Resources [1]	**13**	**249**	**262**
LTICR	121	0	121
CRR Regulated Subsidiary	0	0	0
WPICC	0	0	0
Capital Requirement [2]	**121**	**0**	**121**
Surplus assets in excess of Capital Requirement [3]	**-108**	**249**	**141**
Cover for Capital Requirement [4]			***216%***

Effect of dividends on Pillar I Solvency Position

Table 2.11 Pillar 1 solvency position pre-Scheme, as at 30 June 2013

Company	Actual figures as at 30 June 2013		31 December 2012 base data, adjusted to reflect position as if dividends had been paid on that date	
	Including WPFs in surplus	**Excluding WPFs in surplus**	**Including WPFs in surplus**	**Excluding WPFs in surplus**
PLL	117%	166%	114%	140%
PLA	137%	223%	132%	195%
NPLL	197%	197%	211%	211%
GAL	136%	277%	133%	250%

Source: Financial analysis provided by Phoenix and Guardian

Notes:

(1) PLA figures include capital requirements from NPLL which is a subsidiary

(2) GAL figures include capital requirements from GLLA and GPM

Appendix 3: Glossary

The following terms have been used in this Supplementary Report, in addition to the terms used and defined in my Report.

Investment Property Databank (IPD) is a global firm that provides analytical services, indices and market information to the real estate industry.

Total return index is an index that measures the performance of a group of assets over time by assuming that all cash distributions are reinvested into the index, in addition to tracking any price movements.