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

Prepared by Tim Roff FIA

12 July 2018

Contents

1 Introduction

Purpose of this report

1.1 On 30 December 2016, Abbey Life Assurance Company Limited ("Abbey Life") was acquired by the Phoenix Group and is currently one of the UK regulated life insurance companies within the Phoenix Group. It is now proposed to transfer all of Abbey Life's business into another UK life insurance company within the Phoenix Group, Phoenix Life Limited ("Phoenix"). The transfer will enable the Phoenix Group to de-authorise Abbey Life and increase capital and operational efficiency by reducing the number of life assurance companies within the Group. For Abbey Life the motivation of entering into the Scheme is the transfer of its business into a well-capitalised and diversified insurance company.

1.2 As part of the transfer it is proposed to convert the with-profits policies within Abbey Life's two with-profits funds– Hill Samuel Participating Business Fund ("Hill Samuel PB Fund") and Abbey Life Participating Business Fund ("Abbey Life PB Fund") to non-profit ("Conversion"). More details on the Conversion are discussed in later sections of this report.

1.3 It is a requirement that when a scheme of transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales (the "English Court") for approval, it must be accompanied by a report from an Independent Expert (the "Report"). There are similar requirements for schemes of transfer relating to policies issued to or held by residents of Jersey and Guernsey.

1.4 The relevant requirements are set out in the following legislation:

(1) Part VII of the Financial Services and Markets Act 2000 (as amended) ("FSMA") in relation to the transfer described above (the "English Scheme") which is to be submitted to the English Court for approval;

(2) Article 27 of and Schedule 2 to the Insurance Business (Jersey) Law 1996 ("IBJL") in relation to the transfer of Jersey policies described above (the "Jersey Scheme") which is to be submitted to the High Court in Jersey (the "Jersey Court") for approval; and

(3) Section 44 of the Insurance Business (Bailiwick of Guernsey) Law 2002 ("IBGL") in relation to the transfer of Guernsey policies described above (the "Guernsey Scheme") which is to be submitted to the High Court in Guernsey (the "Guernsey Court") for approval.

1.5 The Jersey Scheme and the Guernsey Scheme, which provide for the transfer of policies on substantially the same terms as the English Scheme, are conditional on the sanction of the English Scheme by the English Court and are expected to become effective on the same date.

1.6 Unless otherwise indicated in this Report, the English Scheme, the Jersey Scheme and the Guernsey Scheme are referred to collectively as the "Scheme" and the English Court, the Jersey Court and the Guernsey Court are referred to collectively as the "Court".

1.7 The Independent Expert must be approved by the Prudential Regulation Authority ("PRA"), having consulted with the Financial Conduct Authority ("FCA") (the PRA and the FCA together, the "Regulators").

1.8 Abbey Life and Phoenix have nominated me to act as Independent Expert and to provide the Report in respect of the Scheme, and the PRA has approved my appointment in consultation with the FCA. The shareholders of Phoenix are meeting the costs of my appointment.

1.9 The Scheme will be submitted to the Court for sanction under Section 111 of Part VII of the FSMA. If approved, it is expected that the Scheme will become operative and take effect on 31 December 2018 (the "Transfer Date"). This Report and any Supplemental Report[1] I may issue (together my "Reports") will be presented to the Court which will consider the contents of these Reports in deciding whether to sanction the Scheme.

1.10 In preparing my Report, I have considered the terms of the Scheme only and have not considered whether any other scheme might provide a more efficient or effective outcome.

1.11 To the best of my knowledge, all material facts have been considered when assessing the impact of the Scheme and preparing my Report.

1.12 The Report describes the impact on policyholders that transfer as a result of the Scheme ("Transferring Policyholders") and the likely effect on existing policyholders of Phoenix ("Current Policyholders"). I also consider the impact of the Scheme on the current reinsurers of Abbey Life.

What happens if the Scheme is not implemented?

1.13 If the entire Scheme does not proceed for any reason, then the transferring policies will remain within Abbey Life and will not become policies of Phoenix. In this situation, the internal reinsurance agreement between Abbey Life and Phoenix will remain in place and Abbey Life will continue to meet the requirements under its capital policy.

Layout of the Report

1.14 The report is structured as follows:

- this section sets out an introduction to the Scheme and the Report;
- Section 2 provides a summary of my conclusions;
- Section 3 provides some background information to the regulatory regime in UK;
- Section 4 and Section 5 describe the background to the entities involved;
- Section 6 describes the purpose and terms of the Scheme;
- Section 7 describes the proposed Conversion of With-Profits Funds to Non-Profit;
- Section 8 describes the impact of the Scheme and Conversion on the Transferring Policyholders;
- Section 9 describes the impact of the Scheme on the Current Policyholders of Phoenix;
- Section 10 describes the impact of the Scheme on the external reinsurers; and
- Section 11 outlines other considerations relevant to the Scheme.

The Independent Expert

1.15 I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years' experience in the life insurance industry. I am a Partner at Grant Thornton UK LLP ("Grant Thornton"). I joined Grant Thornton as a partner in October 2014. Prior to this I held senior roles at a number of firms including partner roles at EY and KPMG. Appendix A sets out more details of my experience. Appendix B is an extract from the letter of engagement between Grant Thornton, Abbey Life and Phoenix, setting out the agreed scope of my work.

[1] In order to reflect any updated financial information or circumstances nearer the date of the final Court hearing, I will provide a Supplemental Report to update my opinions in respect of the Scheme.

Independence

1.16 I confirm that in my opinion I have no conflict of interest that would compromise my ability to assist with this assignment. In reaching this opinion, I have considered the following factors to the best of my knowledge and belief:

- I am not and never have been a director or employee of Abbey Life or Phoenix;
- I have not provided any material consulting services or acted in any advisory capacity to Abbey Life or Phoenix in the last 3 years that create a conflict with my acting as the Independent Expert;
- I have never been a shareholder in Abbey Life or Phoenix nor acted as a representative of a shareholder nor invested in either of them through commercial loans or as a policyholder;
- I have not been part of an external audit to either Abbey Life or Phoenix, in the last three years;
- I do not hold any directorships in common with any of the directors or advisors of Abbey Life or Phoenix;
- I do not have any family ties with the directors, senior employees or advisors of Abbey Life or Phoenix;
- I have considered the most recent guidance issued by the Actuarial profession regarding conflicts of interest and have identified no conflict of interest that might compromise my independence; and
- I am of independent character and judgement.

1.17 Grant Thornton is a large consulting firm and has advised the Phoenix Group on various assignments. Grant Thornton has also advised Abbey Life on a small number of assignments. I do not believe that any of the assignments carried out for the Phoenix Group or Abbey Life compromise my independence, create a conflict of interest, or compromise my ability to report on the proposed Scheme. These assignments were disclosed to the Regulators prior to their approval of me as the Independent Expert

Regulatory and professional guidance

1.18 My 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, dated April 2015. See Appendix C for details of how these requirements have been met.

1.19 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. See Appendix D for details of how these requirements have been met.

1.20 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this 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 Report and my work underlying it does so in all material respects.

1.21 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.

Materiality

1.22 This Report, and the analysis undertaken in order to produce this Report, applies the concept of materiality. The test I have applied is whether the position of any group is, in the round, "materially adversely affected". This phrase is used in the context of considering policyholder security in SUP 18. For any group of policyholders, there may be some changes for the better and some for the worse. If there are some changes for the worse this does not necessarily mean that the Scheme is unfair or unreasonable, as they might be outweighed by other benefits, or they might be extremely small. The word "material" is not defined in SUP 18, so where there are potentially adverse changes I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

Reliance

1.23 In preparing this Report I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by Abbey Life and Phoenix. Reliance has been placed upon, but not limited to, the information detailed in Appendix E. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life insurance industry but have not otherwise verified it. I have also relied on the report produced by the external tax expert appointed by Abbey Life and Phoenix for advice on the tax impact on policyholders as a result of the Scheme, as well as the lawyers appointed by Abbey Life and Phoenix for advice on legal matters in relation to the Scheme.

1.24 The Report has been prepared for the purpose of the Scheme in accordance with Section 109 of FSMA. A copy of the Report will be sent to the Regulators, and will accompany the Scheme application to the Court. It will also be available on the websites of both companies and upon request a copy of the Report may also be sent to certain policyholders.

1.25 This Report is not suitable for any other purpose. No liability is accepted or assumed for any use of this Report for any other purpose other than that set out in paragraph 1.24 above.

1.26 The Report must be considered in its entirety, as individual sections, if considered in isolation, may be misconstrued.

1.27 The findings contained in this Report are based on data and financial information as at 31 March 2018[2]. Future results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, changes in management and changes in law or regulation. I accept no responsibility for future results or future events.

My approach

1.28 My approach to assessing the likely effects of the Scheme on policyholders is to:

- understand the nature and structure of the Scheme;
- identify the groups of policyholders that would be affected;
- assess the financial positions of the companies involved;
- consider the implications of the Scheme on the level of policyholder benefits.
- consider the implications of the Scheme on the level of security of benefits provided to the affected policyholders;
- consider the potential impact on levels of customer service;
- consider other factors that might affect policyholders; and
- consider the implications of the Scheme on reinsurers.

[2] Abbey Life and Phoenix audit certain financial information for example, number of policies on an annual basis. The financial information in this report relating to these aspects will be as at 31 December 2017.

1.29 My approach to the analysis within this report includes the consideration of the information received, and this is supplemented by desktop reviews, face-to-face meetings, challenge and questioning by me of information and additional research where required. In addition, I have discussed relevant issues with executives including Abbey Life's Chief Actuary and With-Profits Actuary.

1.30 In order to form my opinions , I have taken into account:

- the appropriateness of the methods used by Abbey Life and Phoenix to calculate the estimates of capital requirements;
- the relative capital strength of the two companies;
- the absolute capital strength of each of the two companies both now and in the future where relevant; and
- the difference in the risk profile between the two companies.

Legal jurisdiction

1.31 This Report will be governed and construed in accordance with English law and the English courts will have exclusive jurisdiction in connection with all disputes and differences arising out of, under or in connection with this Report.

Duty to the Court

1.32 In reporting on the Scheme as the Independent Expert, I understand that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to Abbey Life and/or Phoenix. I confirm that I have complied with this duty.

1.33 I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules: The Practice Direction and Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I confirm that I have understood my duty to the Court.

1.34 I confirm that I have made clear which facts and matters referred to in this 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.

1.35 The 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.

1.36 Finally, Abbey Life and Phoenix have seen my report and each has agreed that it is correct in terms of all factual elements of the transfer.

2 Executive Summary

2.1 This section of the report provides a summary of the Scheme and my conclusions. This summary will form part of the policyholder communications sent to the majority of Abbey Life policyholders for whom Abbey Life holds a current address, to inform them about the Scheme. It will also be available (free of charge) on request and on Abbey Life's website.

Purpose of the Scheme

2.2 It is proposed to transfer all of Abbey Life's business into another UK life insurance company within the Phoenix Group. This transfer will enable them to de-authorise Abbey Life and increase operational efficiency by reducing the number of life assurance companies within the Group. For Abbey Life the motivation of entering into the Scheme is the transfer of its business into a well-capitalised and diversified insurance company.

2.3 As part of the transfer it is proposed to convert the with-profits policies within the two with-profits funds of Abbey Life Hill Samuel PB Fund and Abbey Life PB Fund to non-profit.

Effect of the Scheme

2.4 At the Transfer Date (as defined in the Scheme) all of the policies in Abbey Life will transfer to Phoenix and become policies of Phoenix. Other than for with-profits policies there will be no change to any of the terms and conditions or options and guarantees of the transferring policies as a result of the Scheme.

2.5 All policies within the two with-profits funds of Abbey Life will be converted to non-profit policies with guaranteed future bonuses and all assets and liabilities in these funds will be transferred to the non-profit fund of Phoenix. Both funds are currently in run-off and only have 1220 and 89 policies remaining respectively as at 31 December 2017.

2.6 The Scheme will have no impact on the customer treatment policy, which covers product discretion and governance structures implemented by Phoenix Group.

2.7 At the Transfer Date Phoenix will become party to all external third party reinsurance treaties in relation to the transferring business currently held by Abbey Life. These treaties will continue to operate in the same way as they did before the Transfer Date with no changes to the terms of the reinsurance. With the implementation of the Scheme, the reinsurance between Abbey Life and Phoenix will cease.

The impact of the Scheme on Abbey Life Policyholders

Policyholder benefit expectations and contractual rights

Non-Profit and Unit-Linked Policyholders

2.8 The Scheme does not amend any of the policy terms and conditions of the unit-linked and non-profit transferring policies.

2.9 For non-profit business (including Corporate Transactions, but excluding unit-linked policies) benefits on death or maturity are generally fixed amounts and not impacted by expenses or tax charged to the non-profit fund. However, there are a number of areas where discretion may be applied which may impact benefit payments, for example charges applied on surrender, policy conversion and product reviews. Following the transfer, it will fall to the management of Phoenix to exercise such discretion. A group wide discretion policy applies to both companies. More details on the policy and my opinion on the fairness for transferring policyholders is described below.

2.10 For unit-linked policies, policyholders' benefit expectations depend on the underlying performance of the funds. New unit-linked funds will be created in Phoenix corresponding to those in Abbey Life and they will have the same asset pools and charges and will be priced on the same basis as the equivalent funds immediately before the transfer. I understand that there are no current plans to harmonise the unit-linked funds for Abbey Life and Phoenix post transfer.

2.11 The charges on the unit-linked policies are subject to review and generally increase in line with inflation. The group operates a product governance framework which determines the approach taken while making any changes to discretionary policy charges. This policy applies to both Abbey Life and Phoenix and I am satisfied that as it is a group policy there will be no change in the approach to applying discretion on the policies post transfer.

2.12 Discretion in relation to policy expenses, risk charges and sum assured reviews for Abbey Life policies will continue to fall under the remit of the Customer Treatment Policy and the Product Risk and Assurance Framework which apply to all companies within the Phoenix Group. There will be no change to the way in which the exercise of product discretion of Abbey Life policies is operated and governed post transfer.

2.13 Where not already permitted under a policy's terms and conditions, the Scheme will permit Phoenix to close, divide, wind up or modify the investment objectives of the funds provided that the Phoenix Board considers the treatment equitable between the affected policyholders (having regarding to the advice of the Phoenix Chief Actuary). These additional powers will not override the terms and conditions of any policy and reflect standard market practice; I am satisfied that it does not adversely impact policyholders' benefit expectations or contractual rights.

2.14 I am satisfied that the Scheme will not have any material impact on the benefit expectations and will not affect the contractual rights of the Transferring Non-Profit and Unit-Linked Policyholders. I have reached this conclusion because:

- the policy terms and conditions do not change as a result of the Scheme;
- there is no change to the way discretion will be applied to non-profit and unit-linked business nor the governance around the discretion; and
- the additional powers granted by the Scheme for unit-linked policies reflect good market practice.

With-Profits Policyholders

2.15 With-profits policies will lose their rights to participate in the profits of their respective sub-funds and be converted to non-profit policies. The terms of the Conversion for each of the sub-funds is summarised below.

Hill Samuel PB Fund

2.16 The Fund has a sunset clause which allows conversion of policies to non-profit when the number of policies in the fund falls below 1000. This is expected to happen in 2019. Abbey Life has been managing the fund for the past few years with aim of distributing the surplus to all policies by the time of Conversion.

2.17 Existing bonuses attaching to policies will continue to be guaranteed. Future annual bonuses will be fixed at the current rate of 0.5%. The surplus in the fund at the Transfer Date will be determined based on the policies in-force, economic and other factors. The current table of final bonus scales, which vary by year of maturity and by year entry, will then be pro-rated to distribute the surplus among remaining policies at the Transfer Date and the table of final bonus scales will be fixed.

2.18 The surrender value basis will be determined using the same assumptions as those used to calculate the final bonus and then the surrender basis will be fixed. The surrender basis will continue to reflect the fair value benefits on the surrendering policies including a final bonus and a special bonus as described in paragraphs 2.21 to 2.24. The actual surrender amount will be determined at the time of surrender; calculated using the actual discount rate.

Abbey Life PB Fund

2.19 The Planned Investment Endowments ("PIE" policies) will receive guaranteed annual bonuses at the current level. The final bonus at the Transfer Date will be calculated in the normal way based on actual investment returns received with the aim of distributing any surplus in the fund among the remaining policies and future final bonus will be based on the actual investment returns from the underlying unit trust or OEIC. The conventional with-profits endowment and whole of life policies ("CWP" policies) will continue to receive guaranteed annual bonuses at the current bonus rate. There will be no changes to the benefits of the unit-linked pension Investment Annuity Contract ("IAC") policies.

2.20 The surrender value basis will be fixed to reflect the fair value benefits on the surrendering policies including final bonus for the PIE policies and special bonus for PIE and CWP policies at the Transfer Date. The actual surrender amount will be determined at the time of surrender.

Special Bonus

2.21 There are currently some policies in the with-profits funds where it is difficult to identify the current address of the policyholder due to missing data. The companies are undertaking a tracing exercise to identify a contact address for as many with-profits policies as possible. However, it is reasonable to expect that some policyholders will not be traced by the Transfer Date.

2.22 Assets in the with-profits funds are allocated to all in-force policies. Post conversion the non-profit fund of Phoenix will be responsible for claim payments on all in-force policies. It is expected that a claim may not be made on a proportion of those policies where the companies are unable to trace the policyholder. If this happens the release of assets allocated to these policies will be a source of potential future surplus

2.23 Where it is expected that a claim is unlikely to be made, it is proposed that at least 50% of the potential surplus arising from these policies is distributed to all policies in force at the Transfer Date in the form of a special bonus. As the non-profit fund of Phoenix will be responsible for future claim payments on all policies, including policies that are not expected to claim it will receive the remaining portion of the surplus.

2.24 In my opinion, the proposed distribution is fair to both policyholders and shareholders. As policyholders have not historically shared in this surplus they have no expectation of receiving any share of this surplus and any special bonus they receive will be higher than what they expect. Given shareholders are responsible for future claims on any untraced policies it is fair that they receive some compensation for this.

2.25 Overall, 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. I have reached this conclusion because:

- It is sensible to use a Part VII scheme to close small with-profits funds and distribute the remaining surplus fairly among remaining policyholders.
- The Conversion provides more certainty over death and maturity benefits and expenses charged to 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 polices including the final and special bonus and the surrender basis will be fixed. The actual surrender amount will be determined at the time of surrender using the discount rate applicable on surrender.
- Where it is expected that a claim is unlikely to be made, it is proposed that at least 50% of the potential surplus arising from these policies is distributed to all policies in force at the Transfer Date in the form of a special bonus. In the past policyholders did not share in the surplus of policies that did not claim.
- Given shareholders bear the risk of potential claims on untraced policies I am satisfied that reserves will be held in the non-profit fund of Phoenix for all policies including those where a claim is not expected to be made.
- 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's with-profits funds.

Security of transferring policyholder benefits

2.26 Even if the level of benefits will not change, it is important to consider whether Phoenix will be able to make those payments in the future. I have therefore considered Phoenix's financial strength and solvency.

2.27 Across the EU, every insurer must satisfy minimum solvency standards by maintaining a minimum level of capital, known as the Solvency Capital Requirement ("SCR"). Both Abbey Life and Phoenix calculate their capital requirements using the same Solvency II Internal Model approved by the PRA. Phoenix will continue to calculate its capital requirements in this manner following the Scheme.

2.28 The financial analysis I have considered indicates that Phoenix would continue to meet its regulatory capital requirement as well as the requirements of its own capital policy after the Scheme has been implemented.

2.29 Although the percentage SCR cover in Phoenix post the implementation of the Scheme is less than it is in Abbey Life I am satisfied that this will not have a material effect on the security of the benefits of the transferring Abbey Life policyholders. I have reached this conclusion because:

- capital policies and governance of the capital policies are the same for both companies;
- both companies are capitalised above their target capital level and this position does not change even after the dividend payment from the excess capital of Abbey Life of £250m;
- both companies operate similar risk management framework, policies, risk appetite and limits and these are similar to the general market practice in UK;
- both companies operate under the same risk based regulatory regimes;
- As both companies operate under the same regulatory framework the Financial Services Compensation Scheme ("FSCS") will continue to provide additional protection to policyholders post transfer; and
- I consider the higher SCR ratio of Abbey Life to be a temporary feature while the group is restructuring and understand that it would normally be distributed to shareholders so as to operate at a level close to target.

Governance arrangements

2.30 The transferring policies will be subject to the governance arrangements of Phoenix. The Phoenix Board has the same composition as the Abbey Board, with same number of independent members. The same committees of the Board oversee the day-to-day governance as those currently under Abbey Life.

Cost and tax effects of the Scheme

2.31 The costs of the Scheme are borne by shareholders of Phoenix as mentioned in 1.8 and I am satisfied that this will have no impact on policyholder benefits.

2.32 I have reviewed the report produced by the external tax expert appointed by Phoenix and understand that there will be no impact to policyholders' tax status as a consequence of the Scheme. I also understand that Phoenix are in discussions with HMRC to confirm this.

Service standards

2.33 Policy administration is currently outsourced. I am not aware of any proposed changes to policy administration immediately following the transfer. There will be no change to the terms upon which the administrative and investment management arrangements are provided as a result of the Scheme. The Scheme will not change the manner in which the administration of the transferring policies is carried out.

2.34 The agreed service standards will continue post transfer and therefore, there is no reason to expect that the quality and level of service provided to the Transferring Policyholders will deteriorate as a consequence of the Scheme.

Communications with policyholders

2.35 Transferring Policyholders for whom Abbey Life holds current address details on its computerised systems will receive a communications pack.

2.36 I have reviewed the communications that will be sent to all Transferring Policyholders and I am satisfied that they are appropriate and not misleading.

Rights of policyholders who object to the Scheme

2.37 Any policyholder who feels they may be adversely affected by the Scheme may put their objections to Abbey Life, Phoenix or the Court. I will consider any such objections when concluding on the appropriateness of the Scheme when I issue my Supplemental Report.

The impact of the Scheme on the Current Policyholders of Phoenix

Policyholder benefit expectations and contractual rights

2.38 All of Abbey Life's business will be transferred to the non-profit fund in Phoenix. Any new annuities written in respect of Abbey Life pension policies after the Transfer Date will be written in the non-profit fund.

2.39 No business will transfer to the with-profits funds of Phoenix. These will continue to operate as separate ring-fenced funds within Phoenix. There will be no change to the management and operation of with-profits discretion as a consequence of the Scheme.

2.40 Under the terms of the Scheme there will be no change to any of the terms and conditions of the current policies within Phoenix. Phoenix management has discretion with regard to the level of charges on existing unit-linked business in the non-profit fund. The exercise of this discretion or any related governance is set out in the Group Discretion policy which will not change as a result of the Scheme.

2.41 On this basis I consider that there will be no reduction in the benefit expectations of the current Phoenix policyholders as a result of the Scheme.

Security and level of benefits

2.42 The regulatory capital requirements will not change as a result of the Scheme and so there will be no change to the financial strength applicable to Phoenix and security provided by the regulatory capital requirements before and after the implementation of the Scheme.

2.43 The proposed Scheme will not change the capital policy of Phoenix nor the governance around the capital policy. The additional capital requirements will be maintained post the implementation of the Scheme.

2.44 The implementation of the Scheme will have a positive impact on the SCR cover of Phoenix. The company is well capitalised post transfer, the SCR cover is above the target level. The SCR cover is significantly higher immediately post transfer, however, the excess over the target level can be distributed as dividends.

2.45 The implementation of the Scheme will have no effect on:

- The capital policy of Phoenix.
- The risk management framework, risk policies and risk appetite of Phoenix.
- The existing reinsurance arrangements of Phoenix besides the collapse of the inter-company reinsurance with Abbey Life.
- The ring-fenced funds of Phoenix.
- Additional protection provided by the FSCS.
- Regulatory regime under which the company operates.

2.46 Overall I am satisfied that the implementation of the Scheme will not have a materially adverse impact on the security of benefits for the policyholders of Phoenix due to the reasons described above.

Risk profile

2.47 I am satisfied that the transfer will have a limited impact on the risk profile of Phoenix as the majority of risks of Abbey Life are already reinsured with Phoenix under the inter-company reinsurance arrangement.

Governance arrangements

2.48 The previous Phoenix schemes set out the governance framework and policies. The Scheme does not impact the terms of the previous Phoenix schemes and I am satisfied that there will be no change to the governance arrangements for policies in Phoenix as a result of the Scheme.

Costs and tax effects of the Scheme

2.49 The costs incurred by Phoenix of implementing the Scheme will be borne by the shareholders of Phoenix and not the policyholders. There will be no tax impact on the benefits of the existing policyholders of Phoenix.

Service Standards

2.50 Phoenix currently outsources its administration to Pearl Group Management Services Limited ("PGMS") and Pearl Group Services Limited ("PGS"). There will be no change to this arrangement or the service standards agreement for existing policies as a result of the Scheme. The policy administration will be carried out by the same teams.

2.51 As there are no changes to the terms of the outsourcing arrangements of the existing business, I do not expect the quality of administration or the level of service provided to Phoenix policyholders to deteriorate as a consequence of the Scheme.

Policyholder communications

2.52 Phoenix intends to seek waivers from the requirement to send written notices to the Current Policyholders as it believes that the cost of mailings will be disproportionate relative to the benefits to the policyholders that would result from such mailing. I am satisfied that it is fair and reasonable to apply for a waiver to not send written notices to the Current Policyholders.

The impact of the Scheme on external reinsurers

2.53 Abbey Life has various external reinsurance contacts in place covering the Transferring Policies. All of these external reinsurance contracts will be transferred from Abbey Life to Phoenix pursuant to the Scheme as at the Transfer Date. There will be no change to any of the terms and conditions of any of the external reinsurances contract as a result of the Scheme as at the Transfer Date.

2.54 There will be no change to the terms and conditions of the external reinsurance arrangements that Phoenix has for its Current Policyholders as a result of the Scheme.

2.55 Overall I am satisfied that the Scheme is equitable to all policyholders of Abbey Life and Phoenix and I see no reason why the Scheme should not go ahead.

3 Regulatory background

Introduction

3.1 In this section I describe the UK regulatory regimes.

Overview of the UK regulatory regimes

3.2 In the UK, the financial services industry, including insurance companies, are regulated by both the PRA and the FCA using a system of dual regulation. The PRA and the FCA are statutory bodies set up under the Financial Services Act 2012.

3.3 The PRA is part of the Bank of England and is responsible for:

- prudential regulation of banks, building societies and credit unions, insurers and major investment firms;
- promoting the safety and soundness of the firms it regulates, seeking to minimise the adverse effects that they can have on the stability of the UK financial system; and
- contributing to ensuring that insurance policyholders are appropriately protected.

3.4 The FCA is a separate institution with a strategic objective of ensuring that its regulated markets function well and is responsible for:

- conduct regulation of all financial firms; and
- prudential regulation of those financial services firms that are not supervised by the PRA.

3.5 A Memorandum of Understanding ("MoU") has been established between the PRA and the FCA, which sets out the high level framework under which the two regulatory bodies will co-ordinate their activities. In particular, the PRA and FCA are required to co-ordinate with each other in advance of insurance business transfers under Part VII of FSMA.

Solvency framework overview

3.6 Firms are required to assess solvency under a regime known as Solvency II. This is a relatively new regime which came into effect from 1 January 2016. A high level summary of the Solvency II framework is set out in paragraphs 3.7 to 3.12 below.

3.7 Solvency II is a European wide framework. Under Solvency II, solvency requirements have been harmonised across member states of the European Union and an economic risk-based approach has been adopted.

3.8 Solvency II is a principles-based regime, based on three pillars:

- under Pillar I, quantitative requirements define a market consistent framework for valuing the company's assets and liabilities, and determining the Solvency Capital Requirement ("SCR");
- under Pillar II, insurers must meet certain standards for their corporate governance, and also for their risk and capital management. There is a requirement for permanent internal audit, compliance, risk management and actuarial functions. Insurers must regularly carry out an Own Risk and Solvency Assessment ("ORSA"); and
- under Pillar III, there are explicit requirements governing disclosures to regulators and public disclosure.

3.9 Under Solvency II, firms may choose to calculate the SCR using either a Standard Formula, as defined in the Solvency II rules, or they can choose to develop their own Internal Model. Where a Standard Formula is used there is a requirement for both the firm and the local regulator to assess the appropriateness of using a Standard Formula. Where an Internal Model is used, the model must be approved by the local regulator; the PRA in case of UK firms.

3.10 If certain conditions are in place, the local regulator may require a firm that calculates its capital requirements using the Standard Formula to hold additional capital (known as a capital add-on) to cover certain of the risks specific to an individual firm that the local regulator; the PRA in case of UK firms, deems not to be adequately captured by the Standard Formula.

3.11 Subject to approval of the local regulator, firms may make a number of adjustments to their Solvency II results. The types of adjustments that may be applied for include the following:

- transitional measures on technical provisions ("TMTP"). 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[3];
- transitional measures on the risk-free interest rate. This allows firms to phase in any reduction in the discount rate used under Solvency II compared to that permitted under Solvency I; and
- matching adjustment ("MA")/volatility adjustment ("VA"). These are adjustments to the risk free interest rates used to discount insurance obligations. The main difference between the MA and VA adjustments is that the MA is calculated by firms based on a specifically identified portfolio of assets and liabilities whereas the VA is set in accordance with the Solvency II Directive on the basis of technical information published by EIOPA.

3.12 Under Solvency II Pillar II, the ORSA captures the insurer's own assessment of its risk profile and capital position, which provides a more company-specific assessment compared to the prescribed methods under Pillar I. As part of an insurer's risk management procedures, firms are required to set a risk appetite, which quantifies the level of risk an insurer is prepared to take, and a capital policy, which ensures the company is managed in line with its risk appetite.

Conduct principles

3.13 The FCA is responsible for conduct regulation of all financial firms, including insurers. Rules and guidance for firms are set out in the FCA Handbook. The Handbook includes 11 Principles for Businesses, which are high-level standards that all firms must meet. These are as follows:

- Integrity - A firm must conduct its business with integrity.
- Skill, care and diligence - A firm must conduct its business with due skill, care and diligence.
- Management and control - A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- Financial prudence - A firm must maintain adequate financial resources.
- Market conduct - A firm must observe proper standards of market conduct.
- Customers' interests - A firm must pay due regard to the interests of its customers and treat them fairly.
- Communications with clients - A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.
- Conflicts of interest - A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

[3] TMTP is subject to a cap at the level of the Financial Resources Requirement as defined in the Solvency II regulations.

- Customers: relationships of trust - A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement.
- Clients' assets - A firm must arrange adequate protection for clients' assets when it is responsible for them.
- Relations with Regulators - A firm must deal with its Regulators in an open and co-operative way and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.

Policyholder protection

3.14 As well as through the PRA solvency framework and the FCA conduct principles, policyholders are also provided with further protection through the FSCS and the Financial Ombudsman Service ("FOS").

FSCS

3.15 FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long-term insurance policies, such as annuities, the FSCS will pay 100% of any eligible claim. The FSCS is funded by levies on firms authorised by the PRA and FCA.

FOS

3.16 FOS is an independent body set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves.

Governance of long-term insurers

3.17 Under usual circumstances, a long-term insurer will have a Board of Directors, which governs the entity. They will be responsible for the strategy, culture, day-to-day management and approval of the insurer's financial statements.

3.18 On 7 March 2016, the PRA introduced the Senior Insurance Managers Regime ("SIMR") which defines and details the responsibilities of Senior Insurance Management Functions ("SIMF"), including:

- SIMF1 – Chief Executive Officer;
- SIMF2 – Chief Financial Officer;
- SIMF4 – Chief Risk Officer;
- SIMF5 – Head of Internal Audit;
- SIMF20 – Chief Actuary;
- SIMF21 – With-Profits Actuary (firm's containing with-profits business); and
- SIMF22 – Chief Underwriting Officer (general insurance firms only).

3.19 Individuals fulfilling each of the above roles must be approved by the PRA. This regime aims to ensure that individuals performing the above roles have the required skills and experience to act in that particular capacity.

Risk appetite and capital policy

3.20 The Board of Directors is responsible for setting the entity's risk appetite and capital policy, which ultimately manages the entity's exposure to risk.

3.21 It is usual for firms to hold more than the regulatory minimum capital. This helps to ensure that day-to-day fluctuations do not lead to a breach of the regulatory minimum and can help to demonstrate the financial strength of the entity and ensure a minimum credit rating with external agencies. The level of this buffer will be set out in the firm's capital policy. This policy will be set by the Board, and any changes would be subject to Board approval with consultation of the Regulators also being required.

Management of with-profits business within the UK

3.22 Section 20 of the Conduct of Business Sourcebook ("COBS") sets out the FCA's rules in relation to managing with-profits business, including the governance and management of with-profits funds, treating with-profits customers fairly, the Principles and Practices of Financial Management ("PPFM") and communications with with-profits policyholders.

3.23 Section 20.3 of COBS sets out the requirement for all firms that conduct with-profits business in the UK to define and make publically available the PPFM that are applied in the management of their with-profits funds.

3.24 In managing with-profits business firms rely on their use of discretion, particularly in relation to the investment strategy followed and the smoothing and bonus policy used to determine payments to policyholders. The purpose of the PPFM is to explain the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.

3.25 The FCA rules[4] also set out the governance arrangements that must be put in place for with-profits business. This includes a requirement to appoint a with-profits committee ("WPC") (where the majority of members are independent of the firm or, where there is an equal number of independent and non-independent members, chaired by an independent member) or a with-profits advisory arrangement.

3.26 Ultimate responsibility for managing a with-profits fund rests with the firm through its governing body. The role of the WPC or advisory arrangement is, in part, to act in an advisory capacity to inform the decision-making of a firm's governing body. The WPC or advisory arrangement also acts as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures.

3.27 Under the PRA rules[5] a firm carrying on with-profits business must appoint one or more actuaries to perform the role of with-profits actuary ("WPA") function. The duties of the WPA include a requirement to advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which he or she has been appointed. A WPC or advisory arrangement will usually be expected to work closely with the WPA, and obtain his or her opinion and input as appropriate.

3.28 When a firm ceases to effect new contracts in a with-profits fund it must submit a run-off plan to the appropriate regulator within three months of closure of the with-profits fund to new business[6]. The run-off plan should include an up-to-date plan to demonstrate how the firm will ensure a fair distribution of the closed with-profits fund, and its inherited estate (if any); and be approved by the firm's governing body.[7]

[4] FCA Handbook: COBS 20.5.
[5] PRA Rulebook/Solvency II Firms/Actuaries/Appointment of Actuaries/2.2
[6] COBS 20.2.53
[7] COBS 20.2.56

Management of unit-linked business within the UK

3.29 There a fewer regulations around the management of unit-linked business within the UK compared to those for with-profits business. The main source of regulation for unit-linked business is within the COBS.

3.30 Section 21 of COBS sets out the FCA's rules in relation to managing unit-linked business, including the fair and accurate determination of unit values, policyholder notification of a unit fund's risk profile, the use of reinsurance for unit-linked business and restrictions on unit-linked assets.

Application of regulations to Abbey Life and Phoenix

3.31 Both Abbey life and Phoenix are UK regulated companies and comply with the same set of regulations.

4 Background on Abbey Life Assurance Company Limited

Introduction

4.1 Abbey Life is a private limited company incorporated and domiciled in the UK. The principal activity of Abbey Life is the transaction of long-term insurance business to retail and corporate clients. The company closed to new business in 2000, but it continues to issue policies under options on existing policies; including the acceptance of new members to existing pension arrangements and the issue of immediate annuities in respect of vesting pension policies. It has also written five Corporate Transactions in recent years, with the last transaction written in 2016.

History

4.2 Abbey Life was founded on 12 December 1961. In 1985, it was floated on the London Stock Exchange. The company sold most of its products through their direct salesforce and also had a small proportion of sales through IFAs, appointed representatives and direct marketing.

4.3 In addition to its own directly written business, it includes portfolios of business transferred under Part 1 of Schedule 2C of the Insurance Companies Act 1982 in 1998 from:

i Ambassador Life Assurance Company Limited ("Ambassador Life"). Ambassador Life includes business transferred from London and Edinburgh Life Company;

ii Hill Samuel Life Assurance Limited ("Hill Samuel"). Hill Samuel's portfolio included business transferred under two schemes:

   a HSLA Residual Assets Limited (then called Hill Samuel Life Assurance) to Hill Samuel Assurance Limited (then called Target Life Assurance Company) in 1995; and

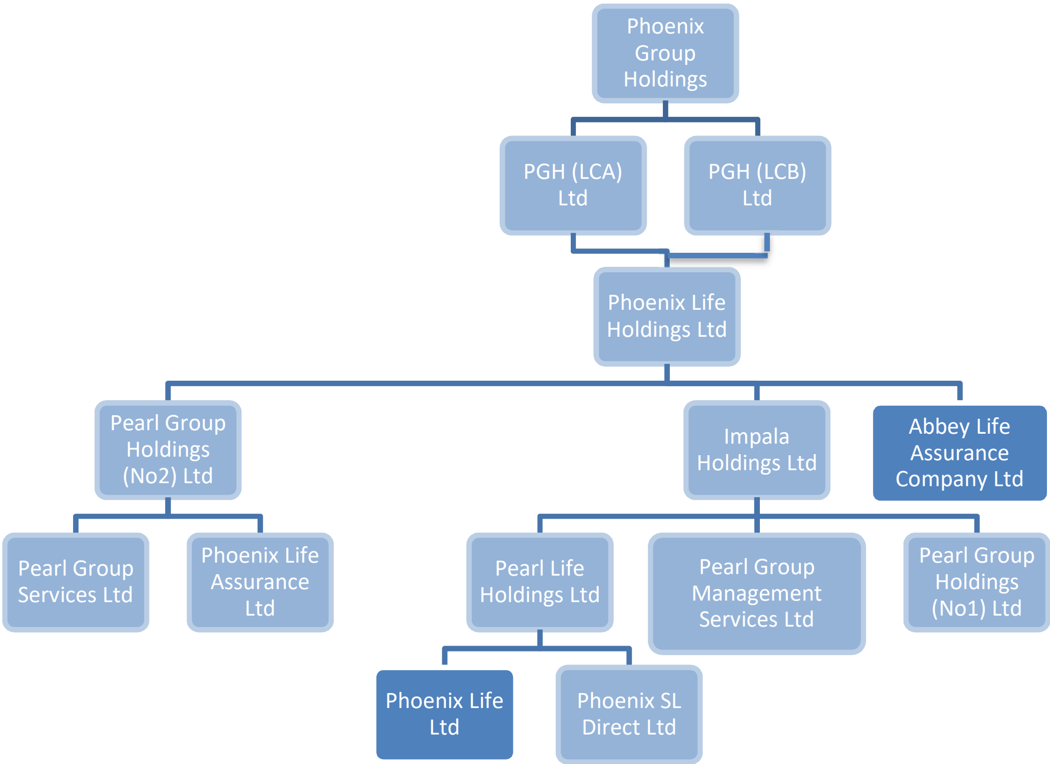
   b National Financial Management Corporation Plc to Hill Samuel Assurance Limited (then called Target Life Assurance Company) in 1991.

4.4 Abbey Life was sold to Lloyds Banking Group in 1996 before becoming a subsidiary of Deutsche Bank AG in 2007. In December 2016, the company was acquired by the Phoenix Group.

Structure

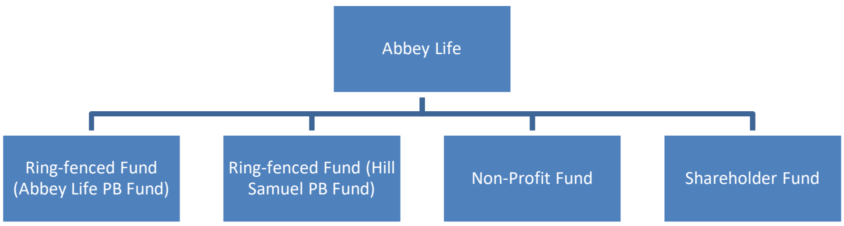
Company structure

4.5 Abbey Life is currently a subsidiary of Phoenix Life Holdings Limited. A simplified Group Structure chart is shown below:



Fund structure

4.6 The diagram below summarises the current fund structure of Abbey Life. This shows Abbey Life as being subdivided between two ring-fenced with-profits funds, a non-profit fund and a shareholder fund.



4.7 The with-profits funds operate on 90:10 basis and are in run-off. Under Solvency II, there is no legal or regulatory requirement to segregate the assets of the non-profit fund and the shareholders' fund. However, Abbey Life chooses to maintain separate non-profit fund and shareholder fund for accounting and operational purposes, to separate the business allocated to the non-profit fund from the assets and liabilities of the shareholders' fund. In the financial analysis sections of the Report, the shareholder fund is included in the non-profit fund.

4.8 The table below highlights the number of policies for each fund and the assets under management as at 31 December 2017. The numbers for assets under management and Best Estimate Liabilities ("BEL") have been subject to external audit.

Fund Name	Type of Business	Assets Under Management (£m)	Gross BEL (£m)	Number of Policies
Abbey Life PB Fund	With-profits	1	1	89
Hill Samuel PB Fund	With-profits	34	37	1220
Non-Profit	Annuities (immediate and deferred)	7,823	2,363	259,000
	Unit-linked		7,339	446,000
	Other		33	13000
	Corporate Transactions		(863)	5

Types of business written

4.9 With-profits products are mainly conventional whole of life and endowment policies and unitised with-profits policies (Planned Investment Endowment). The non-profit fund includes life, pension, health, index-linked and unit-linked policies, annuities and Corporate Transactions.

4.10 From 2010 the company commenced writing de-risking products for its corporate clients (known as "Corporate Transactions"). These mainly include taking on longevity risks from corporate pension schemes. There are currently five Corporate Transactions consisting of four longevity swap arrangements with corporate pension schemes and a bespoke arrangement in respect of life protection business.

Reinsurance arrangements

Internal Reinsurance

4.11 Abbey Life has two reinsurance treaties in place with Phoenix, effective from 29 December 2017. One treaty covers the reinsurance of certain annuities to the MA portfolio within the Phoenix non-profit fund. The other treaty reinsures the majority of the risks relating to the rest of the annuity business, unit-linked business and other non-profit business and the risks for corporate transactions that have not been externally reinsured, to the non-profit fund in Phoenix. The two with-profits funds within Abbey Life, the actual unit holdings in respect of the unit-linked business and certain operational risks are not reinsured under these treaties.

4.12 Under the reinsurance agreement, Phoenix receives a reinsurance premium and in return reinsures the majority of risks within Abbey Life. Neither party has a termination right under the reinsurance agreement; except when Phoenix can no longer fulfil its obligations.

4.13 Under the arrangement no collateral is posted. Abbey Life can request for a floating charge over the assets of Phoenix if:

- The capital resources of Phoenix falls below 110% of its SCR;
- The companies are no longer part of the same group or;
- The proposed Part VII transfer has not taken place by December 2022.

4.14 If, at Abbey Life's request Phoenix provides a floating charge, then under wind-up the reinsurance will rank pari passu with the policyholders in Phoenix.

4.15 When the Phoenix Group acquired Abbey Life from Deutsche Bank AG the terms of the acquisition included an indemnity clause for the FCA Legacy Pensions Review and Annuity Review. Under the terms of the indemnity the majority of the regulatory FCA fines under these reviews and a significant amount of compensation related to policyholder redress will be covered by Deutsche Bank AG Group. The remaining amount is covered by the internal reinsurance.

4.16 The risks currently retained in Abbey Life post the reinsurance with Phoenix include:

- risks within the with-profits funds;
- regulatory fines;
- risk that Phoenix will default on its obligations;
- residual amount of operational risk; and
- market and credit risks on the remaining assets.

External Reinsurance

Corporate Transactions

4.17 For three of the five transactions Abbey Life reinsures the majority of risks to external reinsurers, the residual risk on longevity exposure is passed on to Phoenix under the internal reinsurance arrangements.

4.18 For one transaction Abbey Life has an interest rate swap and external reinsurance arrangement in place. Risk exposure net of the external reinsurance and interest rate swap is reinsured with Phoenix.

4.19 For one transaction Abbey Life has reinsured all risks to Phoenix. The external reinsurance arrangement in relation to this reinsurance is already novated to Phoenix.

4.20 Under the internal reinsurance arrangement Phoenix bears the counterparty default risk in relation to all external reinsurance treaties for each transaction.

Retail Business

4.21 Abbey Life currently holds a number of reinsurance treaties with external reinsurers including Swiss Re, Hannover Re, Pacific Re, Partner Re and RGA.

Financial position

4.22 The Solvency II SCR results for Abbey Life as at 31 March 2018 are derived using the Phoenix Group's Internal Model (which includes Abbey Life's business) approved by the PRA in March 2018.

4.23 Following the reinsurance to Phoenix, Abbey Life has agreed with the PRA that it does not need to have a MA portfolio. It has not applied for TMTP or VA.

Solvency II Pillar I

4.24 The following table sets out the Solvency II Pillar I results as at 31 March 2018 net of reinsurance. These numbers take into account a dividend of £250m which was declared in June 2018.

	31 March 2018 £m
Total Assets	7,481
Total Liabilities	7,202
Excess of assets over liabilities	279
SCR	22
Excess capital over SCR	257
SCR Cover	1284%

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

4.25 I have reviewed the components of the SCR calculations carried out by Abbey Life and these indicated that the key risk for Abbey Life on the Internal Model basis post the internal reinsurance described above is operational risk (risk due to failure of people, process and systems). Capital is not held for internal counterparty default in the Internal Model. The SCR cover in Abbey Life is higher than that required under its capital policy.

4.26 I note that on 31 March 2018 98% of the assets held in respect of own funds are categorised as Tier 1 unrestricted capital and the rest as Tier 3 capital. I am satisfied that the assets backing the own funds of Abbey Life are of an appropriate quality.

4.27 I have reviewed the results of sensitivity tests on the level of SCR cover carried out by Abbey Life. I am satisfied that it does not affect any of the conclusions I have reached in this Report.

Solvency II Pillar II

4.28 I have reviewed Abbey Life's 2017 ORSA approved by the Board in March 2018. Operational risk is the key risk for Abbey Life under the ORSA. The ORSA indicates that Abbey Life is able to cover the solvency requirements on that basis.

Capital policy

4.29 I have been provided with internal management information regarding the risk appetite, risk limits and capital policies within Abbey Life that are aimed at safeguarding solvency levels in the future. In particular, I have reviewed the Abbey Life capital management policy ("ACMP") which requires it to hold additional capital equivalent to a 1-in-10 year all risk event. At year end 2017 this gives a capital buffer of 30% of Internal Model SCR. The percentage is reviewed each year to ensure the ACMP continues to meet its objective. The change in percentage does not affect the strength of the capital policy. These types of controls are consistent with the approach I have seen generally taken by life insurance firms and overall I am satisfied that these controls represent a sensible approach under the Solvency II regime to safeguard solvency levels.

4.30 The SCR cover at 31 March 2018 was in excess of the capital buffer set out in the ACMP. Any assets in excess of the ACMP may be distributed as dividends. Any deficit relative to the capital policy will require a corrective action, including no release of capital (through dividends) until the deficit is restored.

Capital support arrangements

4.31 Where a with-profits fund is not able to cover its own capital requirements on a standalone basis, capital support may be made available from the non-profit fund.

4.32 Both with-profits funds in Abbey Life are managed as funds in run-off with the aim of distributing excess surplus to the policyholders each year. Both funds thus rely on the non-profit fund to meet both the regulatory and the capital policy capital requirements.

Governance arrangements

4.33 Ultimate responsibility for the operation of Abbey Life rests with the Board. The Board comprises of an independent Chairman, a senior independent Director, three other independent Non-Executive Directors and four Executive Directors; members needing approval under the SIMR have been duly approved. The independent directors are not directors or employees of any of the Phoenix Group companies or directors of any parent company of Abbey Life or Phoenix.

4.34 The day to day governance of Abbey Life is overseen by seven committees of the Board as follows:

- Audit Committee - The committee comprises of a non-executive chairman and two non-executive directors. Mainly responsible for monitoring overall integrity of financial reporting, reviewing the effectiveness of the internal audit function and agreeing the scope of the external audit and maintaining relationship with the auditors.

- Investment Committee - comprises of a non-executive chairman, two non-executive directors and five executive members. Mainly responsible for establishing and implementing investment strategy, regularly reviewing investment and Asset Liability Management ("ALM") strategy and ensuring customers are treated fairly.

- Independence Governance Committee - comprises of a non-executive chairman, two non-executive members and two company representatives. The committee's duty is to act in the interest of the members of the corporate pension scheme.

- Model Governance Committee - comprises of a non-executive chairman, four non-executive directors and five executive directors. Responsible for monitoring the overall governance of the Internal Model and providing assurance to the Board on the appropriateness, performance and effectiveness of the Internal Model.

- Nominations Committee - comprises of a non-executive chairman, senior independent director and executive director. Responsible for the process of appointments to the Board and ensuring that the Board retains appropriate balance of skills, knowledge, experience and diversity to support the strategic objective of the company.

- Risk Committee - comprises of a non-executive chairman and four non-executive directors. The committee advises the Board on all risk matters – risk appetite and tolerance in setting the future strategy. It is responsible for maintaining the Risk Management Framework and reviewing the effectiveness of its operation.

- With-Profits Committee - comprises of a non-executive chairman, non-executive director, two non-executive members and an executive director. The duty of the committee is to provide clear advice, independent judgement and recommendations to the Board on the way in which each with-profits funds are managed and whether it is in line with the PPFM. Its responsibilities include outlining how competing or conflicting interests of policyholders and shareholders are addressed and considering major transactions of the company and how these impact the with-profits policyholders.

With-Profits

With-Profits governance

4.35 It is the responsibility of the Board to ensure that the with-profits funds are managed in line with their respective PPFMs.

4.36 The with-profits funds in Abbey Life are small and are in run-off. Both funds are managed such that any surplus or deficit is reflected in the final bonus for each year.

Charges

4.37 The with-profits policies are charged fixed per policy maintenance expense which includes a percentage loading for overheads; and are expected to increase in line with inflation.

4.38 The charge for investment expense is fixed and is in line with a long standing internally agreed rate which is less than that incurred by Abbey Life.

Tax

4.39 The with-profits funds are taxed as if they are standalone proprietary entities as stated in the PPFM.

Expenses

4.40 The with-profits funds only incur the charges described above. These charges are less than the actual costs incurred in relation to administration, regulatory costs, or expenses related to the defined benefit pension schemes. No amounts are charged to the with-profits funds in relation to mis-selling and project costs.

Policy Administration

4.41 Abbey Life outsources most of its policy administration services to Capita. The outsourcing agreement is governed by a contract which includes details of the service standards that Capita is required to meet. In addition, there are a small number of policies which are reinsured to and administered by Countrywide Assurance plc. The agreement with them covers details of the service standards that they are expected to meet.

4.42 For investment management, fund accounting and custody services it uses Deutsche Asset Management, Aberdeen Asset Management and State Street.

Non-Profit and Unit-Linked Discretion

4.43 Under the policy terms and conditions the management of Abbey Life can apply discretion in its treatment of the non-profit and unit-linked policyholders in relation to policy expenses, risk charge rates and sum assured reviews.

4.44 Abbey Life business is subject to the Phoenix Group's risk framework and governance structures. The exercise of discretion falls under the Customer Treatment Policy. One of the key principle of this policy is to operate a product governance framework which covers product reviews and discretionary reviews as set out in the "Product Risk and Assurance Framework" policy.

4.45 The policy takes into account all relevant laws and regulations affecting the fair treatment of customers, including the requirements of the FCA, the PRA and CBI. The product risks and assurance requirements considered within the methodology are aligned to the FCA's outcomes for treating customers fairly.

5 Background on Phoenix Life Limited

Introduction

5.1 Phoenix is a private limited company incorporated and domiciled in UK. The principal activity of the company is the transaction of life insurance and pensions business. The company closed to new business in 2002, although it continues to issue policies under options on existing policies, including the acceptance of new members to existing pension arrangements and the issue of immediate annuities in respect of vesting pension policies. Since December 2017, when the business of Axa Wealth Limited was transferred to it, Phoenix has written new non-profit protection business under the Sun Life brand. In March 2018, Phoenix wrote its first bulk purchase annuity buy-in contract.

History

5.2 Phoenix traces its history back to 1971, when it was incorporated as Lloyds Life Assurance Limited. After its acquisition by Royal Insurance Group in 1985 it was renamed to Royal Heritage Life Assurance Limited ("RHL"). RHL was subsequently renamed Royal & Sun Alliance Linked Insurances Limited in 1998 and the company's name was changed to Phoenix Life Limited in 2005.

5.3 Phoenix had c3.5 million policies and approximately c£47 billion of assets under management as at 31 December 2017.

5.4 As a closed fund consolidator, it focuses on the efficient run-off of in-force life and pensions business. As a result Phoenix includes policies from a number of life companies that have been brought together through Part VII transfers described below:

i. In December 2005, the long-term insurance businesses of Bradford Insurance Company Limited, Phoenix Assurance Limited and Swiss Life (UK) plc were transferred to Phoenix.
ii. In December 2006, the long-term insurance businesses of Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited were transferred to Phoenix.
iii. In January 2009 (the "Phoenix 2009 Scheme"), the long-term insurance businesses of Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") were transferred to Phoenix. This transfer excluded certain protection policies of SMA and SPL which were transferred to The Royal London Mutual Insurance Society Limited in December 2008 under a separate scheme.
iv. In January 2011, the long-term insurance business of Phoenix & London Assurance Limited was transferred to Phoenix.
v. In January 2012, the long-term insurance business of NPI Limited and certain long-term insurance business of National Provident Life Limited were transferred to Phoenix.
vi. In December 2017, the long-term business of AXA Wealth Limited was transferred to Phoenix.

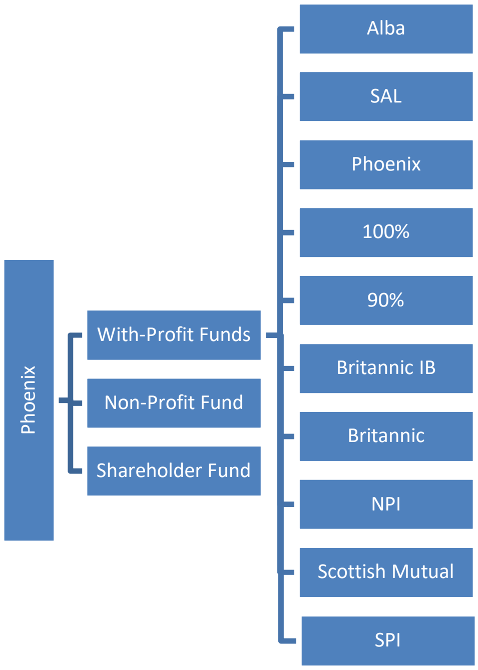
Structure

Company structure

5.5 Phoenix is currently an indirect subsidiary of Phoenix Life Holdings Limited. A simplified Group Structure chart is shown under section 4.5.

Fund structure

5.6 The diagram below summaries the current fund structure of Phoenix



5.7 Phoenix has 10 ring-fenced with-profits funds, one non-profit fund and a shareholder fund. The with-profits funds are closed to new business and in run-off. These are classified into:

- unsupported ring-fenced funds, that do not rely on shareholder support to meet their capital requirements and capital buffer and
- supported ring-fenced funds Alba WPF and SAL WPF that rely on support from the non-profit and shareholder's funds to meet their capital requirements and capital buffer under the capital policy for Phoenix.

5.8 Under Solvency II, there is no legal or regulatory requirement to segregate the assets of the non-profit fund and the shareholders' fund. However, Phoenix chooses to maintain separate non-profit and shareholder fund for accounting and operational purposes, to separate the business allocated to the non-profit fund from the assets and liabilities of the shareholders' fund. In the financial analysis sections of the Report, the shareholder fund is included in the non-profit fund.

Types of business written

5.9 The principal with-profits products include endowments and deferred annuities. Non-profit products comprise of unit-linked personal and group pension plans and savings products; income protection and critical illness products (health products); immediate and deferred annuities; whole of life, term assurance, longevity swaps and inward reinsurance from Abbey Life.

Reinsurance arrangements

5.10 Besides the internal reinsurance treaty with Abbey Life (described in 4.11 Phoenix has a small number of reinsurance treaties with Phoenix Life Assurance Limited.

5.11 Phoenix has a number of external reinsurance treaties with reinsurers including XL Re Limited, Swiss Re, UNUM Limited, American International Reinsurance Company Limited, RGA, Hannover Re and Munich Re Group.

Financial position

5.12 Phoenix prepares its Solvency II results using an Internal Model approach the latest version of which was approved by the PRA in March 2018.

5.13 I have seen Phoenix's approval to use TMTP and MA when calculating its Solvency II results. It did not apply for a VA.

Solvency II Pillar I

5.14 The following table sets out the Solvency II Pillar I results for Phoenix as at 31 March 2018.

	31 March 2018 £m
Total Assets	46,799
Total Liabilities	44,598
Excess of assets over liabilities	2,201
TMTP	1740
RFF Restrictions	(170)
Total available own funds to meet SCR	3,771
SCR	2,902
Excess capital over SCR	869
SCR Cover (exc Unsupported Funds)[8]	145%

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

5.15 I have reviewed the components of the SCR calculations carried out by Phoenix and these indicated that the key areas of risk for Phoenix are longevity risk (policyholders living longer), credit risk (creditors defaulting on payments including default on corporate bond investments), and interest rate risk (interest rates varying from those assumed). The SCR cover excluding the unsupported funds is higher than that required by the capital policy. As at 31 March 2018 the SCR cover was 145%.

5.16 I note that on 31 March 2018 94% of the assets held in respect of own funds are categorised as Tier 1 capital and the rest as Tier 2 capital. I am satisfied that the assets backing the own funds of Phoenix are of an appropriate quality.

5.17 I have reviewed the results of sensitivity tests on the level of SCR cover carried out by Phoenix. I am satisfied that it does not affect any of the conclusions I have reached in this Report.

Solvency II Pillar II

5.18 I have reviewed Phoenix's 2017 ORSA which was approved by the Board in March 2018. For Phoenix, there is no difference in the Pillar I and Pillar II capital requirements. The risks under

[8] The SCR cover excludes unsupported with-profits funds. Excess capital on these funds belong to the policyholder so excluding the policyholder benefits and risks in unsupported with-profits fund when calculating the SCR cover provides a better indication of the strength of the company.

the ORSA are same as those in the SCR. As part of the ORSA processes, the internal model is monitored to ensure it reflects the risk profile of Phoenix.

Capital policy

5.19 The capital policy for Phoenix (the "Phoenix Capital Policy" or "PCP") is outlined in the Phoenix 2009 Scheme. The main objective of the PCP is to ensure that the company continues to meet the PRA's capital requirements in internally specified stress scenarios which corresponds to a 1-in-10 year all risk event. This capital buffer is expressed as a percentage of the SCR.

5.20 Currently Phoenix aims to hold 31% of SCR as its capital buffer. The percentage is reviewed each year to ensure the PCP continues to meet its objective. The change in percentage does not affect the strength of the capital policy. For ring-fenced funds that do not require financial support from the non-profit fund, the capital buffer will be met by surplus within the relevant ring-fenced fund after allowing for management actions permitted within the PPFM.

5.21 The SCR cover at 31 March 2018 was 145% which is in excess of the capital buffer set out in the PCP. Any assets in excess of the PCP may be distributed as dividends or used to finance other strategic initiatives. Any deficit relative to the PCP will require a corrective action, including no release of capital (through dividends) until the deficit is restored.

Governance arrangements

5.22 Governance arrangements for Phoenix are same as those for Abbey Life. Ultimate responsibility for the operation of Phoenix rests with the Board. The Board comprises of five Non-Executive directors including the Chairman and four Executive directors; members needing approval under the SIMR have been duly approved. The independent directors are not employees of any of the Phoenix Group companies or directors of any parent company of Abbey Life or Phoenix.

5.23 The day to day governance of Phoenix is overseen by the same seven committees of the Board that oversees the governance of Abbey Life as set out in section 4.34.

With-Profits governance

5.24 In the management of with-profits funds, there are typically areas of discretion. The Board has appointed two WPA's to advise them on such areas. In addition, there is a WPC which provides independent oversight.

5.25 Phoenix has a range of operating principles in place that are designed to protect with-profits policyholders. I have not described these as no business is transferring to the with-profits funds and the Scheme does not change the way the with-profits funds are operated.

Expenses

5.26 None of the policies in Phoenix are charged for expenses relating to Staff Defined Benefit pension schemes or mis-selling costs.

5.27 The calculation of operational risk capital includes scenarios related to mis-selling and policyholder compensation.

Policy Administration

5.28 The administration and servicing of Phoenix policies is carried out by PGMS and PGS, other companies in the Phoenix Group. PGMS and PGS charge fees based on units and policy volumes. The charges on unit-linked policies are subject to annual increases linked to an external index. PGMS and PGS, in turn, outsources policy administration to a number of administration providers including Capita Life & Pensions Services Limited. The outsourcing agreement is governed by a contract which includes details of the service standards that Capita is required to meet.

5.29 Assets are managed by Ignis Asset Management part of Standard Life Investment Group. The fees charged vary by asset class and fund.

Non-Profit and Unit-Linked Discretion

5.30 The Phoenix Group operates a central product risk and governance structure that applies to all life companies within the Group. The exercise of discretion as outlined in the terms and conditions on its non-profit and unit-linked policies falls under the Customer Treatment Policy.

5.31 A key principle of this policy is to operate a product governance framework which covers product reviews and discretionary reviews as set out in the "Product Risk and Assurance Framework" policy. The policy takes into account all relevant laws and regulations affecting the fair treatment of customers, including the requirements of the FCA, PRA and CBI. The product risks and assurance requirements considered within the methodology are aligned to the FCA's outcomes for treating customers fairly.

6 Outline of the proposed Scheme

Introduction

6.1 This section provides an outline of the proposed Scheme, including background to the Scheme, the groups of policyholders to be considered as part of the Scheme and the various practical aspects of the Scheme.

Background and purpose of the Scheme

6.2 As mentioned above both Abbey Life and Phoenix are separate insurance companies within the Phoenix Group. Under the Scheme, all of the long-term business of Abbey Life will transfer to Phoenix's non-profit fund at the Transfer Date.

6.3 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 with-profits funds to be closed. Further details relating to the Conversion and my opinion on this are explained in Section 7.

6.4 The main motivation for entering into the Scheme are:

- Improving capital efficiency by increasing diversification benefit and realising synergies in relation to capital policies;
- Reduce costs of operating the internal reinsurance and running multiple regulated entities within the same Group; 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.

6.5 For Abbey Life the motivation of entering into the Scheme is the transfer of its business into a well-capitalised and diversified insurance company.

6.6 The Scheme is structured to run alongside the existing schemes that govern the operation of Phoenix, most notably the 2009 Scheme, which replaced all previous Phoenix schemes. The Scheme ensures that provisions of the previous Schemes of Abbey Life that continue to be relevant are unchanged for the applicable policies. Further the Scheme does not change the terms and conditions of the Transferring non-profit policies. The Transferring with-profits policies will be converted to non-profit policies at the Transfer Date.

6.7 The Scheme is expected to be presented to the Court for a Directions Hearing on 23 July 2018 and a Final Hearing on 5 December 2018 with an expected effective Transfer Date of 31 December 2018.

Policyholder groups

6.8 When considering the impacts of the Scheme, I have considered policyholders in the following groups:

- Policyholders transferring from Abbey Life to Phoenix ("Transferring Policyholders") and holding
    - With-profits policies ("Transferring With-profits Policyholders");
    - Unit-linked policies ("Transferring Unit-linked Policyholders");
    - Non-profit policies ("Transferring Non-profit Policyholders");
- Policyholders already within Phoenix, prior to the Scheme.

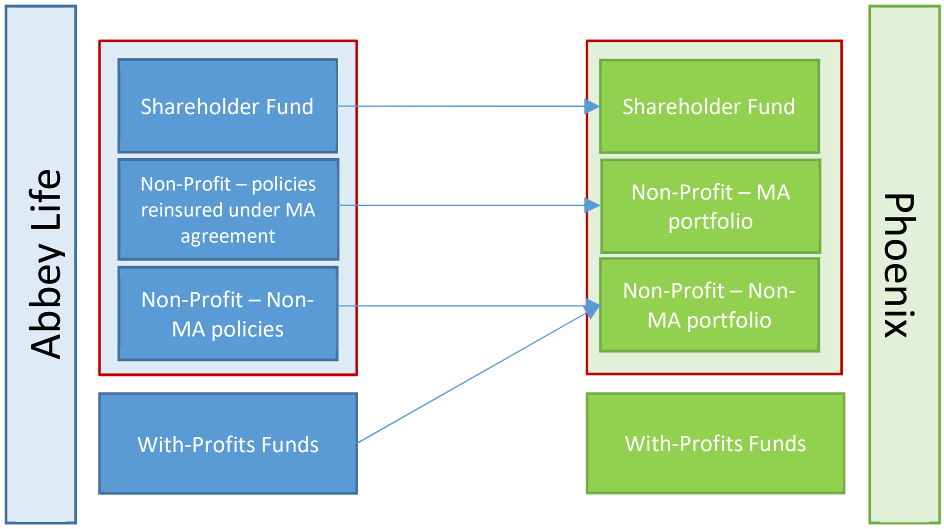
6.9 The impacts of the Scheme on the various groups of policyholders outlined above is set out in sections 8 and 9 respectively.

Business to be transferred

6.10 Under the terms of the Scheme the following will be transferred from Abbey Life to Phoenix:

- All the assets and liabilities of Abbey Life's Shareholder fund will be transferred to Phoenix's Shareholder Fund; except for assets needed to meet Abbey Life's MCR requirements for long-term business. The remaining assets and any associated investment income and tax liabilities will be transferred to Phoenix once Abbey Life has been de-authorised as an insurance company;
- All the policies of Abbey Life non-profit fund; along with their related assets and liabilities will be transferred to the non-profit fund in Phoenix. The annuities which are reinsured under the MA treaty will be allocated to the matching adjustment portfolio; and
- The assets and liabilities of Abbey Life's with-profits funds will be converted to non-profit and transferred to the non-profit fund in Phoenix.

6.11 The Transferring Policyholders will transfer from their existing funds to the funds within Phoenix according to the mapping below:



6.12 For unit-linked policies new unit linked funds corresponding to the Abbey Life funds will be created in Phoenix. These new unit funds will receive the assets of the corresponding funds in Abbey Life at the Transfer Date and will have the same charges, investment strategy, investment manager and unit-pricing practices as the corresponding funds in Abbey Life. The relevant transferring policies will be allocated the same number and value of units as under the current funds prior to the Transfer Date.

Excluded policies, assets and liabilities

6.13 A provision is included in the Scheme whereby if it is not possible to transfer a policy or group of policies at the time the Scheme is implemented due to technical reasons; then it will be subject to an Excluded Policies Reassurance Arrangement between Abbey Life and Phoenix. For example, this provision allows for the unlikely event of either the Jersey or Guernsey Hearing being delayed resulting in exclusion of these policies at the Transfer Date until such a time that the approval is obtained.

6.14 The Excluded Policies Reassurance Arrangement reinsures for all risks under the current internal reinsurance agreement and also includes a small number of risks that are not part of the current internal reinsurance agreement, for example residual operational risk. This reinsurance arrangement ensures that excluded policies are treated in the same way as if they had transferred to Phoenix on the Transfer Date.

6.15 I understand from Abbey Life that excluded polices will be transferred as soon as practically possible and Abbey Life will not be de-authorised until all policies have transferred or been terminated. However, I do not expect there to be any excluded policies at the Transfer Date.

Fund structure after the Scheme

6.16 There will be no change to the ring-fenced funds or the overall fund structure in Phoenix.

Reinsurance arrangements

6.17 At the Transfer Date Phoenix will become party to all external third party reinsurance treaties in relation to the transferring business currently held by Abbey Life. These treaties will continue to operate in the same way as they did before the Transfer Date with no changes to the terms of the reinsurance.

6.18 With the implementation of the Scheme the internal reinsurance between Abbey Life and Phoenix will cease.

Policy terms and conditions

6.19 There will be no change to any of the terms and conditions of the unit-linked and non-profit Transferring Policies as a result of the Scheme.

6.20 The with-profits policies will lose their right to participate in the profits of the sub-fund to which they currently belong as these will be converted into non-profit policies. More details on this are provided in Section 7.

6.21 There will be no change to any of the options and guarantees available to Transferring Policyholders as a result of the Scheme.

6.22 The Scheme will have no impact on the product discretion policy for non-profit and unit-linked business and governance structures implemented by the Phoenix Group.

Solvency II approvals

6.23 Phoenix Internal Model Change policy and the TMTP Recalculation policy sets out triggers which indicate circumstances which require model re-approval or recalculation of the TMTP. The latest Internal Model approval included the business of Abbey Life. Major risks of Abbey Life are already reinsured to Phoenix and the other risks are similar to those already in Phoenix; thus the transfer will not trigger Internal Model re-approval nor will it trigger a recalculation of the TMTP.

6.24 The business being allocated to the MA portfolio post transfer is already reinsured there; so the Scheme will have no impact on the MA approvals. Phoenix does not apply for VA.

Tax implications

Value Added Tax ("VAT")

6.25 As Phoenix and Abbey Life are part of the same VAT group, no VAT will be payable as a result of the transfer.

Transferring Policyholders

6.26 The external tax expert appointed by Phoenix has confirmed that the proposed Scheme is not expected to change the tax status of the transferring Abbey Life policies nor the tax status of policies where the holders of the policies are resident outside the UK.

Modification or Additions

6.27 The Court, regulators and independent expert will need to be notified of the modifications and additions made after the sanction of the Scheme. This is in line with the standard practice.

Other impacts

6.28 The previous Abbey Life Scheme which transferred business into Abbey Life from Hill Samuel in 1998, as described in section 4.3, will cease to have effect from the Transfer Date. Clyde & Co LLP, the legal advisors to Abbey Life and Phoenix, have done a mapping of the Schemes to include all the relevant provisions from the previous Scheme in the new Scheme particularly provisions relating to the management of the unit linked funds that were part of the Hill Samuel business (including unit linked funds named as Hill Samuel and as Target Life).

6.29 For the remaining unit linked funds, where the terms and conditions of the policies do not prescribe how the funds will be managed, the Scheme will permit Phoenix to close, divide, wind up or modify the investment objectives of the funds provided that the Phoenix Board considers the treatment equitable between the affected policyholders (having regarding to the advice of the Phoenix Chief Actuary). However, the Scheme will not override the terms and conditions of the policies. The effect of these provisions is that the Scheme will clarify the rights of Phoenix but will not change the management of the unit linked funds and will not change the policy terms and conditions.

6.30 There will be no change to the indemnity arrangement with Deutsche Bank AG as part of the Scheme.

6.31 The non-profit fund in Phoenix is governed by the existing Phoenix Schemes. These Schemes set out the management and governance of the PCP. Abbey Life business will be subject to the governance under these Schemes post transfer.

7 Conversion of With-profits Funds to Non-Profit

Introduction

7.1 Under the Part VII Scheme it is proposed that all policies within the two with-profits funds of Abbey Life will be converted to non-profit policies with guaranteed future annual bonuses and all assets and liabilities in these funds will be transferred to the non-profit fund of Phoenix.

7.2 The Hill Samuel PB Fund and the Abbey Life PB Fund are currently in run-off and only have 1220 and 89 policies remaining respectively as at 31 December 2017.

Hill Samuel Participating Business Fund

Types of Business

7.3 The business in the Hill Samuel PB Fund was transferred to Abbey Life under Part 1 of Schedule 2C of the Insurance Companies Act 1982 and comprises of conventional with-profits whole of life and endowment assurances. Some of the endowment policies include guaranteed minimum surrender terms and are referred to as "Flexiplan" policies.

7.4 The table below shows the remaining policies by product at 31 December 2017:

Products	Number of Policies	Premium Paying	Paid-Up	Reserves[9] (£k)
Flexiplan Endowment	558	421	137	4,498
Traditional Endowment	4	4	0	70
Traditional Whole of Life	658	470	188	29,782
Total	**1,220**	**895**	**325**	**34,350**

7.5 The scheme that transferred the business from Hill Samuel to Abbey Life included a provision for 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. It is proposed to use the Scheme to convert the fund to Non-Profit a year early as this will offer the benefit of lower costs and a more robust legal and regulatory review process to ensure protection of policyholders' interest.

7.6 Abbey Life adopted its current approach to managing the fund in 2014. The approach involves:

- Paying a single annual bonus and a scale of final bonus rates for all policies;
- Reducing the final bonus scale each year to achieve a stable sustainable position at the expected conversion date;
- Reducing its exposure to equity and property assets each year and planning to sell off the remaining exposure to this asset class by end 2018.
- Ensuring that surplus or deficit arising each year is reflected in final bonus rates.

Current Benefits

7.7 All policies receive an annual bonus and a final bonus. The rate of annual bonus is not guaranteed to be the same each year, but has been paid at the rate of 0.5% per annum for many years. The surrender basis reflects the fair value of the benefits on the surrendering policies.

[9] The numbers are the same as the Net BEL (Gross BEL – Reinsurance) under Solvency II.

7.8 The Hill Samuel PB Fund is not charged for any project costs. The charge for investment expenses is significantly lower than that being incurred.

Proposed Benefits

7.9 Post Conversion the policies will receive guaranteed additions in the form of annual bonus and final bonus.

7.10 The current level of annual bonus will become guaranteed.

7.11 The current final bonus scale determined using the 2014 approach will be used as the base scale. The surplus will be calculated at the Transfer Date as the value of the total assets minus the value of the total liabilities including the guaranteed annual bonuses. The base scale will then be pro-rated to distribute this surplus among the remaining policyholders at the Transfer Date. The final bonus will then be fixed for each policy.

7.12 The surrender value basis will be fixed and continue to reflect the fair value on policies including special (see below) and a final bonus at the Transfer Date. The basis will be determined using the same assumptions as those used to calculate the final bonus. If a policy surrenders post Conversion the fair value will be calculated using the surrender basis above but discounted using the discount rate at the time of surrender. The actual surrender amount will be calculated at the future surrender date.

Abbey Life Participating Business Fund

Types of Business

7.13 The business of Abbey Life PB Fund comprises mainly of PIE policies. These are unit-linked policies with a small with-profits element to it. There are also a small number of CWP policies and two IAC policies.

7.14 The table below shows the remaining policies by product at 31 December 2017:

Products	Number of Policies	Premium Paying	Paid-Up	Reserves (£k)
PIE	80	36	44	930
CWP Endowment	1	1	0	11
CWP Whole of Life	6	2	4	35
IAC	2	0	2	26
Total	**89**	**39**	**50**	**1,002**

7.15 The Fund does not have a sunset clause. It is proposed to use the Scheme to close the small with-profits fund which is in the final stage of run-off and distribute the surplus in the fund fairly among the policyholders.

Current Benefits

7.16 The PIE policies currently receive an annual bonus and a final bonus. A flat rate of final bonus is declared each year; and is calculated such that any surplus or deficit arising each year is distributed as part of the final bonus for the year. The surrender values are calculated as the sum of the bid value of units, annual bonuses added and the current final bonus less a deduction for capital gains tax.

7.17 The CWP policies contain guarantees and for the remaining policies these guarantees are currently in the money. The policies continue to receive an annual bonus. A final bonus has never been declared for the CWP policies and the PPFM clearly states that this position will continue in the future. The surrender basis for the CWP policies reflects the fair value of benefits on the surrendering policies.

7.18 Both IAC contracts are past their retirement age, so no further bonuses are being added and their benefits are fixed.

Proposed Benefits

7.19 For the PIE policies the current level of annual bonus will become guaranteed. A flat rate of final bonus will be determined to distribute the remaining surplus, other than that arising from policies not expected to claim, in the fund at the Transfer date. The surplus will be calculated as the value of the total assets minus the value of the total liabilities including the guaranteed annual bonuses. The surrender basis will follow the current methodology and include the special bonus described below; and will be fixed at the Transfer Date. The actual surrender amount will be determined at the time of surrender.

7.20 The current level of annual bonus on the CWP policies will become guaranteed post Conversion. There will be no change to the surrender basis.

7.21 The Conversion will have no impact on the benefits of the IACs as they are now non-profit policies.

Special Bonus

7.22 There are currently a number of policies in the Hill Samuel PB Fund and in the Abbey Life PB Fund where it is difficult to trace the policyholder due to lack of contact details. A tracing exercise is being undertaken to reduce these numbers, but it is reasonable to expect that there will still be some policyholders that will not be traced at the Transfer Date.

7.23 The total assets of the with-profit funds are allocated to all the policies in the fund, both policyholders that Abbey Life has been able to contact as well as the untraced policyholders. Post Conversion of the with-profits funds, the non-profit fund of Phoenix will meet the claims on all the in-force policies at the Transfer date, including the untraced policies that subsequently make a claim.

7.24 However, a significant number of policyholders that remain untraced at the Transfer Date are not expected to claim in the future. If they do not claim, then the assets allocated to these policies represent a source of future surplus. It has been decided to distribute this potential source of surplus as a special bonus among policyholders in-force at the Transfer Date.

7.25 At least 50% of the potential surplus will be distributed as a special bonus among all remaining policies in the Hill Samuel PB Fund and the remaining PIE and CWP policies in the Abbey Life PB Fund at the Transfer Date. The special bonus will be added by increasing the guaranteed benefits of each policy by a fixed percentage. A separate percentage will be determined for each fund. The actual bonus amount will be determined at the Transfer Date based on the outcome of the tracing exercise.

7.26 The remaining proportion of the potential surplus from polices 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 being treated as not expected to claim.

8 The impact of the Scheme on Abbey Life Policyholders

Introduction

8.1 This section considers the impacts of the Scheme on Transferring Policyholders, including policyholder benefit expectations and contractual rights, security of policyholder benefits, cost and tax implications, expenses and charges, communications with policyholders and any impacts on service standards.

Policyholder benefit expectations and contractual rights

8.2 As stated in paragraph 6.19 above, the Scheme does not amend any of the policy terms and conditions of the unit-linked and non-profit Transferring Policies. The with-profits policies will convert to non-profit as detailed in Section 7. Notwithstanding this, in this section I consider the impact of the Scheme on benefit expectations of Transferring Policyholders within each of the current Abbey Life sub-funds.

Non-profit policyholders

8.3 At the Transfer Date all of the policies in Abbey Life's non-profit fund including unit-linked policies will transfer to the non-profit fund in Phoenix and become policies of Phoenix. This means that post-transfer Phoenix will collect the premiums on the policies, pay annuities and other policy benefits and become the data controller in place of Abbey Life.

8.4 For non-profit business (including Corporate Transactions, but excluding unit-linked policies) benefits on death or maturity are generally fixed amounts and not impacted by expenses or tax charged to the non-profit fund. However, there are a number of areas where discretion may be applied which may impact benefit payments, for example charges applied, on surrender, policy conversion and product reviews. Following the transfer, it will fall to the management of Phoenix to exercise such discretion. There is a group wide discretion policy that applies to both Abbey Life and Phoenix. More details on the policy and my opinion on the fairness for transferring policyholders is described below.

8.5 For unit-linked policies, policyholders' benefit expectations depend on the underlying performance of the funds. New unit-linked funds will be created in Phoenix corresponding to those in Abbey Life but they will have the same asset pools and charges and will be priced on the same basis as the equivalent funds immediately before the transfer. I understand that there are no current plans to harmonise the unit-linked funds for Abbey Life and Phoenix post transfer.

8.6 The charges on the unit-linked policies are subject to review and generally increase in line with inflation. The group operates a product governance framework which determines the approach taken while making any changes to discretionary policy charges. This policy applies to both Abbey Life and Phoenix and I am satisfied that as it is a group policy there will be no change in the approach to applying discretion on the policies post transfer.

8.7 The Scheme will permit Phoenix to close, divide, wind up or modify the investment objectives of the funds provided that the Phoenix Board considers the treatment equitable between the affected policyholders (having regarding to the advice of the Phoenix Chief Actuary). However, the Scheme will not override the terms and conditions of the policies. These additional powers reflect standard market practice and I am satisfied that it does not adversely impact policyholder benefit expectations or contractual rights.

8.8 Discretion in relation to policy expenses, risk charges and sum assured reviews for Abbey Life policies will continue to fall under the remit of the Customer Treatment Policy and the Product Risk and Assurance Framework which apply to all companies within the Phoenix Group.

There will be no change to the way in which the exercise of product discretion of Abbey Life policies is operated and governed post transfer.

Summary of Conclusion

8.9 I am satisfied that the Scheme will not have any material impact on the benefit expectations and will not affect the contractual rights of the Transferring Non-Profit and Unit-Linked Policyholders. I have reached this conclusion because:

- The policy terms and conditions do not change as a result of the Scheme;
- There is no change to the way discretion will be applied to non-profit and unit-linked business nor the governance around the discretion; and
- The additional powers granted by the Scheme for unit-linked policies described in 8.7 reflect good market practice.

With-profits policyholders

8.10 As described in Section 7 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. The terms of the Conversion for each of the sub-funds is summarised below.

Hill Samuel PB Fund

8.11 The Fund has a sunset clause which allows conversion of policies to non-profit when fund size falls below 1000. This is expected to happen in 2019. Abbey Life has been managing the fund for the past few years with aim of distributing the surplus to all policies by the time of Conversion.

8.12 Existing bonuses attaching to policies will continue to be guaranteed. Future annual bonuses will be fixed at the current rate of 0.5%. The surplus in the fund at the Transfer Date will be determined based on the policies in-force, economic and other factors. The current table of final bonus scales, which vary by year of maturity and by year entry, will then be pro-rated to distribute the surplus among remaining policies at the Transfer Date and the table of final bonus scales will be fixed. The method used to distribute the surplus in the fund as a final bonus is fair to policyholders and is in line with past practice and market practice.

8.13 The surrender value basis will be determined using the same assumptions as those used to calculate the final bonus and then be fixed. The surrender basis will continue to reflect the fair value benefits on the surrendering policies including a final bonus and special bonus as described in paragraphs 8.16 to 8.18. The actual surrender amount will be determined at the time of surrender; calculated using the actual discount rate.

Abbey Life PB Fund

8.14 The PIE policies will receive guaranteed annual bonuses at the current level. The final bonus at the Transfer Date will be calculated in the normal way based on actual investment returns received with the aim of distributing any surplus in the fund among the remaining policies and future final bonus will be based on the actual investment returns from the underlying unit trust or OEIC. This is fair and in line with past practice. The CWP policies will continue to receive guaranteed annual bonuses at the current bonus rate. There will be no changes to the benefits of the IAC policies.

8.15 The surrender value basis will be fixed to reflect the fair value benefits on the surrendering policies including final bonus for the PIE policies and special bonus for both PIE and CWP policies, at the Transfer Date. The actual surrender amount will be determined at the time of surrender.

Special Bonus

8.16 There are currently some policies in the with-profits funds where it is difficult to identify the policyholder due to missing data. The companies are undertaking a tracing exercise to reduce the number of untraced policyholders. However, it is reasonable to expect that some policyholders will not be traced by the Transfer Date.

8.17 Assets in the with-profits funds are allocated to all in-force policies. Post conversion the non-profit fund of Phoenix will be responsible for claim payments on all in-force policies. It is expected that a claim may not be made on a proportion of those policies where the companies are unable to trace the policyholder at the Transfer Date.

8.18 Where it is expected that a claim is unlikely to be made, it is proposed that at least 50% of the potential surplus arising from these policies is distributed to all policies in force at the Transfer Date in the form of a special bonus. As the non-profit fund will be responsible for future claim payments on all policies, including policies that are not expected to claim it will receive the remaining portion of the surplus.

8.19 In my opinion, the proposed distribution is fair to both policyholders and shareholders. As policyholders have not historically shared in this surplus they have no expectation of receiving any share of this surplus and the special bonus they will receive will be higher than what they currently could expect. Given shareholders are responsible for future claims on any untraced policies it is fair that they receive some compensation for this.

Summary of Conclusion

8.20 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. I have reached this conclusion because:

- It is sensible to use a Part VII scheme to close small with-profits funds and distribute the remaining surplus fairly among remaining policyholders.
- 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 polices 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.
- Where it is expected that a claim is unlikely to be made, it is proposed that at least 50% of the potential surplus arising from these policies is distributed to all policies in force at the Transfer Date in the form of a special bonus. In the past policyholders did not share in the surplus of policies that did not claim.
- Given shareholders bear the risk of potential claims on untraced policies I am satisfied that reserves will be held in the non-profit fund for all policies including those where a claim is not expected to be made.
- 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.

Security of policyholder benefits

8.21 As part of the considerations as to whether the benefit security of Abbey Life policyholders will be affected due to the Scheme I have compared the financial position of Abbey Life and Phoenix before and after the Scheme.

Financial position

8.22 Both Abbey Life and Phoenix calculate their capital requirements using the Solvency II Internal Model approved by the PRA in March 2018. Phoenix will continue to calculate its capital requirements in this manner following the Scheme.

8.23 The table below shows the financial position of Abbey Life and Phoenix as at 31 March 2018 assuming the Scheme was implemented then, but also take into account a dividend of £250m from Abbey Life declared in June 2018.

31 March 2017 £m	Abbey Life pre-transfer	Phoenix pre-transfer	Phoenix post-transfer
Total Assets	7,481	46,799	54,277
Total Liabilities	7,202	44,598	51,800
Excess of assets over liabilities	279	2,201	2,476
TMTP	0	1740	1750
RFF Restrictions	0	(170)	(170)
Total available own funds to meet SCR	279	3,771	4,056
SCR	22	2,902	2,917
Excess Capital over SCR	257	869	1,139
SCR Cover (exc Unsupported Funds)[10]	n/a	145%	158%

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

8.24 Phoenix will be responsible to provide security for the benefits of the transferring policies post the Transfer Date. 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.

8.25 Phoenix uses TMTP to calculate its Solvency II Pillar 1 position. To ensure that the Transferring Policyholders are not adversely impacted by the use of TMTP I have reviewed the derivation of the TMTP and the relationship between TMTP and the risk margin, and am satisfied that it generally represents elements of prudence in the Solvency II basis. Therefore on an economic basis, it is appropriate to take credit for the TMTP in determining the available capital of the business. The base capital projections indicate that dividends will be reduced over the transition period but will still be significant and Phoenix is able to cover its target capital level under the PCP. The company is also able to achieve its target SCR cover without TMTP before the end of the transitional period, and any deviations to this plan can be managed by reducing future dividends. Phoenix is able to maintain its target SCR cover under most stress tests, without any capital support from shareholders. Overall, I am satisfied that the TMTP

[10] The SCR cover excludes unsupported with-profits funds. Excess capital on these funds belong to the policyholder so excluding the policyholder benefits and risks in unsupported with-profits fund when calculating the SCR cover provides a better indication of the strength of the company.

value is appropriate and its amortisation will not adversely impact the solvency levels of the company.

8.26 The excess capital over SCR is £257m for Abbey Life pre-transfer and £1,139m for Phoenix post-transfer. However, I do not believe that a comparison of the excess capital is a good indicator of the relative financial security offered by each company as the excess capital can be distributed as dividends to bring down the ratios to target level. In June Abbey Life's Board approved to pay a dividend of £250m reducing the excess capital to £257m. Abbey Life will continue to meet its regulatory capital requirements and its capital policy following payment of the dividend, so the dividend does not adversely impact the security of policyholder benefits.

8.27 The capital policies for both companies are the same – both require additional capital to be similar to 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.

8.28 The risk management framework, risk appetite and risk limits are also the same for both companies.

8.29 Through the internal reinsurance arrangement Phoenix already provides security for the benefits of the Transferring Policyholders. The reinsurance arrangements would rank below the direct policyholders under wind-up; unless Abbey Life requests a floating charge against the assets of Phoenix, which it would be expected to do in such circumstances. However, following the transfer the Transferring Policyholders will have equal rights on a winding up as the Current Policyholders.

8.30 In addition, I note that the Transferring Policyholders will continue to be covered by the FSCS. That is, in the event that Phoenix is unable to pay claims to the Transferring Policyholders as a result of insolvency, they will be able to submit a claim to the FSCS and, once admitted, the claim will be paid in full by the FSCS. In the event of any unresolved disputes between Phoenix and individual policyholders, those individual policyholders will continue to be able to refer these to the FOS.

Summary of Conclusion

8.31 Although the percentage SCR cover in Phoenix post the implementation of the Scheme is less than it is in Abbey Life I am satisfied that this will not have a material effect on the security of the benefits of the transferring Abbey Life policyholders. I have reached this conclusion because:

- Capital policies and governance of the capital policies are the same for both companies.
- Both are capitalised above their target capital level and this position does not change after the dividend payment of £250m.
- Both companies operate similar risk management framework, policies and limits and these are similar to the general market practice in UK.
- Both companies operate under the same risk based regulatory regimes.
- FSCS provides the same level of additional protection to policyholders post transfer.
- I consider the high SCR ratio of Abbey Life 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, and consequently are not to be relied on in forming views of security.

Governance arrangements

8.32 The Transferring Policies will be subject to the same governance arrangements under Phoenix. The Phoenix Board has the same composition as the Abbey Board, with same number of independent members. The same committees of the Board oversee the day-to-day governance as those currently under Abbey Life.

Cost and tax effects of the Scheme

8.33 The costs of the Scheme are borne by shareholders of Phoenix as mentioned in 1.8, I am satisfied that this will have no impact on policyholder benefits.

8.34 I have reviewed the report produced by the external tax expert appointed by Phoenix and understand that there will be no impact to policyholder's tax status as a consequence of the Scheme. I also understand that Phoenix are in discussions with HMRC to confirm this.

Service standards

8.35 Policy administration for the vast majority of Abbey Life policies is currently outsourced to Capita. I am not aware of any proposed changes to policy administration as a result of the Scheme or immediately following implementation of the Scheme. There will be no change to service standards agreement or the terms upon which the administrative and investment management arrangements are provided as a result of the Scheme. The current service standard will be transferred to Phoenix and the same team in Capita will continue to carry out the administration of the Transferring Policies.

8.36 Therefore, there is no reason to expect that the quality and level of service provided to the Transferring Policyholders will deteriorate as a consequence of the Scheme.

Communications with policyholders

8.37 In line with Abbey Life's proposed communication policy, where Abbey Life has a current address for Transferring Policyholders, they will be sent a communications pack. For the majority of transferring policyholders this will include a letter, an insert containing a summary of the Scheme, a summary of the conclusions of my Report and a set of questions and answers explaining the impact of the Scheme. The summary of the Scheme, the Scheme and my Report (including my Supplemental Report) will also be available (free of charge) on request and on the Abbey Life's website.

8.38 A separate communication pack will be sent to with-profits policyholders including a leaflet on the Conversion of the funds and additional questions and answers specific to with-profits policyholders.

8.39 The policyholders with only annuities in payment or non-linked deferred annuities will receive a simplified version of the communication pack focussing on matters relevant to these policyholders.

8.40 I have reviewed the communications that will be sent to all Transferring Policyholders and I am satisfied that they are appropriate and not misleading.

8.41 Policyholders for whom Abbey Life does not hold a verified address in its systems will not receive a communication pack. The tracing exercise undertaken by Abbey Life and Phoenix aims to reduce these numbers. It is reasonable to expect that no communication will be sent to policyholders who cannot be identified due to missing data or whose addresses cannot be verified.

Rights of policyholders who object to the Scheme

8.42 Any policyholder who feels they may be adversely affected by the Scheme may put their objections to Abbey Life, Phoenix or the Court. I will consider any such objections when concluding on the appropriateness of the Scheme when I issue my Supplemental Report.

Conclusion

8.43 Overall, I have concluded that there will be no material adverse impact on any class of the Transferring Policyholders as a result of the Scheme.

9 The impact of the Scheme on the Current Policyholders of Phoenix

Introduction

9.1 In this section I consider the impact of the Scheme on the Current Policyholders of Phoenix.

Policyholder benefit expectations and contractual rights

9.2 All of Abbey Life's business will be transferred to the non-profit fund in Phoenix. Any new annuities written in respect of Abbey Life pension policies after the Transfer Date will be written in the non-profit fund.

9.3 No business will transfer to the with-profits funds of Phoenix. These will continue to operate as separate ring-fenced funds within Phoenix. There will be no change to the management and operation of with-profits discretion as a consequence of the Scheme.

9.4 Under the terms of the Scheme there will be no change to any of the terms and conditions of the current policies within Phoenix. Phoenix management has discretion with regard to the level of charges on existing unit-linked business in the non-profit fund. The exercise of this discretion or any related governance is set out in the Group Discretion policy which will not change as a result of the Scheme.

9.5 On this basis I consider that there will be no reduction in the benefit expectations of the current Phoenix policyholders as a result of the Scheme.

Security and level of benefits

9.6 Currently the security of benefits for all Phoenix policies are provided by:

- Phoenix meeting its regulatory capital requirements
- Phoenix meeting its additional capital requirements under it capital policy
- governance around the capital policy and
- Phoenix's risk management framework

9.7 The regulatory capital requirements will not change as a result of the Scheme and so there will be no change to the financial strength applicable to Phoenix and security provided by the regulatory capital requirements before and after the implementation of the Scheme.

9.8 The proposed Scheme will not change the capital policy of Phoenix nor the governance around the capital policy. The additional capital requirements will be maintained post the implementation of the Scheme.

9.9 The following table compares the Solvency II, Pillar I capital position of Phoenix before and after the Scheme assuming that the Scheme came in to effect on 31 March 2018.

31 March 2018	Before Scheme £m	After Scheme £m	Change
Total Assets	46,799	54,277	7,477
Total Liabilities	44,598	51,800	7,202
Excess of assets over liabilities	2,201	2,476	275
TMTP	1740	1750	10

RFF Restriction	(170)	(170)	0
Total available own funds to meet SCR	3,771	4,056	285
SCR	2,902	2,917	15
Excess capital over SCR	869	1,139	270
SCR Cover (exc Unsupported Funds)[11]	145%	158%	

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

9.10 The SCR for Phoenix increases by £15m. The SCR Cover for Phoenix increases post transfer as it benefits from the excess capital in Abbey Life.

9.11 The table indicates that the implementation of the Scheme will have a positive impact on the SCR cover of Phoenix. The company is well capitalised post transfer and the SCR cover is above the target level. The SCR cover is significantly higher immediately post transfer, however, the excess over the target level can be distributed as dividends.

9.12 The implementation of the Scheme will have no effect on:

- The capital policy of Phoenix
- The risk management framework, risk policies and risk appetite of Phoenix.
- The existing reinsurance arrangements of Phoenix besides the collapse of the inter-company reinsurance with Abbey Life.
- The ring-fenced funds of Phoenix.
- Additional protection provided by the FSCS.
- Regulatory regime under which the company operates.

9.13 Overall I am satisfied that the implementation of the Scheme will not have a materially adverse impact on the security of benefits for the policyholders of Phoenix due to the reasons described above.

Risk profile

9.14 I am satisfied that the transfer will have a limited impact on the risk profile of Phoenix as the majority of risks of Abbey Life are already reinsured with Phoenix under the inter-company reinsurance arrangement. More details on the risks are provided in Section 5.

Governance arrangements

9.15 The previous Phoenix schemes set out the governance framework and capital policies for the Current Policyholders of Phoenix. The Scheme does not impact the terms of the previous Phoenix schemes and I am satisfied that there will be no change to the governance arrangements and capital policies in Phoenix as a result of the Scheme.

Costs and tax effects of the Scheme

9.16 The costs incurred by Phoenix of implementing the Scheme will be borne by the shareholders of Phoenix and not the policyholders.

[11] The SCR cover excludes unsupported with-profits funds. Excess capital on these funds belong to the policyholder so excluding the policyholder benefits and risks in unsupported with-profits fund when calculating the SCR cover provides a better indication of the strength of the company.

9.17 There will be no tax impact on the benefits of the existing policyholders of Phoenix.

Service Standards

9.18 Phoenix currently outsources its administration to PGMS and PGS. There will be no change to this arrangement or the service standards agreement for existing policies as a result of the Scheme. The policy administration will be carried out by the same teams.

9.19 As there are no changes to the terms of the outsourcing arrangements of the existing business, I do not expect the quality of administration or the level of service provided to Phoenix policyholders to deteriorate as a consequence of the Scheme.

Policyholder communications

9.20 The Scheme does not materially impact the policyholders in Phoenix:

- there will be no changes to the terms and conditions of policies;
- there will be no change to the operation of Phoenix or its capital policy;
- there will be no change in the discretion, governance and service standards of the policies; and
- the major risks associated with the transferring business have already been reinsured to Phoenix.

9.21 Therefore, Phoenix intends to seek waivers from the requirement to send written notices to the Current Policyholders as it believes that the cost of mailings will be disproportionate relative to the benefits to the policyholders that would result from such mailing.

9.22 Assuming the application of waiver is accepted, these policyholders will be notified via newspaper advertisements and via the Phoenix website where a scheme guide will be available.

9.23 I am satisfied that it is fair and reasonable to apply for a waiver to not send written notices to the Current Policyholders.

Conclusion

9.24 Overall, I have concluded that there will be no material adverse impact on any class of the Current Policyholders of Phoenix as a result of the Scheme.

10 The impact of the Scheme on external reinsurers

10.1 As noted in paragraph 6.17, Abbey Life has various external reinsurance contacts in place covering the Transferring Policies. All of these external reinsurance contracts will be transferred from Abbey Life to Phoenix pursuant to the Scheme as at the Transfer Date. There will be no change to any of the terms and conditions of any of the external reinsurances contract as a result of the Scheme as at the Transfer Date.

10.2 Abbey Life and Phoenix will engage with each external reinsurer to give them notice of the Court hearing and to answer any questions they may have regarding the Scheme.

10.3 Given that there will be no change to the external reinsurance contracts save for updating to reflect the change of ownership following the transfer, I am satisfied that there will be no material impact of the Scheme on any of the external reinsurers of Abbey Life.

10.4 There will be no change to the terms and conditions of the external reinsurance arrangements that Phoenix has for its Current Policyholders as a result of the Scheme.

11 Other considerations relevant to the Scheme

Impact of the UK EU Referendum Result

11.1 On 23 June 2016, the UK held a referendum and voted to leave the EU. On 29 March 2017 the UK commenced proceeding to leave the EU ("Brexit") and these proceedings are expected to conclude in March 2019.

11.2 The exact terms on which the UK will leave the EU are currently unknown and therefore it is not possible to comment on whether Brexit will have any impact on the Scheme. Any impact is likely to be similar for Abbey Life and Phoenix at an entity level, regardless of whether the Scheme becomes effective or not as they are both regulated in the UK and both firms have a similar mix of policyholders in terms of geographical spread. I am satisfied this is unlikely to have a material impact on the transferring policyholders.

11.3 As both Abbey Life and Phoenix are part of the same group I do not expect there to be any change to Phoenix's contingency Brexit planning as a consequence of the Scheme.

Standard Life Acquisition

11.4 In February 2018 the Phoenix Group announced its intention to acquire Standard Life Assurance Limited. 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.

11.5 The transfer of the Standard Life business into Phoenix would require its own separate Scheme and follow the same process of involving the regulators and an independent expert to comment on the Scheme.

11.6 This intended acquisition will therefore not directly affect Phoenix, Abbey Life or this Scheme. If necessary, I will provide more information on this in my Supplemental Report.

Developments for Phoenix from 31 March 2018

11.7 Since 31 March 2018, there have been a number of actions that have affected the financial position of Phoenix. The most significant of these to 30 June 2018 are:

- Management actions and Product Management initiatives: Phoenix has implemented two significant management actions – lower fees for administration expenses on part of its business and improving policyholder benefits by the implementation of caps on certain ongoing and exit charges. Together these have resulted in increasing the excess own funds by c£35m.
- Valuation Assumptions: a reserving and reporting exercise will be undertaken as at 30 June 2018. As part of this and in line with established practice, the assumptions and methodologies have been reviewed in preparation for that valuation. These changes approved by the Board are estimated to increase the excess own funds by c£100m
- The payment of dividend: In June 2018, Abbey Life's Board approved a dividend payment of £250m. The Solvency II Pillar 1 numbers included in the report take account of the dividend payment
- Changes in market conditions
- Run-off of the Phoenix business resulting in surplus arising
- CP13/18 Solvency II: Equity Release Mortgages ("ERMs"): On 2 July 2018 PRA issued a Consultation Paper on the valuation of ERMs. The proposed changes will impact the solvency position for Phoenix. However, I do not expect this to change the conclusions in my report. I will consider the detailed impact of the Consultation Paper on the solvency position and TMTP for Phoenix in my Supplemental Report

11.8 The excess capital held by the companies above their respective capital polices will be impacted by the above events. However, both companies continue to meet their regulatory and capital policy requirements as at 30 June 2018. Therefore I do not believe this will materially change the overall impact of the implementation of the Scheme or affect my conclusions.

11.9 In my Supplemental Report, I will provide financial information as at 30 June 2018 and comment on relevant events affecting the solvency position from then to the date of that report.

Tim Roff FIA

Partner
Grant Thornton UK LLP

12 July 2018

A Summary CV for Tim Roff

Title
Partner

Experience
Tim is partner and head of actuarial and risk services at Grant Thornton. He has previously held roles as head of global actuarial services at KPMG and EY.

He is a senior actuary with 20 years of experience operating at partner level. He holds UK practising certificates to act in regulatory actuarial roles.

Tim has significant experience in all aspects of actuarial work – reserving, capital and pricing. He has acted as Chief Actuary for a number of major insurers including Lloyds Banking Group insurance subsidiaries and Royal London, the largest UK mutual insurer.

He is an expert in financial reporting including various regulatory systems, IFRS and embedded value. He was senior actuary on the audit of Aviva and Prudential who report under all these bases.

Tim has worked on a range of transactions, restructuring and portfolio transfers both sell side and buy side. He was the Reporting Actuary on the Norwich Union demutualisation, the largest in the UK.

He has a range of expert experience including acting as expert on a scheme to release life company capital and arbitrator on a sale and purchase agreement dispute. He has acted as Skilled Person for the UK regulator on a number of occasions.

Tim has a range of international experience including assisting Swiss Re and Aegon with their global business. He has carried out assignments in Belgium, France, Ireland, Morocco, Netherlands, Switzerland and US.

Professional qualifications and membership
- Fellow of the Institute and Faculty of Actuaries

Career outline
- 2014 joined Grant Thornton UK LLP
- Partner, KPMG
- Partner, Ernst & Young

B Extract from work order

Terms of engagement between Abbey Life Assurance Company Limited, Phoenix Life Limited and Grant Thornton UK LLP (the "Agreement")

Background

We write to acknowledge your instructions to act in the above matter and set out below our understanding of the work that you wish us to perform and the terms on which we shall undertake it.

The terms of engagement are subject to the approval of the Independent Expert by the Prudential Regulation Authority ("PRA") having consulted with the Financial Conduct Authority ("FCA").

Scope of the Services

You have asked us to provide an Independent Expert to report on the proposed scheme of transfer of a block of business from Abbey Life Assurance Company Limited ("Abbey Life") to Phoenix Life Limited ("Phoenix") (the "Scheme"). The Independent Expert's report ("Report") will be prepared in accordance with and for the purposes set out in Part VII of the Financial Services And Markets Act 2000 (as amended) ("FSMA") in relation to the Scheme which is to be submitted to the English High Court and potentially also the Royal Courts of Guernsey and Jersey (the "Courts") for approval.

The Independent Expert's analysis and Report will follow the relevant FSMA requirements and associated supplemental guidance issued by the PRA and FCA. The Report will consider the Scheme as a whole and its effect on the policyholders of Abbey Life and Phoenix. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the Scheme, namely:
    - the transferring policyholders;
    - the current policyholders with Phoenix prior to the transfer;
- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders; and
- any other information required to be included by the FSMA, the PRA and the FCA.

The Independent Expert will prepare the Report (for the directions hearing), a summary of the Report (for notification to all affected policyholders and other interested parties) and a Supplemental Report (for the sanction hearings containing updated information) (together the "Deliverables") which will be filed by the Addressees with the Court in connection with the Scheme. The Deliverables will include all information, advice, recommendations and other content of any Reports, presentations or other communications provided by us to the Addressees.

The Report and the Supplemental Report will apply equally to business written by Abbey Life in Guernsey and Jersey as it does to business written in the UK and may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of local schemes in those jurisdictions (to the extent that any such local scheme are required).

The Independent Expert will, at the request of Abbey Life and Phoenix attend the Abbey Life and Phoenix board and/or committee meetings to present the draft Report and the Supplemental Report, and attend at the court hearings relating to the Scheme.

The Independent Expert may be required to produce different versions of the summary of the Report for the purpose of mailings to policyholders.

Data reliance and limitations

In performing this assignment, the Independent Expert will rely on data and information provided by you, other third party experts such as actuaries and auditors, and industry sources of data. He will not audit or verify this data and information. If the underlying data or information is inaccurate or incomplete, the results of his analysis may likewise be inaccurate or incomplete.

In performing the services under this Agreement, we will use the skill, care, expertise and competence that could reasonably be expected from a highly reputable, international consultancy firm or company providing to major multinational corporations the same or similar services to those provided under this Agreement.

The Independent Expert's ability to carry out this assignment will depend on a number of key factors:

- that the relevant and appropriate information is readily available, specifically:
    - material financial data including projections;
    - actuarial and audit reports;
    - detailed information on material reinsurance arrangements;
    - detailed information on any guarantees; and
    - access to the personnel of both Abbey Life and Phoenix.
- access to third party reports (subject to the provision of hold harmless letters as necessary).

Conflicts of interest and independence

The Independent Expert, Tim Roff, has identified no conflict of interests that would compromise his ability to act as the Independent Expert. Similarly, Simon Perry and Derek Smith have identified no conflicts of interest that would compromise their ability to work on this assignment.

Grant Thornton has carried out a full conflict check across its international operations in relation to Abbey Life, Phoenix and other companies within their respective groups and has identified no situation which would compromise the independence of the Independent Expert.

C PRA's approach to insurance business transfers

The tables below cross references sections of the PRA's approach to business with the relevant sections of this Report:

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	1.8
(2) confirmation that the independent expert has been approved or nominated by the PRA;	1.8
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.15 and Appendix A
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	1.16/1.17
(5) the scope of the report;	Appendix B
(6) the purpose of the Scheme;	6.2/6.3
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Section 6
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Appendix E
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	1.23
(b) the judgement of others;	1.23/6.26/6.28/8.34
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	1.23/6.26/6.28/8.34 and Appendix E
(11) Their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain	

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
rights and contingent rights under the policies), distinguishing between:	
(a) Transferring Policyholders;	Section 8
(b) policyholders of the transferor whose contracts will not be transferred; and	n/a
(c) policyholders of the transferee;	Section 9
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Section 10
(13) what matters (if any) that the Independent Expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' considerations of the Scheme; and	n/a
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Provided throughout
2.32 The summary of the terms of the Scheme should include:	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	6.17
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	n/a
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if it is or is not implemented;	Section 8/1.13
(2) state whether they considered alternative arrangements and, if so, what;	1.10
(3) where different groups of policyholders are likely to be affected differently by the Scheme, include comment on those differences they consider may be material to the policyholders; and	Section 7 and 8
(4) include their views on:	
(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Section 8
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling,	

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
expense levels and valuation bases in relation to how they may affect:	
(i) the security of policyholders' contractual rights;	Section 8
(ii) levels of service provided to the policyholders; or	Section 8
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Section 8
(c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	Section 8
2.35 For any mutual company involved in the scheme, the report should:	
(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of these members to secure or prevent further changes which could affect their entitlement as policyholders;	n/a
(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and	n/a
(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	n/a
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	Section 7 and 8
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	Section 7 and 8
(3) describe the likely effect of the Scheme on the approach used to determine:	

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	Section 7 and 8
(b) the levels of any discretionary charges;	Section 7 and 8
(4) describe what safeguards are provided by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	Sections 7, 8 and 9
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	Sections 8 and 9
(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and	Sections 8 and 9
(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holders) to ensure that the Scheme operates as presented.	Sections 7, 8 and 9
2.37 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the Independent Expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the Independent Expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run.	Sections 5 and 11
2.38 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the Independent Expert should report on what reductions they consider ought to be made, unless:	
(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or	n/a

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
(2) he is unable to report on this aspect in the time available.	n/a
Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions against its statutory objectives. Section 113 of the FSMA allows the court, on application to the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	n/a

D FCA's approach to insurance business transfers

The tables below cross references sections of the FCA's approach to business with the relevant sections of this report:

Reference to the FCA's approach to business transfers	Reference to relevant section within this report
Overarching guidance	
6.2 The FCA expect the report to have been constructed in such a way that it is easily readable and understandable by all its users and for the IE to pay attention to the following:	
6.2.1 Technical terms and acronyms should be defined on first use.	Demonstrated throughout this report
6.2.2 There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 2
6.2.3 The business to be transferred should be described early in the report.	1.1 and 1.2
6.2.4 The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	Demonstrated throughout this report
6.2.5 IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Not explicitly demonstrable but considered in the writing of this report
6.3 IE reports should have detailed analysis, critical review and a conclusion. Plus, a sufficient consideration and comparison of:	
6.3.1 Reasonable benefit expectations (including impact of charges)	Sections 8 and 9
6.3.2 Type and level of service (including claims handling)	Sections 8 and 9
6.3.3 Management, administration and governance arrangements	Sections 8 and 9

6.4 IE reports should have good balance between factual description and supporting analysis. In many cases IE reports include a great deal of detail describing the transaction itself and the background but much less analysis of the effect on each Policyholder group's reasonable expectations.	Demonstrated throughout this report. Most of the analysis is included in Sections 8 and 9
The level of reliance on the Applicants assessments and assertions	
6.6 In some instances, IEs will rely on assessments carried out by Applicants to reach their own conclusions. In these circumstances we expect the IE to demonstrate that they have questioned the adequacy of those assessments. We may also expect the IE to have urged the Applicants to undertake additional work or produce further evidence to support their assertions to ensure that the IE can be satisfied on a particular point.	1.28 to 1.30
6.7 & 6.8 We would also expect the IE to explain the nature of any challenges made to the Applicants and the outcome of these within their report, rather than just stating the final position. We will question and challenge the IE where we feel that an IE has relied on assertions made by the Applicants without sufficient challenge or request for supporting detail or evidence.	1.28 to 1.30
6.9 The IE should challenge calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, we will expect the IE to:	
6.9.1 Review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate	1.28 to 1.30
6.9.2 Challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	1.28 to 1.30
6.10 We would also expect the IE to challenge Applicants where the documents provided contain an insufficient level of detail or analysis.	1.28 to 1.30
Sufficient comparative regulatory framework analysis	
6.11 Where the regulatory framework is different for the Transferor and Transferee, the IE should carry out sufficient analysis of the differences including, where appropriate, taking independent advice.	N/A
6.12 In particular, with cross-border transfers we often see insufficiently detailed analysis of	

regulatory protections post-transfer. This can include:	
6.12.1 The extent to which existing regulatory requirements and protections continue, including whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme.	N/A
6.12.3 & 6.12.4 The comparative regulatory requirements and conduct protections across any relevant jurisdictions, including but not limited to complaints or compensation bodies compared to the UK.	N/A
6.12.4 Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential mitigations.	N/A
6.12.5 Post UK withdrawal, non-UK EEA customers may be subject to local conduct of business rules regime, which may not include FOS or FSCS. IN these cases, we are likely to accept firms taking proportionate approaches to compare regimes.	N/A
6.13 In these instances, we would expect to see a statement describing the two regimes as well as a considered comparison, highlighting points of significant difference that could adversely impact Policyholders. It is for the IE to use their judgement to decide on the level of detail to be included but it needs to be sufficient for the Court to be in a position to be satisfied.	N/A
6.14 If the IE's analysis is inconclusive or there are potential conduct risks due to differences in the regulatory framework, there should be sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	N/A
Balanced judgements and Sufficient Reasoning	
6.15 Where certain features of the Scheme are mentioned to demonstrate the IE's satisfaction with the Scheme we would expect to see evidence and reasoning behind the IE's conclusion.	Demonstrated throughout this report
6.16 Where the IE states that there will be no material adverse impact the report should make	Demonstrated throughout this report

clear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement, but lacks certainty. In these instances, we expect IEs to consider the following:	
6.16.1 Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree.	1.29
6.16.2 IEs should be able to challenge the Applicants to gain the necessary level of confidence that their report's conclusions are robust. In addition, they will need to consider how any proposed changes/mitigations will impact all Policyholder groups.	1.29
6.17 We expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available when finalising their report.	1.30
6.18 If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgement, we would expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged.	I am not aware of any significant changes in market conditions since carrying out the analysis detailed in this report. I will issue a Supplementary Report based on the most up to date information available to me prior to the second Court hearing.
Sufficient regard to relevant considerations affecting Policyholders	
6.19 We would expect to see IE consideration of all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. Our expectations include:	
6.19.1 Current and proposed future position of each Policyholder group	Sections 8 and 9
6.19.2 Potential effects of the transfer on each of the different Policyholder groups	Sections 8 and 9
6.19.3 Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	The potential material adverse impacts of the Scheme are explained in detail throughout this report.

6.20 To support this, we expect the IE to consider whether the groups of affected Policyholders have been identified appropriately.	When considering the issues covered in my report I have given thought to the impact the issues may have on a range of policyholder group.
6.21 We would also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we would expect the IE to include:	
6.21.1 Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we would expect to see a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.21.2 The IE should consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.22 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	N/A
6.22.1 Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.22.2 If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, we believe the IE should consider the Scheme as if the reinsurance was not in place.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.23 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected.	There are no groups of policyholders that are disadvantaged as a result of the Scheme. The with-profits policies will be converted to non-profit with guaranteed future bonuses. More details of this are provided in Sections 7 and 8

6.24 & 6.25 We would expect to see IE consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material. In these circumstances we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation. We would expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may.	Sections 7 and 8 discuss the impact of the Conversion to non-profit.
6.26 & 6.27 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups. As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer: The IE may say they are satisfied that there is no material adverse impact on Policyholders because the Transferee's capital position, and the short term nature of the liabilities, means that it is unlikely the Scheme will fail and Policyholders need recourse to the FSCS as a result. We would not be satisfied with this view without further evidence.	Sections 7 and 8 discuss the impact of the Conversion to non-profit.
Commercially sensitive or confidential information	
6.29 & 6.30 Often the IE will need to consider commercially sensitive or confidential information as part of their decision making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, particularly as this information will not be publicly available. In these situations we expect to see the analysis and the information relied upon. It is also possible that the Court may wish to see that information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure.	We have set out in Appendix E the key information we have relied upon in our report.
The level of reliance on the work of other experts	

6.31 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we would still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	1.23 and 1.29
6.32 We expect the IE to have obtained a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	1.23 and Appendix E
6.33, 6.34 and 6.35 Where the IE refers to factors that are outside their sphere of expertise and relies on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue. In many cases, the IE's decision to obtain independent legal advice will depend on the significance and materiality of the issue. The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, we may challenge IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers.	N/A
6.36 In deciding whether to obtain independent legal advice, we would expect the IE to consider, amongst other things, the following: • The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice. • How much the IE relies on the legal advice to reach their conclusions and, if	Not explicitly demonstrable but considered in the undertaking of the work

they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.	
6.37 Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point.	Throughout this report I have explained how I have reached the conclusions I have drawn. In my opinion, as well as the legal advice discussed above, the other area which required independent advice was tax.
6.38 The IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	N/A
Ambiguous language or a lack of clarity	
6.45 & 6.46 At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.	1.23
6.47 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:	
6.47.1 That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has	Demonstrated throughout this report, including Sections 8 and 9

taken to get clarification, such as seeking further advice from a subject matter expert.	
6.47.2 How has the IE satisfied him or herself about the identified uncertainty and formed an opinion on any potential impact.	N/A
Demonstrating challenge	
6.48 To ensure the IE report is complete and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, particularly where they believe the IE has not fully addressed issues.	Abbey Life, Phoenix and their legal advisers have all had the opportunity to challenge all aspects of this report. In order to arrive at my conclusions I have often discussed issues with the management teams of Abbey Life and Phoenix
6.49 To ensure effective two-way challenge we would expect the IE to engage with FCA or PRA approved persons of sufficient seniority at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the CFO, Senior Underwriters and so on.	As discussed in paragraph 1.29, I have engaged with key subject matter experts from Abbey Life and Phoenix, including senior actuaries, to gain comfort on the appropriateness of the methodology and conclusions for the most material quantitative aspects of the Scheme.
Technical actuarial guidance	
6.50 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, particularly those for compiling actuarial reports.	1.20
6.51 IEs should be particularly aware that the proposed new versions of the TAS due to come into force during 2017 specifically apply to technical actuarial work to support Part VII Transfers.	1.20
6.52 We draw specific attention to paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'.	Not explicitly demonstrable but considered in the writing of this report
6.53 Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	1.21

E Information/Documents reviewed/relied on

The table below sets out the key documents I have relied on in preparing this Report. Some of this information is company confidential and is not publically available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with the With-Profits Actuary, Chief Actuary, Project Development Actuary and Project Actuary at Abbey Life and Phoenix.

Document	Source
27. ALAC Risk Appetite and CMP v3 - ALAC Board - FINAL	Abbey Life Chief Actuary
28. 2017CMPReviewBoard_v3_clean	Phoenix Chief Actuary
8. Summary of ALAC Policyholder Mailing Strategy 12 03 2018 clean	Abbey Life Management and Phoenix Management
Abbey Life Exercise of Product Discretion for IE 23032018	Abbey Life Management
Product Discretionary Review Methodology - 2016 v1.0	Abbey Life Management
15. Financial Analysis Q1 18 for IE and regulators	Abbey Life/Phoenix Management
ALAC_PGH ORSA Report 2017 – Final	Abbey Life Risk Management Actuary
16 & 17. PLLPLAL ORSA Dec 2017 v1.08	Phoenix Risk Management Actuary
Phoenix Group SFCR 2017	Phoenix Management
26. Summary - Phoenix Life Actuarial Function Report - HY17_v5	Phoenix AFH
ALAC Pt VII - PLL Chief Actuary report v6	Phoenix Chief Actuary
ALAC Pt VII - ALAC Chief Actuary report v6	Abbey Life Chief Actuary
PLL_P1 Report 2018	Phoenix Chief Actuary
ALAC_P1 Report 2018	Abbey Life Chief Actuary
22 & 23. MA3_BoardCommittee_v8.1	Phoenix Deputy Chief Actuary
23. BAC Paper YE17 TMTP recalculation FINAL	Phoenix Chief Actuary

9. ALAC Fund Merger - Regulator's briefing pack v6	Phoenix Management
2. PG 12935 414 - ALAC & PLL - Reinsurance Treaty MA	Abbey Life/Phoenix Management
2. PG 12935 414 - ALAC & PLL - Reinsurance Treaty Non MA	Abbey Life/Phoenix Management
7. ALAC Board - ALAC to PLL Reinsurance - Nov - v10 Final	Abbey Life Chief Actuary
7. PLL Board - ALAC to PLL Reinsurance - Nov - v10 Fin	Phoenix Chief Actuary
3. Key Features of the Scheme 12032018 clean	Clyde & Co
5. Existing scheme Ambassador Life Abbey Life Transfer Scheme and Order – 1998	Abbey Life Management
5. Existing scheme Hill Samuel Abbey Life Transfer Order - 19971008	Abbey Life Management
Draft Scheme document (20 June 2018)	Clyde & Co
Existing Abbey Life Schemes destination table (6 April 2018) (2)	Clyde & Co
Funds merger ALAC to PLL life assurance analysis v 1.0	Phoenix Tax Team
Funds merger ALAC to PLL pension analysis v 1.0	Phoenix Tax Team
30. wpc_Mar2018_ALAC_PartVII_NPconversion_draft1	Abbey Life WPA
A4 ALAC WPA report v10 clean	Abbey Life WPA
wpc_ALAC_goneaways_apr2018_draft5	Abbey Life WPA
Abbey Life PB Fund PPFM	Abbey Life WPA
Hill Samuel PB Fund PPFM	Abbey Life WPA
30. 2018 Hill Samuel Bonus Recommendations v3 WPC	Abbey Life WPA
30. wpc_final_bonus_HSWP_march 2018 v2	Abbey Life WPA
30. Abbey Bonus Report 2017 V4 - Clean	Abbey Life WPA
30. wpc_final_bonus_ALAC_PAR_Dec 2017_WPC_211117_DK	Abbey Life WPA
ABBEY LIFE - PLANNED INVESTMENT ENDOWMENT REGULAR GUARANTEED - POLICY CONDITIONS	Abbey Life Management
ABBEY LIFE - WHOLE LIFE ASSURANCE - POLICY CONDITIONS - 090120a2805c27db	Abbey Life Management

Customer Group Policy	Phoenix Risk Management Team
PRA Written Notice - Abbey Life MMC application 20180301	PRA
Scheme_Guide_for_Abbey_policyholders draft 12042018 clean	Abbey Life Management
Scheme_letter_Abbey_policyholders UK draft 12042018 clean	Abbey Life Management
Scheme_Guide_for_Abbey_annuitants draft 12042018 clean	Abbey Life Management
Scheme_letter_Abbey_annuities UK draft 12042018 clean	Abbey Life Management
QA_for_Abbey_policyholders draft 12042018 clean	Abbey Life Management
ALAC Board - Capital Release - 13-06-2018_FINAL	Phoenix Chief Actuary
ALAC Part VII - First Witness Statement of Andy Moss (15 June 2018)	Phoemix/Abbey Life Management
ALAC Part VII - First Witness Statement of Susan McInnes (15 June 2018) ...	Poenix/Abbey Life 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.

F Glossary

Term	Definition
Abbey Life	Abbey Life Assurance Company Limited
Abbey Life PB Fund	Abbey Life Participating Business Fund
ACMP	Abbey Life Capital Policy
ALM	Asset Liability Management
Ambassador Life	Ambassador Life Assurance Company Limited
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value
BEL	Best Estimate Liabilities
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
Capital Gains Tax	A tax levied on the profits realised upon the sale of an asset
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold
CBI	Central Bank of Ireland
COBS	Conduct of Business Sourcebook
Conversion	Conversion of the with-profits policies to non-profit policies under the Scheme
Corporate Transactions	The de-risking products written by Abbey Life for corporate clients
Credit rating	A measure of the financial security of a company provided by a third party agency
Current Policyholders	The existing policyholders of Phoenix, prior to the transfer
CWP policies	Conventional With-Profits policies
EIOPA	European Insurance and Occupational Pensions Authority

Term	Definition
ERMs	Equity Release Mortgages
Estate	Difference between the value of the assets of the with-profits fund and the value of the best estimate liabilities of the fund
EU	European Union
FCA	Financial Conduct Authority
Flexiplan	Conventional Endowment policies with guaranteed minimum surrender terms
FOS	Financial Ombudsman Service. An independent body set up to deal with individual complaints that consumers and financial businesses are not able to resolve themselves
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme. FSCS is a statutory "fund of last resort" which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long term insurance policies, the FSCS will pay 100% of any eligible claim. The FSCS is funded by levies on firms authorised by the PRA and FCA
FSMA	Financial Services and Markets Act 2000 (as amended)
Hill Samuel	Hill Samuel Life Assurance Limited
Hill Samuel PB Fund	Hill Samuel Participating Business Fund
IAC	Investment Annuity Contract
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
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions
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

Term	Definition
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
MoU	Memorandum of Understanding
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis
Parent	An enterprise that controls another through ownership of 50 percent or more of its voting stock
PCP	Phoenix Capital Policy
PGMS	Pearl Group Management Services
PGS	Pearl Group Services Limited
Phoenix	Phoenix Life Limited
PIE policies	Planned Investment Endowment
PPFM	Principles and Practices of Financial Management. In managing with-profits business firms rely on their use of discretion. The PPFM explains the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders
PRA	Prudential Regulation Authority
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on)

Term	Definition
RHL	Royal Heritage Life Assurance Limited
RMF	Risk Management Framework
Run-off	A line of insurance business or an insurance undertaking that no longer accepts new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on policies that have expired
SCR	Solvency Capital Requirement. A capital regulatory requirement under the Solvency II regime
SMA	Scottish Mutual Assurance Limited
SPL	Scottish Provident Limited
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 Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an Internal Model
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock
SUP 18	Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance
Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received
TMTP	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 2009 Scheme	A scheme in 2009 under which part of the long-term insurance business of Scottish Mutual Assurance Limited and Scottish Provident Limited was transferred to Phoenix

Term	Definition
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 Report	The report from the Independent Expert
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 data 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 Policies	Policies of Abbey Life Assurance Company Limited that will be transferred 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
UK	United Kingdom
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
WPA	With-profits actuary function. The WPA is responsible for advising the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which he or she has been appointed
WPC	With-profits committee

