PHOENIX GROUP

PHOENIX LIFE LIMITED

Proposed Scheme to transfer certain annuity policies
to ReAssure Limited

Report by the Chief Actuary on the Impact of the Scheme on
Policyholders of Phoenix Life Limited

5 September 2016

1. PURPOSE OF REPORT

The purpose of this report is to describe the impact of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA") on the policyholders of Phoenix Life Limited ("Phoenix"). Under this scheme (the "Scheme") certain of Phoenix's non-profit pension annuity policies are to transfer to ReAssure Limited ("ReAssure"). The annuity policies are currently contained within three of the with-profits funds of Phoenix – the Alba With-Profits Fund, the Phoenix With-Profits Fund and the SAL With-Profits Fund (collectively the "Funds").

This report describes how the Scheme is expected to affect the security of benefits and the reasonable benefit expectations of policyholders of Phoenix. It also sets out how the Scheme is consistent with the requirements to treat customers fairly.

The report is written for the Phoenix Board in my capacity as Chief Actuary for Phoenix. As well as the Board, the report may be used by the Independent Expert, the Phoenix With-Profits Committee and With-Profits Actuaries, the High Court, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in forming their own judgements about the Scheme.

This report and the underlying preparation work that has been carried out is in my opinion compliant with the standards on insurance (TAS I), Transformations TAS, TAS D (Data), TAS M (Modelling) and TAS R (Reporting) issued by the Financial Reporting Council that apply to certain types of actuarial work.

In my opinion there has been an appropriate level of review in the production of this report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

2. SUMMARY

In section 3, I have provided background information on Phoenix and ReAssure.

I have given a summary of the Scheme in section 4, highlighting its effect on the policyholders of Phoenix. The full provisions of the Scheme are set out in the Scheme document.

In sections 5, 6, and 7, I have analysed the impact of the Scheme on the policyholders of Phoenix.

I conclude in section 8 that the Scheme will have no material adverse impact on the interests of Phoenix policyholders. In particular, in my opinion, there will be no material reduction in the security and benefit expectations of Phoenix policyholders.

Appendix A sets out a report by the With Profits Actuaries of Phoenix, which considers the effect of the Scheme on the with-profits policyholders in the with-profits funds of Phoenix.

3. BACKGROUND

3.1. Status

I am a Fellow of the Institute of Actuaries. I was appointed as Actuarial Function Holder of Phoenix from 30 July 2010 and I became the Chief Actuary when changes were introduced to the regulatory regime on 1 January 2016.

I am an employee of Pearl Group Management Services Limited ("PGMS"), which is a wholly owned subsidiary of Phoenix Group Holdings, the ultimate parent company of Phoenix. I am not a policyholder of any of the companies within the Phoenix Group, including Phoenix, nor am I a policyholder of ReAssure. I currently have a number of Phoenix Group Holdings shares and share options.

I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

3.2. History of Phoenix

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

Phoenix closed to new business in 2002, although it has continued 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.

Phoenix today is a member of the Phoenix Group. The Phoenix Group includes two active regulated UK life companies – Phoenix and Phoenix Life Assurance Limited ("PLAL"). Phoenix Life Holdings Limited ("PLHL") is the senior UK and European Community insurance holding company in the Group.

Phoenix has been involved in a number of Part VII schemes since 2005 including those shown below.

Under a Part VII scheme which became effective on 31 December 2005, the long-term insurance businesses of Bradford Insurance Company Limited, Phoenix Assurance Limited and Swiss Life (UK) plc were transferred to Phoenix.

Under a Part VII scheme which became effective on 31 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 ("PLP") were transferred to Phoenix.

Under a Part VII scheme which became effective on 1 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.

Under a Part VII scheme which became effective on 1 January 2011 (the "PALAL Scheme"), the long-term insurance business of Phoenix & London Assurance Limited ("PALAL") was transferred to Phoenix.

Under a Part VII scheme which became effective on 1 January 2012 (the "Phoenix 2012 Scheme") the long-term insurance business of NPI Limited and certain long-term insurance business of National Provident Life Limited ("NPLL") were transferred to Phoenix.

Under a Part VII scheme, which became effective on 30 September 2013, selected pension annuities in payment were transferred from Phoenix's Non-Profit Fund and two other companies in the Phoenix Group, NPLL and PLAL, to Guardian Assurance Limited, which has subsequently changed its name to ReAssure Life Limited ("RLL").

The Phoenix 2009 Scheme, the PALAL Scheme and the Phoenix 2012 Scheme set out various terms for the management of Phoenix's business, and will continue to do so irrespective of whether the Scheme goes ahead.

On 27 May 2016, Pearl Life Holdings Limited, a member of the Phoenix group, entered into an agreement with AXA to acquire AXA Wealth's pensions and protection businesses. Completion is conditional on the approval of the change of control of the AXA companies from the PRA and the FCA. From completion, it is expected that the acquired businesses will be reinsured into Phoenix under a reinsurance agreement. The terms of this agreement will be subject to review by the PRA and it is not expected to have an adverse effect on Phoenix's existing business. I will provide further comment on this in my supplementary report.

3.3. The Business of Phoenix

The long-term insurance business within Phoenix is held within eleven sub-funds:

- The 100% With-Profits Fund (the "100% WPF");
- The 90% With-Profits Fund (the "90% WPF");
- The Alba With-Profits Fund (the "Alba WPF");
- The Britannic Industrial Branch Fund (the "BIB Fund");
- The Britannic With-Profits Fund (the "Britannic WPF");
- The Phoenix With-Profits Fund (the "Phoenix WPF");
- The SAL With-Profits Fund (the "SAL WPF");
- The Scottish Mutual With-Profits Fund (the "SM WPF");
- The SPI With-Profits Fund (the "SPI WPF");
- The NPI With-Profits Fund (the "NPI WPF"); and
- The Non-Profit Fund (the "NPF").

The first ten funds listed above are with-profits funds. All the surplus arising in the 100% WPF and the NPI WPF is attributable to the with-profits policyholders in those funds and at least 90% of the surplus in the other with-profits funds is attributable to the with-profits policyholders in that fund. The business contained in these funds was transferred to Phoenix as a result of the Part VII schemes referred to above.

In respect of the Funds, which contain the business being transferred:

- The Alba WPF mainly consists of traditional with-profits life and corporate pension business. There is also some unitised with-profits business as well as non-profit deferred and immediate annuities.

- The Phoenix WPF comprises the with-profits contracts originally written by PLP. These are mainly traditional endowments, traditional pension policies (most of which have guaranteed annuity options), unitised with-profits whole life bonds and pension policies (some of which are reassured to the fund by the SAL WPF). There is also a range of non-profit contracts including term assurances and immediate and deferred annuities.

- The SAL WPF consists of conventional with-profits policies, unitised with-profits policies, non-profit policies, unit-linked policies and some immediate and deferred non-profit annuities, originally written by PALAL.

The NPF consists of the balance of the policies of Phoenix. The NPF is maintained for accounting and operational purposes to allow Phoenix to identify its long-term insurance business which is not allocated to its with-profits funds. Since the introduction of Solvency II, there is no legal or regulatory requirement to maintain the NPF or to separate the business allocated to the NPF from the assets and liabilities of Phoenix which are not attributable to its long-term insurance business (referred to as the "Shareholders' Fund"). For reporting purposes under Solvency II, the Shareholders' Fund is combined with the NPF.

The approximate number of policies and statutory reserves, net of reinsurance, in each sub-fund of Phoenix as at 31 December 2015 are shown in the table below.

Fund	100% WPF	90% WPF	Alba WPF	BIB Fund	Britannic WPF	Phoenix WPF	SAL WPF	SM WPF	SPI WPF	NPI WPF	NPF
Policies (000)	0	333	84	369	254	163	247	113	83	9	1,261
Reserves (£m)	16	54	987	123	2,752	2,919	3,231	2,007	1,477	0	15,326

In total, Phoenix at 31 December 2015 had approximately 3 million policies in force with total assets in excess of £35 billion.

3.4. Phoenix Capital Policy

Under the terms of the Phoenix 2009 Scheme, Phoenix maintains a particular capital policy (the "Phoenix Capital Policy" or "PCP"). The main objective of the PCP is to ensure that, based on various tests, the company can continue to meet the PRA's capital requirements in internally specified stress scenarios. The strength of the PCP is a function of these scenarios.

The other objective of the PCP is to govern the way in which shareholder support can be supplied to Phoenix's with-profits funds should they require it.

The results of the scenario testing were percentages of, in the original PCP, Solvency I variables. With the introduction of Solvency II, the results of the scenario testing are now expressed as a percentage of the Solvency Capital Requirement ("SCR"), which is the amount of capital required to be held by insurance companies under Solvency II. The percentage will be reviewed from time to time to ensure that the capital policy continues to meet its objective. The percentage may thus change without affecting the strength of the PCP.

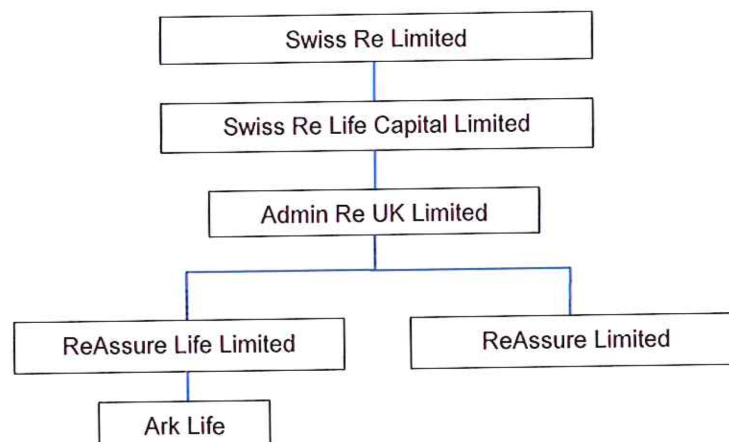
In its revised form, the PCP currently requires Phoenix to hold capital equal to 28 percent of the SCR in addition to the capital necessary to meet the SCR itself. This

percentage was calibrated in 2015 based on the estimated Solvency II position at the start of 2016 and shown to be broadly equivalent to a 1 in 10 "all risk" level. For strong WPFs the additional capital is met by any surplus in the fund and allowance is made for the run-off of business over the next year. The risk appetite, percentage of SCR and methodology have been subject to a full review in the first half of 2016. Phoenix is currently discussing the proposed changes with the PRA. I will include details of any changes to the PCP in the supplementary report that I will prepare prior to the Final Hearing.

If at any point there is a deficit relative to the PCP but that deficit is small relative to the capital policy, then no action is required to be taken other than that no capital can be released (for example through the payment of dividends). However, larger deficits would require consideration of corrective action.

3.5. ReAssure

ReAssure is a subsidiary of Admin Re UK Limited ("ARUK") whose ultimate parent is Swiss Re Limited ("Swiss Re"). A simplified diagram below illustrates the current structure of Swiss Re.



ReAssure was founded in 1963 as the Occidental Life Insurance Company Limited. The company was renamed Windsor Life Assurance Company Limited ("Windsor Life"), in 1972 and subsequently grew significantly through a series of acquisitions.

In 2004 Swiss Re gained control of Windsor Life and changed its name to ReAssure in 2011. Since 2004, under separate Part VII transfers the business of National Mutual Life, National Mutual Pension Limited and Barclays Life Limited was transferred to ReAssure.

ReAssure has not been actively writing new business since the end of 2002, other than increments on existing policies and annuities sold to existing customers.

ARUK acquired RLL (then known as Guardian Assurance Limited) on 6 January 2016.

ReAssure has two with-profits funds:

- The National Mutual With-Profit Fund (in which the with-profits policyholders receive 100% of the surplus that is distributed); and

- The Windsor Life With-Profit Fund (in which the with-profits policyholders receive at least 90% of the surplus that is distributed and the rest is allocated to the Shareholder).

The remaining business is held in the Non-Profit Fund. Any surplus in the Non-Profit Fund is available for distribution to the shareholder.

In total, ReAssure at 31 December 2015 had approximately 2 million policies in force with total assets in excess of £27 billion.

ReAssure's capital policy is to hold sufficient capital to cover 1 in 10 year stresses in line with the policy of the Swiss Re group. For practical purposes, this buffer is held as a percentage of SCR. For the Non-Profit Fund the target is to maintain a minimum excess Solvency II capital resource of 20% of the SCR, subject to the discretion of the Board and on the interaction of the buffer with any specific capital margins required by the PRA. The with-profits funds are managed in accordance with the provisions of the relevant PPFM, run-off plan and any prior Part VII scheme.

ReAssure's capital policy may be reviewed upon any significant change affecting the business, such as an acquisition. Any changes would be subject to the approval of the ReAssure Board and would have to be notified to the PRA.

More details about ReAssure can be found in the Independent Expert's Report.

3.6. Regulatory Regime

On 1 January 2016, a new regulatory solvency regime was implemented for insurance and reinsurance companies in the European Economic Area. This is known as Solvency II. Requirements are split into three pillars.

Pillar 1 covers the financial requirements that Solvency II imposes and is designed to ensure that a company is adequately capitalised to deliver policyholder protection by ensuring the SCR is set such that it can withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions.

Companies calculate their capital resources (known as "Own Funds") with technical provisions calculated on a best estimate basis

The SCR, which is the additional capital that companies must hold, can be set by using the standard formula or a company's own internal model, provided such has been approved by the PRA. The PRA can impose capital add-ons if a company is using the standard formula. Therefore, in assessing the relative strength of companies, the ability to meet its SCR, however calculated, should represent the same degree of policyholder security.

In addition to applying to the PRA to use their own internal model, insurance companies can make applications to the PRA for the following, which will be taken into account in determining its Own Funds:

- Transitional Measures on Technical Provisions ("TMTP") – these are aimed at providing a smooth transition between Solvency I and Solvency II. Companies gain relief on the amount of technical provisions that must be held by applying TMTP and this relief is run off over 16 years.
- Matching Adjustment – these provisions give companies relief for holding certain long-term assets which match the cash flows of a designated portfolio

of life or annuity insurance and reinsurance obligations. It does so by allowing an adjustment to the discount rate at which the company is required to value the cash flows of its (re)insurance obligations in order to determine the amount of the technical provisions it is required to hold to cover them.

- Volatility Adjustment – the Volatility Adjustment is designed to protect companies from the impact of volatility on their solvency position by allowing an addition, which is provided by the regulator and which may vary from time to time, to be made to the discount rate used to calculate liabilities.

With-profits funds are known as ring-fenced funds for the purposes of Solvency II due to the participation of with-profits policyholders in the surplus arising. This means that the assets and liabilities of these funds must be separately identified, separate calculations of the solvency position of each ring-fenced fund must be undertaken and restrictions on the use of capital allocated to each ring-fenced fund must be recognised in the company's overall solvency calculations (this is known as the "RFF Restriction"). This means to the extent that the surplus in a with-profits fund that requires no shareholder support is improved, this has no impact on the overall solvency position of the company.

Pillar 2 imposes minimum standards of risk management and governance on companies. There is a requirement for permanent internal audit and actuarial functions. Insurers must also regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of capital resources, called the Own Risk and Solvency Assessment ("ORSA"), and senior management must demonstrate that the ORSA informs business planning, management actions and risk mitigation.

Pillar 3 aims for greater levels of transparency for regulators and the public. This is achieved through a submission by companies of a private annual report to regulators, and a public solvency and financial condition report. The aim is to ensure that overall there is better and more up-to-date information on a company's financial position.

4. THE PROPOSED SCHEME

4.1. Background to the Scheme

Following a process initiated by the Phoenix With-Profits Committee, Phoenix and RLL entered into an agreement (the "Annuity Business Transfer Agreement") on 31 July 2014 providing for the transfer to RLL of certain non-profit annuity policies of Phoenix (the "Business") under Part VII of the FSMA.

The Business constituted an investment of the Funds and the purpose of the sale and transfer was to remove the risk associated with this investment from those with-profits funds, in particular the longevity risk attaching to the annuities. Since the annuities are of a longer duration than most of the with-profits policies in the Funds, the investment is also longer dated than those with-profits policies and capital to support the annuities must be retained for the longer period. Removing the annuities reduces the potential for unfairness between different generations of with-profits policyholders and facilitates a fairer distribution of the remaining assets of the Funds to the with-profits policyholders. It also removes a significant illiquid investment from the Funds.

At the same time as the Annuity Business Transfer Agreement was entered into, Phoenix and RLL entered into a reinsurance agreement which was effective from 1 January 2014 and under which assets backing the annuity policies were transferred

to RLL as a reinsurance premium. The purpose of the reinsurance was to accelerate the transfer of the economic risk and reward of the Business.

By transferring the Business from Phoenix, the Scheme will remove all the Funds' risks in connection with the Business except a small temporary residual expense risk, which continues until a true up process is completed shortly after the Transfer Date (as explained in section 4.2.1) and Phoenix's liability for its past management of the Business. The Scheme will also remove the need to account for the reinsurance, reducing the administration costs of Phoenix.

The total liabilities reinsured under the reinsurance agreement with RLL as at 31 December 2015 were £1,791m, split:

- Alba WPF – £301m
- Phoenix WPF – £564m
- SAL WPF – £926m.

Following the acquisition of RLL by ARUK, the original Annuity Business Transfer Agreement was amended on 23 August 2016 so that, inter alia, under the Scheme the annuity policies comprised in the Business would transfer to ReAssure.

Under a separate Part VII Scheme (the "RLL Scheme"), ReAssure are proposing to transfer all of the business of RLL to ReAssure, including the assets backing the annuity policies reinsured to RLL under the reinsurance agreement entered into between Phoenix and RLL. It is intended that the RLL Scheme will run to a similar timetable and that it will become effective on the same date as the Scheme. The two schemes are independent of each other and one is not conditional on the other. More information on the RLL Scheme can be found in the Independent Expert's Report.

If the Scheme is not approved, the longevity and investment risks under the Business will continue to be reinsured to RLL. If the RLL Scheme then takes place, all of RLL's risks and obligations under the reinsurance arrangement with Phoenix will transfer to ReAssure, with the result that the risks under the Business will be reinsured to ReAssure.

4.2. Summary of the Scheme

4.2.1 The Transfer

The Scheme is expected to transfer the non-profit pension annuity policies of Phoenix comprised in the Business to ReAssure on 31 December 2016 (the "Transfer Date"). The policies that will transfer are those annuities reassured to RLL under the reinsurance arrangement described in section 4.1 that are in-force as at the Transfer Date.

The transferring policies will transfer from the Funds of Phoenix to the Non-Profit Fund of ReAssure.

Following implementation of the Scheme, ReAssure will assume responsibility for administering the policies. The Scheme provides for the transferring assets to include an estimated amount in relation to the future costs of that administration. The amount of this (the "initial expense reserve amount") will be determined between the

two court hearings for the Part VII transfer (the Directions Hearing and the Sanctions Hearing).

Any policies which are not capable of being transferred to ReAssure on the Transfer Date – referred to as Residual Policies in the Scheme – will be the subject of a Residual Policies Reinsurance Arrangement set out in the terms of the Scheme. This will provide for any Residual Policies to be fully reinsured to ReAssure, until such time as those policies can be transferred. This Residual Policies Reinsurance Arrangement will terminate not later than six months after the Transfer Date, at which point ReAssure will transfer back cash equal to the present value of the liabilities attributable to any remaining Residual Policies, such value to be agreed between Phoenix and ReAssure. The administration of any relevant Phoenix policies within the Residual Policies will continue to be handled by the same outsourcer with the result that the practical consequences of this reinsurance arrangement for transferring policyholders should be limited.

4.2.2 Impact on Phoenix Policies

The policies in Phoenix that are not transferring to ReAssure under the Scheme will remain in the same funds as now and no changes are being proposed to their terms and conditions under the Scheme. Further, there will be no change to the operation of the with-profits funds nor the NPF and these will continue to operate as discrete funds.

The transferring Phoenix policies will become policies of ReAssure and Phoenix will have no further liability for them except to the extent that liability arises from Phoenix's past management of the policies. The terms and conditions of the transferring policies will not change. ReAssure will become responsible for the administration and security of the transferring policies and they will be covered by the terms of its capital policy.

4.3. Other consequences of the Scheme

Under the terms of the amended Annuity Business Transfer Agreement, the initial expense reserve amount will be subject to a true-up process to be completed after the Transfer Date in order to calculate the amount as at the Transfer Date.

Those costs associated with the Scheme that are attributable to Phoenix will be met by the Funds.

Phoenix and ReAssure have agreed that where transferred policies form part of an in-force defined benefit group pension scheme, only the rights and liabilities as they relate to the transferred policies will be transferred. Accordingly, Phoenix and ReAssure will become co-insurers of such group pension contracts with ReAssure being the insurer of the transferred policies and Phoenix being the insurer of those parts of the Group Pension Contracts which are not transferred policies.

Under the terms of the Scheme, Phoenix's rights and obligations under the reinsurance agreement with RLL will transfer to ReAssure (other than rights or obligations accrued or relating to any breaches which have occurred prior to the Transfer date). At the same time, under the terms of the RLL Scheme, RLL's rights and obligations under this agreement will transfer to ReAssure, with the consequence that, once both schemes have been implemented, the agreement will

terminate as ReAssure will be both reinsured and reinsurer under the reinsurance agreement.

5. FINANCIAL POSITION BEFORE AND AFTER THE TRANSFER

As part of the considerations as to whether the benefit security of policyholders remaining in Phoenix will be affected by the Scheme, it is helpful to compare the solvency position of Phoenix before and after the Scheme. A similar comparison of the solvency position of Phoenix before the Scheme and ReAssure after the Scheme is helpful in respect of the transferring policyholders.

5.1. Impact of the Scheme on Phoenix

The effect that the implementation of the Scheme will have on Phoenix's solvency position is considered below, together with comments on how Phoenix's existing Solvency II approvals will be affected.

Own Funds – Within each Fund, the Own Funds will increase. This is because the reserves released in respect of the future administration will be more than the Initial Expense Reserve Amount payable to ReAssure and the costs of the Scheme.

SCR – The transfer will remove the counterparty and expense risk associated with the Business, which will lead to a small reduction in the SCR.

RFF Restriction – As the Phoenix WPF does not require shareholder support, the increase in Own Funds leads to an increase in the RFF restriction. The Alba WPF and SAL WPF are supported by the shareholder, so there is no change in their RFF Restriction.

Applications –

- Internal Model – Phoenix's internal model will be unaffected by the Scheme and no changes will be required to it.
- Transitionals – The removal of this business leads to a small reduction in the TMTP. However, it does not change the overall risk profile of the company and is relatively minor so it does not trigger a full recalculation of the TMTP.
- Matching Adjustment – The Business does not form part of Phoenix's matching adjustment portfolio and so implementation of the Scheme has no impact on the matching adjustment.
- Volatility Adjustment – Phoenix has not applied for a Volatility Adjustment, so this is not applicable.

For the reasons given above, the Scheme is expected to improve the capital position of Phoenix.

The PCP (see section 3.4) requires Phoenix to retain capital in excess of the amounts required to satisfy the regulatory capital requirements. This means that policyholders are and will continue to be afforded greater security than required under the PRA's rules. However, any assets held in excess of the amount of assets required to satisfy the PCP may be distributed and hence little reliance can be placed on this excess when assessing the security for policyholders.

Because most of the risks associated with the Business were removed by the reinsurance, implementation of the Scheme will have little impact on the results of the processes undertaken as part of the ORSA.

5.2. Basis of calculation of the solvency position of Phoenix before and after the Scheme

This section describes the approach that I have taken in respect of the calculations for Phoenix. I have shown in the tables in sections 5.3.1 and 5.3.2 the expected impact of the Scheme on Phoenix as if the Scheme had been implemented on 31 December 2015 and Solvency II had been applying then. I have commented in section 5.4 how events since 31 December 2015 are likely to have changed the figures and the conclusions that can be drawn from them.

In the tables in sections 5.3.1 and 5.3.2:

- Own Funds – these are shown after the TMTP. These have been subject to a review by Phoenix's external auditors, with the exception of the TMTP.
- The SCR – this is as calculated according to Phoenix's internal model, which has been approved by the PRA.
- Solvency Ratio – this is calculated on two bases, one including all funds and the other only the NPF and those with-profits funds requiring shareholder support. By excluding strong WPFs, the latter gives an indication of the strength of the company.

5.3. Phoenix

5.3.1. Before the transfer

Table 1 below shows the financial position of Phoenix and its solvency ratio as at 31 December 2015 on a Solvency II basis.

Table 1	Phoenix as at 31 December 2015 before the effect of the Scheme		
	Own Funds	RFF Restriction	SCR
	£m	£m	£m
Alba WP Fund	52	-	72
Britannic IB Fund	77	(26)	42
Britannic WP Fund	363	(5)	202
Phoenix WP Fund	432	(55)	319
90% WP Fund	13	-	10
100% WP Fund	17	(2)	14
SM WP Fund	384	(94)	281
SPI WP Fund	169	(20)	108
SAL WP Fund	301	-	406
NPI WP Fund	-	-	-
NP Fund and Shareholders' Fund	1,393	-	1,100
Total	**3,201**	**(202)**	**2,556**
Excess of Adjusted Own Funds over SCR		**£443m**	
Solvency Ratio – All funds		**117%**	
Solvency Ratio excluding unsupported WPFs		**128%**	

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

As stated in section 3.4, the level of capital implied by the PCP is higher than that required by the PRA's requirements outlined above. As at 31 December 2015, Phoenix met the higher levels implied by the PCP.

5.3.2. After the transfer

Table 2 shows pro-forma figures for Phoenix as if the Scheme had been implemented, again as at 31 December 2015 for ease of comparison on a Solvency II basis.

Table 2	**Phoenix as at 31 December 2015 after the effect of the Scheme**		
	Own Funds	**RFF Restriction**	**SCR**
	£m	£m	£m
Alba WP Fund	67	-	69
Britannic IB Fund	77	(26)	42
Britannic WP Fund	363	(5)	202
Phoenix WP Fund	443	(67)	317
90% WP Fund	13	-	10
100% WP Fund	17	(2)	14
SM WP Fund	384	(94)	281
SPI WP Fund	169	(20)	108
SAL WP Fund	313	-	403
NPI WP Fund	-	-	-
NP Fund and Shareholders' Fund	1,393	-	1,100
Total	**3,238**	**(215)**	**2,547**
Excess of Adjusted Own Funds over SCR		**£476m**	
Solvency Ratio – All Funds		**119%**	
Solvency Ratio excluding unsupported WPFs		**130%**	

For the reasons given in section 5.1, the implementation of the Scheme will lead to an increase in the excess of the adjusted Own Funds over the SCR.

Based on analysis of the position of Phoenix after implementation of the Scheme, Phoenix would have met the higher levels implied by the PCP on 31 December 2015.

5.4. Events since 31 December 2015

Yields on government bonds and other fixed interest investments have fallen during 2016 which has led to a reduction in the excess of adjusted own funds over SCR, although Phoenix throughout the period has held capital in excess of the SCR. However, there have been times when the excess capital was less than that required under the PCP. In accordance with the statement in the final paragraph of section 3.4, Phoenix has taken action to address this shortfall and continues to do so. These actions have included a recalculation of the TMTP as at 30 June 2016 following the PRA's approval of Phoenix's re-application and the purchase of hedges.

Taking into account the actions taken in 2016, market movements and the run-off of policies during the year, at the time of writing this report Phoenix met the regulatory capital requirements and, subject to approval by the PRA of a second re-application

for a recalculation of the TMTP, the more onerous ones of the PCP. This position is subject to finalisation of the results of the valuation as at 30 June 2016 and may change due to economic and other changes in the future. It also relies upon processes to estimate the solvency position on a daily basis which are less accurate than the full valuation process used to determine the solvency position at the end of each quarter. Further updates will be provided in my supplementary report.

Whilst these events have affected the overall level of solvency of Phoenix, they have not had a material effect on the impact of the Scheme, which continues to be that implementation of the Scheme will increase the excess of adjusted own funds over SCR and hence improve the solvency position of Phoenix.

5.5. ReAssure

The figures and statements in section 5.5 have been prepared and supplied by the Chief Actuary of ReAssure. I have not reviewed or checked these statements or the calculations.

Table 3 below shows the financial position of ReAssure and its solvency ratio as at 31 December 2015 as if the Scheme had been implemented at that date.

Table 3	**ReAssure as at 31 December 2015 after the implementation of the Scheme**	
	Available Own Funds	**Adjusted SCR**
	£m	£m
National Mutual WPF	35	35
Windsor Life WPF	23	12
Non Profit Fund	2,164	1,308
Total	**2,222**	**1,356**
Excess of Adjusted Own Funds over SCR	**£866m**	
Solvency ratio	**164%**	

Table 3 does not take account of a dividend of £336m paid in June 2016. After allowing for the dividend, the solvency ratio of ReAssure at the 31 December 2015 after the implementation of the Scheme reduces to 139%.

ReAssure maintains a capital policy under which it holds capital in excess of that required by regulation. The Chief Actuary of ReAssure has stated that following implementation of the Scheme, it is expected that ReAssure will continue to meet the higher levels required by its capital policy.

The impact on ReAssure shown above just allows for the implementation of the Scheme. On the same date, ReAssure plans to implement the RLL Scheme.

Table 4 below shows the financial position of ReAssure and its solvency ratio as at 31 December 2015 as if the Scheme and the RLL Scheme had been implemented at that date.

Table 4	ReAssure as at 31 December 2015 after the implementation of the Scheme and the RLL Scheme	
	Available Own Funds	Adjusted SCR
	£m	£m
National Mutual WPF	35	35
Windsor Life WPF	23	12
Guardian Assurance WPF	223	137
Non Profit Fund	3,848	2,347
Total	4,129	2,531
Excess of Adjusted Own Funds over SCR	**£1,598m**	
Solvency ratio	**163%**	

Table 4, as with Table 3, does not take account of a dividend of £336m paid in June 2016. After allowing for the dividend, the solvency ratio of ReAssure as at 31 December 2015 after the implementation of the Scheme and the RLL Scheme reduces to 150%.

The Chief Actuary of ReAssure has also stated that following implementation of the Scheme and the RLL Scheme, it is expected that ReAssure will continue to meet the higher levels required by its capital policy.

The figures shown in Table 3 are not reliant upon any reapplications to vary ReAssure's use of the matching adjustment or Solvency II transitional measures.

In producing the figures shown in Table 4, the Chief Actuary of ReAssure has assumed that reapplications for matching adjustment, TMTP and volatility adjustment made by ReAssure on 30 June 2016 will be approved by the PRA before the Final Hearing.

The Chief Actuary of ReAssure has confirmed that the purpose of the matching adjustment reapplication is to ensure that the transferring assets and liabilities in the RLL matching adjustment portfolio remain eligible for the matching adjustment within ReAssure. If this reapplication were not approved and the RLL transfer proceeded, then the relative increase in ReAssure's liabilities would be expected to be offset by a larger TMTP.

He has also stated that the purpose of the TMTP reapplication is to recalculate the ReAssure transitional deduction to technical provisions as a result of the change to its risk profile brought about by the transfer of RLL, and secondly to ensure that it is fairly distributed between the ring-fenced funds. In the circumstances that the TMTP reapplication was refused, and the RLL Scheme were still to go ahead, then the result would be improved policyholder security as more assets would be held to back the same liabilities and risks. If the RLL Scheme was not proceeded with as a result of non-approval of the TMTP reapplication, then the impact on policyholders transferring under the Phoenix Annuity Scheme would be as described in the rest of this report.

He has stated that, assuming the above are approved by the PRA, the future security of ReAssure policyholders, including the Phoenix policyholders transferring under the Scheme, is unlikely to reduce as a consequence of implementing the RLL Scheme.

The Chief Actuary of ReAssure has also confirmed that ReAssure met the regulatory capital requirements and the more onerous ones of its own capital policy as at 30

June 2016 and continued to do so at the date of this report taking into account market movements since that date. Further solvency updates will be provided in my supplementary report.

6. EFFECT OF THE SCHEME ON TRANSFERRING POLICIES

6.1. Security of Benefits

Following the implementation of the Scheme, security for the benefits of transferring policyholders will be provided by ReAssure.

I have reviewed the report prepared by the Chief Actuary of ReAssure for the Board of ReAssure. As noted above, I have not gone through the calculations and I have relied on the statements made in the report.

The report shows that ReAssure will meet the PRA requirements after the Scheme has been implemented and it will meet the requirements of its own capital policy.

The security of benefits for transferring policyholders will be provided by:

- the PRA's regulatory requirements, which include a buffer over the policy liabilities and which are intended to ensure that the company can cover its technical provisions even after a 1 in 200 year event; and
- ReAssure's own capital policy, which provides an additional buffer over the PRA's requirements, together with the governance around how this operates and when changes can be made to it.

In determining whether the Scheme will materially affect the security of benefits for transferring policyholders, I have considered the differences in respect of:

- the financial strength required by the PRA requirements for Phoenix and ReAssure;
- the strength of ReAssure's capital policy relative to the PCP; and
- the governance of and controls on ReAssure's capital policy relative to the PCP.

There are some differences in the way that Phoenix and ReAssure calculate their Solvency II technical provisions and SCR, principally in connection with the additional approvals:

- ReAssure has approval to use a volatility adjustment whilst Phoenix did not seek use of one.
- Phoenix has gained approval to use its internal model for the calculation of its SCR, whilst ReAssure has indicated to the PRA that it will use the standard formula and has not received any capital add-ons.

Although a particular company may use an internal model or the standard formula to calculate its SCR, the Solvency II rules are intended to ensure that both will provide financial strength and security for the relevant policies such that under each a company can survive severe events with at least a 99.5% probability of remaining solvent over a one year time horizon.

Therefore, whilst ReAssure follow a different approach to Phoenix, their approach is in line with Solvency II requirements and their technical provisions and SCR will not lead to a material adverse effect on the security of benefits under the transferring policies.

Whilst on the face of it, ReAssure's capital policy takes a similar form to Phoenix's there are a number of differences in approach. These differences are covered in section 7 of the Independent Expert's report. His conclusion, with which I agree, is that although the two capital policies are different, there is no material effect on the security of the transferring policies by being subject to ReAssure's capital policy rather than the PCP.

In terms of governance, the PCP is included in the 2009 Scheme which puts certain constraints on how the policy can be changed. However, in practice the Boards of Phoenix and ReAssure regularly review their respective capital policies and major changes would only be made following the PRA's approval or non-objection.

In addition, both companies are committed to taking actions if their capital policy is breached, unless such breach will be rectified in a short space of time by the normal operation of the business.

In conclusion, whilst there are differences in approach between Phoenix and ReAssure in calculating their technical provisions and SCR and whilst there are differences in the way the respective capital policies operate, these will not have a material effect on the security of the benefits of the transferring policyholders after the Scheme is implemented.

This view is supported by the Independent Expert and the Board should also consider the conclusion reached by him on this matter as he has had access to more detailed and confidential information than I have.

6.2. The impact of the RLL Scheme on Security of Benefits

If the RLL Scheme is sanctioned by the Court, then it is expected to be implemented immediately after the Scheme and under it the RLL business will transfer to ReAssure. The mix of business in ReAssure will change as a result, but as shown by the financial analysis in section 5.4, ReAssure will meet the PRA's regulatory requirements and those of its own capital policy and there will be little change to the solvency ratio subject to PRA agreement to ReAssure's MA and/or TMTP re-application, which will be needed for the RLL Scheme to proceed.

The RLL Scheme will have no impact on the terms and conditions of the transferring policies nor on the administration of those policies.

I will review the position with regard to the PRA's agreement to the applications and the likely impact of the RLL Scheme in my supplementary report. At this time, my conclusion on the impact of the Scheme on transferring policyholders is the same whether or not the RLL Scheme is implemented at the same time.

6.3. Policyholder Benefit Expectations

The benefits of the transferring policies are set out in the policy terms and conditions. No changes are being proposed under the Scheme to the policy terms and conditions of the transferring policies.

Payments to policyholders are treated as earned income and are paid subject to tax. The Scheme will not change the amount of tax payable by policyholders.

6.4. Quality of Administration

With effect from the Transfer Date, ReAssure will become responsible for the provision of services to policyholders. I understand that initially ReAssure will put in place services arrangements between themselves and the two outsource providers who currently provide these services to Phoenix for the transferring business, and that these arrangements will be similar to the arrangements in place now. I also understand that thereafter ReAssure intend to transfer the administration in-house, but will seek to maintain the same service levels. There is no reason to expect the quality of administration for any transferring policyholder to deteriorate as a consequence of the Scheme.

6.5. New Business

I understand that ReAssure writes limited amounts of new business, almost exclusively under options attaching to existing policies. I also understand that the new business to be written by ReAssure after the implementation of the Scheme will be written on terms that ReAssure expects to be profitable and within such volumes that any additional risk to ReAssure will be covered by available capital such that ReAssure continues to satisfy the requirements of its capital policy.

6.6. Notification to transferring policyholders

I have reviewed the mailing pack prepared for transferring policyholders, which includes the Scheme guide, and the related materials to be made available on the Phoenix website. I am satisfied that the information regarding the proposals as contained therein adequately describes the proposals for transferring policyholders

6.7. Treating Customers Fairly

I believe that implementation of the Scheme, taking into account the contents of the Scheme, is consistent with the requirements to treat customers fairly with respect of the transferring policyholders of Phoenix. This is because, in my opinion, after the Transfer Date the level of security for benefits for the policies that are transferring to ReAssure will not be materially adversely affected and because there will be no changes to policyholder benefits as a consequence of the Scheme.

6.8. Conclusion on transferring policies

For the reasons set out above, I consider that the Scheme will not materially adversely change the position of policyholders transferring to ReAssure.

7. EFFECT OF THE SCHEME ON NON-TRANSFERRING PHOENIX POLICIES

7.1. Security of Benefits

Currently the security of benefits for all policies in Phoenix is provided by:

- Phoenix meeting its PRA capital requirements;

- PLHL meeting the minimum group capital requirements;
- Phoenix meeting the additional capital requirements required by the PCP; and
- the strength of, and protections built into, the PCP, including the internally specified stress scenarios that are tested and the process by which these scenarios can be changed.

Overall, the risks within the Funds will reduce following implementation of the Scheme. As was shown in section 5, this means that the financial position of Phoenix will be improved following implementation of the Scheme. Whilst this will increase the surplus in excess of the PCP, for the reasons given in section 5.1, little reliance or benefit can be placed on this in terms of improving the security of policyholders.

I therefore consider that the level of capital support that will be available to provide security for benefits in Phoenix after implementation of the Scheme should at worst be the same as the level of capital support available to provide security for benefits currently.

7.2. With-Profit Policies in the Funds

7.2.1 Report of the With Profits Actuaries

Appendix A contains a report which the Phoenix Board requested from the With Profits Actuaries of Phoenix. The key conclusions of that report are:

"In our opinion, for the with-profits policies of Phoenix for which we respectively act as With Profits Actuary and for the reasons set out above, no class of Phoenix with-profits policyholder will be adversely affected by the implementation of the Scheme, and in particular, the Scheme will maintain the security of benefits for Phoenix with-profits policyholders and ensure that they continue to be treated fairly. In the Funds from which annuity policies are being transferred under the Scheme, the Scheme should improve the benefit expectations of with-profits policyholders."

7.2.2 Opinion of the With-Profits Committee

The opinion of the WPC on the Scheme is set out below. In arriving at this opinion, the WPC had access to a near final draft of the report of the With Profits Actuaries referred to in section 7.2.1.

- The WPC is in agreement with the objectives of the Scheme.
- The WPC has considered each main group of with-profits policyholder and is satisfied that no group will be materially disadvantaged.
- The WPC is satisfied that there remains adequate protection in place for the with-profits policyholders.
- The WPC considers that there will be no material change to the benefit expectations of with-profits policyholders as a result of the Scheme.
- Overall, the WPC considers the Scheme is consistent with the regulatory obligations in respect of treating customers fairly.

7.3. Other policies within Phoenix

The Scheme has no impact on the benefit expectations of or tax paid by:

- Holders of non-profit policies in the Funds;
- Holders of policies within the other with-profits funds within Phoenix apart from the Funds (namely the 100% WPF, the 90% WPF, the BIB Fund, the Britannic WPF, the SM WPF, the SPI WPF and the NPI WPF). No changes are being made to the operation of these funds and they will continue to operate as discrete funds; and
- Holders of policies in the NPF. No changes are being made to the operation of this fund and it will continue to operate as a discrete fund.

The report by the With-Profits Actuaries also gives consideration of the impact of the Scheme to those with-profits policyholders whose policies are held in the other with-profits funds. They have confirmed that they agree with my opinion with regard to these with-profits policies.

7.4. Quality of Administration

The terms upon which administration services are currently provided to Phoenix by its two outsourcers, PGMS and Pearl Group Services Limited, will continue to apply in respect of the business remaining in Phoenix following the Scheme, so there is no reason to expect the quality of administration to deteriorate as a consequence of the Scheme.

7.5. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly with respect of the policyholders remaining in Phoenix. This is because the capital support that will be available to provide security for benefits of non-transferring policies should be at least as much as the level of capital support currently available to provide security for benefits and because there will be a potential improvement to benefits for with-profits policies in the Funds and no changes to benefits for other policies as a consequence of the Scheme.

7.6. Notification to Policyholders

Policyholders who are not transferring are not materially affected by the Scheme as has been demonstrated above. There will be no changes to the terms and conditions of policies, the operation of Phoenix or the PCP as a result of the Scheme.

The number of policies being transferred out of Phoenix is small (approximately 2%) relative to the existing size of Phoenix and the major risks associated with the transferring business have already been reassured.

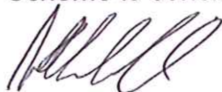
Therefore, I am happy that no notifications in respect of the Scheme need be sent to non-transferring Phoenix policyholders.

7.7. Conclusions on Non-Transferring Policyholders

For the reasons set out above, I consider that the Scheme will not materially adversely change the position of policyholders remaining in Phoenix and will be of benefit to with-profits policyholders in the Funds.

8. CONCLUSION

In my opinion as Chief Actuary, taking into account the advice and opinions set out above, no class of Phoenix policyholder will be materially adversely affected by the implementation of the Scheme. In particular, I believe that the Scheme should have no material adverse impact on the security of transferring policyholders and should not have any adverse impact on the security of benefits of the policyholders remaining in Phoenix. For both groups of policyholders, I also believe that the Scheme is consistent with Phoenix's obligation to treat customers fairly.



A D Rendell
Fellow of the Institute of Actuaries
5 September 2016