PHOENIX GROUP

PHOENIX LIFE LIMITED

Proposed Scheme to Transfer Certain Annuity Policies to ReAssure Limited

Report by the With-Profits Actuaries

2 September 2016

1. INTRODUCTION

The purpose of this report is to give our opinion on how the Scheme will affect the with-profits policies of Phoenix Life Limited ("Phoenix"). Under the Scheme, certain of Phoenix's non-profit pension annuity policies are to transfer to ReAssure Limited ("ReAssure").

The report is written for the Phoenix Board in our capacity as With-Profits Actuaries for the following funds of Phoenix:

- Andrew Burke – 100% With-Profits Fund, 90% With-Profits Fund, Alba With-Profits Fund, Phoenix With-Profits Fund, SAL With-Profits Fund, Scottish Mutual With-Profits Fund, SPI With-Profits Fund and NPI With-Profits Fund.
- Kevin Arnott – Britannic Industrial Branch Fund and Britannic With-Profits Fund.

The opinions set out in this report should be read as relating to those funds for which we act as With-Profits Actuary, as set out above.

In preparing our report we have considered the Scheme document and the report by the Chief Actuary of Phoenix on the impact of the Scheme on the policyholders of Phoenix (the "Phoenix Chief Actuary's Report"). Section 3 of that report gives some background on Phoenix and section 4 provides details of the Scheme. Therefore, apart from the background information included in section 2.4 below, these aspects are not repeated in this report.

Terms defined in that report carry the same meanings in this report unless otherwise specified.

We have also considered the Principles and Practices of Financial Management ("PPFM") of Phoenix as they currently apply.

In our opinion this report and the underlying preparation work that has been carried out is compliant with the standards on insurance (TAS I) and Transformations TAS issued by the Financial Reporting Council that apply to certain types of actuarial work. TAS M (Modelling) does not apply as no models have been used to calculate results for the purpose of this report. This report does however refer to the estimated solvency position as set out in the Phoenix Chief Actuary's Report and that report sets out how those estimates were made.

In our opinion there has been an appropriate level of review in the production of this report and it is compliant with the requirements of Actuarial Practice Standard X2.

2. BACKGROUND

2.1. Andrew Burke Status

I am a Fellow of the Institute of Actuaries. I was appointed as a With-Profits Actuary for Phoenix on 22 February 2007. I currently act as With-Profits Actuary for the Funds (namely the Alba With-Profits Fund, the Phoenix With-Profits Fund and the SAL With-Profits Fund) from which the annuity policies are being transferred under the Scheme.

I am an employee of Pearl Group Management Services Limited ("PGMS"), which is a wholly owned subsidiary of the ultimate parent company of Phoenix, Phoenix Group Holdings. I hold a non-profit term assurance policy with Phoenix issued on normal terms and allocated to the Non-Profit Fund ("NPF"), but I am not a policyholder of PLAL or of ReAssure. I have a number of Phoenix Group Holdings shares, and some options on such shares.

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

2.2. Kevin Arnott Status

I am a Fellow of the Institute of Actuaries. I was appointed as a With-Profits Actuary for Phoenix on 1 April 2012.

I am an employee of PGMS. I hold two low-cost endowment policies with PLAL, but I am not a policyholder of Phoenix or of ReAssure. I have options on a number of Phoenix Group Holdings shares and hold some shares in Phoenix Group Holdings under the company's Share Incentive Plan.

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

2.3. Management of the Funds

The sale and transfer of the Business should be seen in the light of a consistent policy followed by each of the Funds over many years of reducing the exposure to annuities in payment. This has been done to reduce the exposure to risks, particularly longevity risk, and to help with the equitable distribution of surplus to with-profits policyholders. Previous actions have included:

- In 2003, the Alba WPF reinsured significant annuity in payment liabilities to the UK branch of XL Re (current value circa £0.6bn);
- In 2005, the SAL WPF transferred circa £2.2bn of annuity in payment liabilities to Canada Life Limited through a Part VII Scheme;
- In 2006, the Phoenix WPF transferred circa £1.4bn of annuity in payment liabilities to Prudential Retirement Income Limited through a Part VII Scheme; and
- In 2011, the Funds entered into an arrangement by which any new vesting annuity in payment is written in the NPF. Consequently, as long as the NPF remains prepared to write such annuities and the Funds are satisfied with the price being charged, no new annuities in payment come into payment within the Funds.

2.4. Background to the Scheme

Following a process initiated by the Phoenix With-Profits Committee, Phoenix and ReAssure Life Limited ("RLL", formerly known as Guardian Assurance Limited) 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 a 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 will also remove 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. This covers the same annuity policies as are to be transferred by the Scheme and under it, 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.

Following the acquisition of RLL by Admin Re UK Limited ("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 will transfer to ReAssure.

ReAssure are also proposing to transfer all of the business of RLL to ReAssure under a separate Part VII Scheme (the "RLL Scheme"). It is intended that this scheme will run to a similar timetable and that it will become effective one minute after the effective date and time of 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 Transfer does not take place, the reinsurance arrangement will remain in place and hence the policies will remain reinsured, either to RLL if the RLL Scheme has not been implemented or to ReAssure if it has.

3. MAIN EFFECTS OF THE SCHEME

After the implementation of the Scheme, all the with-profits funds will continue to operate in the same way as they currently operate and no changes will be made to the PPFM. There will be no change to the terms and conditions of the policies remaining in Phoenix as a result of the Scheme. To the extent that Phoenix is bound by requirements of previous court schemes, there will be no change to these requirements as a result of the Scheme.

Phoenix operates in accordance with the capital policy (the "PCP") described in paragraph 3.4 of the Phoenix Chief Actuary's Report. The Scheme will not affect the operation or parameters of the PCP. After the Scheme has become effective, the PCP is expected to continue to ensure that sufficient resources are retained to cover all the business of Phoenix.

The costs of the Scheme will be met by the Funds in proportion to the amount of the business being transferred (as measured by the policy liabilities). This is appropriate given the sale and transfer was initiated by the Phoenix With-Profits Committee to remove the risks posed to the with-profits policyholders by the annuities in each of the Funds. As the risks from the annuities are broadly proportionate to the size of the annuity liabilities it was considered fair that the expenses of the project should be allocated in proportion to the annuity liabilities being transferred.. The cost allocation has been approved by the With-Profits Committee.

The Scheme will have a positive impact on the Funds. This is principally because the expense reserve that is released at the time of the transfer will be greater than the initial expense reserve amount paid to ReAssure under the Scheme and the costs associated with the Scheme. The financial impacts of the Scheme are shown in section 5 of the Phoenix Chief Actuary's report.

As noted in section 2.4, the annuity policies which are being transferred to ReAssure were reinsured to RLL in 2014 and as such most of the risks associated with the policies have already been removed from the Funds in return for the payment of a premium to RLL. The Scheme will remove all remaining risks associated with the business being transferred, except a small potential liability for expenses, which will be agreed by Phoenix and ReAssure under a true-up process to be completed after the Transfer Date (referred to in section 4.3 of the Phoenix Chief Actuary's Report) and Phoenix's liability for its past management of the Business.

4. IMPLICATIONS OF THE SCHEME

4.1. Security and Capital Support

As is noted in section 7.1 of the Phoenix Chief Actuary's Report, 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.

For the reasons explained below, the regulatory capital requirements and the PCP should ensure that in all reasonably foreseeable circumstances there is sufficient capital within Phoenix to meet policyholder benefits after the Scheme.

Section 5 of the Phoenix Chief Actuary's Report describes the financial position before and after the transfer. As noted in that section, a pro-forma assessment of the capital position of Phoenix as at 31 December 2015 has been prepared on the basis that the Scheme has been implemented then.

In respect of the Funds, this pro-forma assessment demonstrates the following:

- The Own Funds of each of the Funds would have improved by the implementation of the Scheme.
- There are small reductions in SCR for each Fund.
- Notwithstanding this, the Alba WPF and SAL WPF would have required support in order to meet their SCR, but that this support would have been lower than before the transfer.
- The RFF Restriction in respect of the Phoenix WPF increases in line with the increase in Own Funds and reduction in SCR.

In turn, this is reflected in Phoenix's overall capital position:

- The overall Excess of Adjusted Own Funds over SCR is slightly improved by the transfer.

- The NPF and Shareholders' Fund would continue to have significant assets in excess of their own capital requirements. These assets would cover the support required by the Alba WPF and SAL WPF.
- Phoenix would have had sufficient assets to cover the PCP if the Scheme had been implemented then.

Note that any amounts in excess of the amount implied by the PCP will be available for distribution to shareholders (for example, by way of dividend) and need not be retained in Phoenix. Therefore, they have limited significance in any assessment of security.

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.

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 lead to an increase in available capital in the Funds for the reasons given in section 5.1 of the Phoenix Chief Actuary's Report.

In conclusion, both of us confirm for the with-profits funds for which we act as With-Profits Actuary that, following the implementation of the Scheme, the existing with-profits policies will continue to be protected and that there will be no adverse change to their security as a consequence of the Scheme.

4.2. Policyholder Benefit Expectations

For each with-profits fund there will be no changes as a result of the Scheme to the management of the fund and of the non-transferring policies, the investment strategy, the way asset shares, bonus rates and surrender values are calculated, the way tax is calculated or the terms of management services agreements.

There will be a positive impact to the financial position of the Funds as shown above.

For with-profits policies within the Phoenix WPF, following implementation of the Scheme there is expected to result in a slightly increased distribution of the estate to the with-profits policyholders, compared to a position where the transfer did not happen and the reassurance agreement remained in force.

The SAL WPF and the Alba WPF have positive estates, but neither is distributing that estate at the moment as they are unable to cover their own capital requirements. The Scheme will therefore not result in any change to policyholder pay-outs now. However the removal of the annuity business and the associated release of risk capital should bring forward that date at which these funds might be able to distribute their estates in the future.

There will be no impact on with-profits policyholders in the other with-profits funds.

Based on the above, we each consider that there will be no adverse changes to the benefit expectations as a result of the Scheme and for with-profits policyholders in the Funds the Scheme should improve benefit expectations.

4.3. Quality of Administration

The terms upon which services are currently provided by PGMS to Phoenix will continue to apply in respect of the existing Phoenix business following the implementation of the Scheme, so there is no reason to expect the quality of administration to deteriorate as a consequence of the Scheme.

4.4. Notification to Policyholders

The with-profits policyholders are not materially affected by the Scheme as has been demonstrated above. There will be no changes to the terms and conditions of their policies, the operation of Phoenix as it affects such policyholders or the PCP as a result of the Scheme.

Further, there will be no change in the support arrangements under which support may be provided to Phoenix with-profits funds by the NPF or Shareholders' Fund of Phoenix.

Therefore, we are satisfied that no notifications in respect of the Scheme need be sent to with-profits policyholders of Phoenix.

4.5. RLL Scheme

None of the conclusions in this report about the impact of the Scheme on with-profits policyholders are affected by whether the RLL Scheme goes ahead at the same time as the Scheme or not.

5. CONCLUSION

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.

Andrew Burke

A E Burke
In respect of 100% With-Profits Fund, 90% With-Profits Fund, Alba With-Profits Fund, Phoenix With-Profits Fund, SAL With-Profits Fund, Scottish Mutual With-Profits Fund, SPI With-Profits Fund and NPI With-Profits Fund.

K Arnott

K J Arnott
In respect of Britannic Industrial Branch Fund and Britannic With-Profits Fund.

With-Profits Actuaries – Phoenix Life Limited
2 September 2016