Phoenix

PHOENIX LIFE LIMITED

Proposed Scheme to transfer the German, Icelandic and Irish business of Phoenix Life Limited to Phoenix Life Assurance Europe DAC

Report by the With-Profits Actuary
on the impact of the
Scheme on With-Profits Policyholders of
Phoenix Life Limited

30 June 2022

Contents

1. INTRODUCTION

1.1. Background

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") and an Irish Portfolio Transfer under Section 13 of the Assurance Companies Act 1909 on the policyholders of Phoenix Life Limited ("Phoenix").

Under the UK scheme (the "UK Scheme") the German, Icelandic and direct Irish business of Phoenix, together with the Swedish, Norwegian and German business of ReAssure Life Limited ("RLL") will transfer to Phoenix Life Assurance Europe Designated Activity Company ("PLAE").

The direct Irish business within Phoenix sits in a third country branch ("TCB"); an application will also be made to the High Court of Ireland to transfer this business under the Irish Portfolio Transfer legislation (the "Irish Scheme").

The UK and Irish transfers are referred to collectively as the "Scheme" within this report.

Phoenix has ten with-profits funds. The with-profits business being transferred is all Irish and sits within four of these funds, namely the Alba With-Profits Fund ("Alba WPF"), the 90% With-Profits Fund ("90% WPF"), the Phoenix With-Profits Fund ("Phoenix WPF") and the SPI With-Profits Fund ("SPI WPF").

This With-Profits Actuary's ("WPA") report assesses the impact of the Scheme from the perspective of with-profits policyholders in the four affected with-profits funds of Phoenix. The WPA report does not cover aspects of the scheme that equally apply to other types of transferring policies, whether they be unit linked, non-profit or with-profit, because these wider issues will be covered elsewhere within the Scheme materials. Rather the scope of the WPA report is to consider only those additional aspects that are specific to with-profits business and the way the scheme will impact on these specific with-profits considerations.

1.2. Introduction to the With-Profits Actuary

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as With-Profits Actuary for the Alba WPF on 1 April 2014, the 90% WPF on 31 December 2005, the Phoenix WPF on 31 December 2006 and the SPI WPF on 1 April 2009. I am also the With-Profits Actuary for four of the other with-profits funds of Phoenix.

I am an employee of Pearl Group Services Limited, which is a wholly owned subsidiary of Phoenix Group Holdings plc ("PGH"), the parent company of the Phoenix Group. I do not hold any policies with Phoenix, nor am I a customer of any of the other companies within the Phoenix Group. Accordingly, I hold neither a Transferring Policy under the Scheme nor any other policies that are directly impacted by the Scheme. I currently own a number of PGH shares and have options on further shares.

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

1.3. Purpose of Report

Under the UK regulatory framework for life insurers, as With-Profits Actuary I am required to advise Phoenix's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting the classes of the with-profits insurance business of the funds of Phoenix in respect of which I have been appointed.

Phoenix is proposing to transfer certain of its with-profits customers which accordingly affects the with-profits business in respect of which I have been appointed. The purpose of this report is to provide my advice to the board of directors (the "Board") of Phoenix on the key aspects of the Transfer as it affects customers.

As well as the Phoenix Board, the report may be used by Phoenix's With-Profits Committee ("WPC"), the independent person appointed by Phoenix to report on the fairness of the Scheme (the "Independent Person"), the High Courts of the UK and Ireland (the "Court"), the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and the Central Bank of Ireland ("CBI") in forming their judgements about the transfers.

Separate reports on the terms of the Scheme (to the extent these relate to Phoenix) have been prepared by the Independent Person and Phoenix's Chief Actuary. The Independent Person's report considers the terms of the proposed Scheme and its effects on the customers of Phoenix. The Chief Actuary's report provides background, describes the Scheme and its impacts, including the financial impacts on solvency, and the impact on the various groups of customers within Phoenix.

During the preparation of this report, I have considered the content of the reports prepared by the Independent Person, Phoenix Chief Actuary and the PLAE Head of Actuarial Function ("HoAF") and I am supportive of their conclusions and rationale. There is nothing in their reports that I disagree with. I have not considered the report prepared by the RLL Chief Actuary as this relates to the transfer of the RLL non-profit business and does not affect my conclusions regarding the Phoenix business.

This report is an appendix to the report of the Phoenix Chief Actuary and should be read in conjunction with that report, and not in isolation.

I will prepare a supplementary report ahead of the Sanction Hearing.

1.4. Technical standards

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Technical Actuarial Work and TAS 200: Insurance.

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 Profession Standard X2 as issued by the Institute and Faculty of Actuaries.

1.5. Materials from the Chief Actuary's report

The report prepared by Phoenix's Chief Actuary includes the following factual information:

- Background information on Phoenix, including details about its history and fund structure, its capital policy, the business and products in the affected with-profits funds, and the financial management of the funds (section 3).
- Background information on PLAE, including its administration, funding and regulation (section 3).
- A detailed explanation of the terms of the Transfer, including a description of the reinsurance to be put in place (section 4).

To avoid undue repetition, these matters are not described separately in this report and readers should therefore read this report in conjunction with the report prepared by the Phoenix Chief Actuary.

Capitalised terms used but not defined in this report have the meaning given to such terms in the Chief Actuary's report.

2. EXECUTIVE SUMMARY

I cover a number of more detailed points in the body of my report. However, my conclusions on the proposed transfer and its impact on the transferring and non-transferring with-profits customers are as follows:

2.1. Impact of the Scheme on Transferring With-Profits Customers

- For the reasons set out in the Chief Actuary's report, the Scheme is not expected to have any material adverse impact on the security of the benefits of any transferring Phoenix policyholders, including loss of FSCS cover where applicable.
- There should be no change in with-profits benefits provided to the transferring with-profits customers so long as the proposed WPF reinsurance arrangements between Phoenix and PLAE (as described in section 4.3 of the Phoenix Chief Actuary's report) remain in force.
- PLAE will have the right to terminate the proposed WPF reinsurances early in certain circumstances, although the likelihood of these circumstances arising is considered remote. PLAE would not be expected to terminate the reinsurance unless it believed it was in the interests of the transferring policyholders to do so (such as if Phoenix got into financial difficulties). In such circumstances, the relevant with-profits funds in PLAE would receive, as a termination payment, the fair share of the fund for the transferring business and so no unfairness should arise as a result. Whilst in some cases it may be necessary for there to be a change in the form of the benefits in such circumstances (such as conversion to non-profit) there should be no loss of value. Consequently there is no reason to believe the transferring customers would not be treated fairly in such circumstances. As previously stated the likelihood of the reinsurance being terminated early is considered remote.
- When each of the WPFs shrink to a size that triggers their wind up under the existing sunset clauses, then the reinsurance for each fund will terminate and benefits will be provided in line with the existing sunset provisions. Consequently there is no reason to believe the transferring customers would not be treated fairly in such circumstances.
- The change of supervisory and conduct regulation from the UK to Ireland should not have a material adverse effect on the Phoenix Transferred Policies.
- Some of the transferring policies are currently administered from the UK. As a consequence of the transfer of the business to PLAE, the administration for these policies will be moved to Ireland although this is not expected to result in any material adverse impact on the service provided

2.2. Impact of the Scheme on Non-Transferring With-Profits Customers

- For the reasons set out in the Chief Actuary's report, the Scheme is not expected to have any material adverse impact on the security of the benefits of any non-transferring Phoenix policyholders.
- There should be no change in with-profits benefits provided to the non-transferring with-profits customers so long as the proposed WPF reinsurance arrangements between Phoenix and PLAE (as described in section 4.3 of the Chief Actuary's report) remain in force.
- PLAE will have the right to terminate the proposed WPF reinsurances early in certain circumstances, although the likelihood of these circumstances arising is considered remote. In such circumstances, the relevant with-profits funds in Phoenix would retain the fair share of the fund for the non-transferring business and so no unfairness should arise as a result. Due to the relatively large amount of Irish business in the SPI Fund it is possible that recapture of the reinsurance would bring forward the date at which the sunset clause for that fund was expected to be triggered. However this should not result in a loss of value for policyholders, but rather a

change of form of benefit (from with-profit to non-profit). As previously stated the likelihood of the reinsurance being terminated early is considered remote.

- When each of the WPFs shrink to a size that triggers their wind up under the existing sunset clauses, then the reinsurance for each fund will terminate and benefits will be provided in line with the existing sunset provisions. Consequently there is no reason to believe the non-transferring customers would not be treated fairly in such circumstances.

- The with-profits reinsurance agreements and the fixed and floating charge granted to PLAE over the assets held by Phoenix should not have a material adverse effect on the security of benefits under the non-transferring policies, and there would be no material change to the ranking of non-transferring policyholders on the wind-up of Phoenix.

- The investment strategy followed by the affected with-profits funds will not be impacted by the fixed and floating charges granted to PLAE over assets held by Phoenix.

2.3. Overall Conclusion

In my opinion as With-Profits Actuary of the Alba WPF, the 90% WPF, the Phoenix WPF and the SPI WPF, the Scheme will not materially adversely affect the interests and reasonable expectations of the affected Phoenix with-profits customers and the protections afforded to these customers. In particular, I believe that the Scheme should have no material adverse impact on the security of customers' benefits and that the Scheme is consistent with treating customers fairly.

3. MAIN EFFECTS OF THE SCHEME

PLAE will be responsible for the transferred policies, but as a condition of the Scheme will reinsure the investment element of Irish unit-linked policies in the NPF back to Phoenix, and it will reinsure back all the risks on the business from the four PLAE WPFs. PLAE will have counterparty exposure to Phoenix and so security will be provided to PLAE via floating and fixed charges. These are described in further detail in section 4.3 of the Chief Actuary's report.

The initial reinsurance premiums will be offset against the assets transferring under the Scheme, thus no net payments from the Phoenix With-Profits Funds will be made. This means that the Phoenix With-Profits Funds remain intact and prevents the need to split the funds at the point of transfer.

After the implementation of the Scheme, PLAE will contain four new with-profits funds (PLAE SPI, PLAE Phoenix, PLAE Alba and PLAE 90%) and the policies in these funds will be wholly reinsured back to the respective originating funds in Phoenix. The Phoenix with-profits funds will then be managed in materially the same way as they are currently managed, and so in practical terms there will be no change to the way the with-profits funds and associated policies are operated. Consequently matters such as the operation of the estate, future potential distributions from the estate, support arrangements, available management actions, investment strategy, expense allocations and asset share calculations will not change in Phoenix as a result of the scheme, so long as the reinsurance remains in force. The resulting funds will be formal ring-fenced funds (as per Solvency II) within PLAE with no sharing of profits between these funds, or any other funds within PLAE. The Scheme also includes terms, such as the debits from, and credits to, each PLAE WPF, which reinforce the ring-fenced nature of the PLAE WPFs.

There will be no shareholder distribution from the PLAE WPFs and they will be closed to new business, aside from increments for existing customers and any new annuities associated with the transferred business.

Under the terms of the UK Scheme and the Irish Portfolio Transfer there will be a provision that, whilst the reinsurance remains in place, any claim amounts paid by PLAE to its with-profits policyholders will be no less than the amount they would have received had they remained in Phoenix. There is no expectation that PLAE will "top-up" in any way the payments it receives from Phoenix and so in practice the transferring policies will be provided benefits which are the same as those provided by Phoenix under the WPF reinsurance, which in turn are expected to be the same as if the Scheme and Portfolio Transfer had not happened. Similarly for non-transferring policies, because the with-profits funds in Phoenix will continue to operate in the same way as they do now, there is not expected to be any change in benefits.

There will be some minor consequential changes to the Principles & Practices of Financial Management ('PPFM') of Phoenix to reflect that the Irish policies are reinsured into Phoenix rather than directly written. PLAE will be given the right to attend and make representations to the Phoenix With-Profits Committee but will not have membership of that Committee, or have any powers over the way Phoenix manages its WPFs.

The transferring policies will cease to be subject to the UK regulatory regime (FCA and PRA) but instead fall into the jurisdiction of the CBI. Although the policies will be moving jurisdiction, the two regimes are currently broadly similar in terms of both capital (solvency II based in UK and Ireland) and conduct rules for WP business. Unlike in the UK, those firms with with-profits business are not required to appoint an actuary (or actuaries) to perform a 'with-profits actuary function' or have a With-Profits Committee. However, the CBI has issued the Domestic Actuarial Regime and Related Governance Requirements under Solvency II that, amongst other things, does set out some additional responsibilities of the HoAF for insurance undertakings which have with-profits business. PLAE Board will have right of representation to the Phoenix With-Profits Actuary and at the Phoenix With-Profits Committee.

The Scheme will not affect the capital policy of Phoenix.

There is one existing outwards reinsurance contract in respect of the business in the Phoenix Transferred Business allocated to the SPI With-Profits Fund. Given that this business is to be reinsured back to the SPI With-Profits Fund (under the With-Profits Reinsurance Agreements) the existing outwards reinsurance will not be transferred to PLAE, instead it will be converted to a retrocession agreement.

4. IMPLICATIONS OF THE SCHEME – RELATING TO AFFECTED CUSTOMERS

4.1. Security and Capital Support

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

- Phoenix meeting its regulatory capital requirements;
- Phoenix meeting the additional capital requirements required by the Phoenix Capital Policy ("PCP"); and
- The strength of the PCP and protections built into it, including the internally specified stress scenarios that are tested and the process by which these scenarios can be changed.

The benefits for the with-profits policyholders being transferred to PLAE will be reinsured back to Phoenix and so the amounts reinsured will continue to have the protection of the PCP.

PLAE will have to cover its own regulatory capital requirements in Ireland, together with additional capital required by its own PLAE specific capital policy. The capital requirements and capital policy of PLAE will take into account the risks associated with PLAEs counterparty exposure to Phoenix under the reinsurance arrangements.

These matters are covered in more detail in the report of the Phoenix Chief Actuary who concludes that the transfer will not have any material adverse effect on the security of the benefits of the transferring or the non-transferring policyholders. I agree with this conclusion.

4.2. Policyholder Benefit Expectations

Benefit Expectations whilst the Reinsurance Remains in Force

Benefits of both transferring and non-transferring policyholders should be unaffected by the transfer as the liabilities are reinsured back to Phoenix, thereby keeping the WPFs intact. This avoids splitting WPFs between Phoenix and PLAE, which would be complex and could potentially lead to changes in benefits.

The primary purpose of the reinsurances is to ensure that both transferring and non-transferring policyholders will continue to receive the same benefits they would have received had the transfer not happened.

The reinsurance approach has several precedents and preserves the existing treatment of both transferring and non-transferring policyholders, their reasonable benefit expectations, and seeks to ensure that neither group is disadvantaged.

Under the reinsurance the existing fixed evergreen expense agreements (including protection for costs of regulatory change) will be preserved for the benefit of both transferring and non-transferring policyholders in affected WPFs. None of the costs of the Scheme will be allocated to the WPFs. Phoenix will pay to PLAE any Irish tax due from the PLAE WPFs. Therefore future expense levels and tax deductions should not be adversely affected by the transfer of business.

Whilst the reinsurance remains in force, the participating policies in the PLAE WPF's will receive at least as much as they would have received had their policy remained in Phoenix. In practice it is expected that this will be achieved by PLAE declaring bonuses on the transferred policies that are the same as those declared by Phoenix. PLAE will have the right to declare bonus rates that differ to the Phoenix rates and could, in theory, pay higher bonuses than it receives from Phoenix. However there is no expectation that this will happen. Participating policies will also continue, via the WPF reinsurance arrangements, to have rights to the estate of the relevant Phoenix WPF. No change will be made to any options or guarantees on transferring policies.

The four affected WPFs in Phoenix all have "sunset clauses" that allow the WPFs to be "wound-up" when the volume of remaining with-profits business has run-off to the extent that the funds become too small to manage effectively on a with-profits basis. At the point the sunset clause is triggered the policyholders are provided with fair alternative benefits on a non-profit basis. These sunset clauses will not change as a result of the scheme and any benefits under the sunset clause to the policyholders transferring to PLAE will be provided to PLAE under the reinsurance arrangements with Phoenix and then by PLAE to those policyholders. None of the four affected WPFs is currently close to triggering its sunset clause and the funds are expected to remain with-profits for at around another 11 years in the case of the Alba fund, and around 20 years or more for the other funds.

In conclusion for as long as the reinsurance remains in-force, the benefit expectations of customers in the four affected WPFs (including both transferring and non-transferring business within those funds) should be unaffected.

Benefit Expectations Should the Reinsurance be Terminated

The reinsurance arrangements for the with-profits business contain termination provisions. There are no plans to terminate any of the reinsurance arrangements. However, it is important to consider how termination could affect the transferring business.

There are limited circumstances under which the reinsurance agreements with Phoenix can be terminated by PLAE, primarily where there is a threat to the solvency of Phoenix or its ability to continue to conduct the business fairly as summarised in the Chief Actuary's report section 4.3. Given the capital strength of Phoenix and the other governance measures in place, these events are thought to be of remote likelihood.

The Scheme recognises that in the event that a with-profits reinsurance agreement is terminated, prior to the termination taking effect, a process to determine the respective interests of the reinsured policyholders and the other policyholders of the relevant Phoenix WPF would take place. This would inform the termination amount payable to PLAE. This process will include the involvement of an Independent Expert to agree a fair split of the relevant WPF unless both Phoenix and PLAE:

- Agree on the calculation of the Inherited estate; and
- Agree on materiality grounds not to consult an Independent Actuary because PLAE's share of the estate is less than £1m.

On termination of a reinsurance agreement due to closure of the relevant Phoenix WPF (due to the sunset clause being invoked), the equivalent PLAE WPFs will be converted to non-profit and the business moved to the PLAE non-profit fund. The business will be converted to non-profit business with guaranteed benefits or unit linked on terms that are considered fair by PLAE. That PLAE WPF will cease to exist.

On termination in any other event the PLAE Board has discretion to decide whether to run the relevant PLAE WPF as a with-profits fund or to convert the with-profits policies to non-profit. Relevant provisions have been made in the Scheme to require PLAE to manage the funds, were they to continue as WPFs, consistently with the current management of the funds in Phoenix. In making such a decision the PLAE Board must follow governance specified in the Schemes, which includes:

- obtaining the prior approval of the CBI
- establishing the with-profits operational principles document (WPOP) in line with the equivalent Phoenix PPFM

- establish a With-Profits Committee having terms of reference and a role in governance of the relevant PLAE WP Fund equivalent to that of the Phoenix With-Profits Committee; and
- obtaining a certificate from an independent actuary stating that in his or her opinion the proposal does not materially adversely affect the reasonable expectations of transferring policyholders.

In conclusion, in the unlikely event that the reinsurance is terminated for any of the WPFs then there is potential for the benefit expectations of the transferring policyholders in those funds to change as the benefits would no longer be determined by Phoenix via the reinsurance agreement, but would instead be provided by PLAE from the termination payments received from Phoenix which may in turn be used to continue a separate WPF in PLAE which would have its own experience from that point. However, the termination provisions provide that PLAE receives it fair share of the fund upon termination (including a fair share of any estate) and the proceeds would go into ring-fenced funds within PLAE with no shareholder distribution. PLAE would not be expected to terminate the reinsurance unless it believed it was in the interests of the transferring with-profits policyholders to do so. Consequently there is no reason to believe the transferring customers would not be treated fairly in such circumstances. Similarly there is no reason to believe there would be any unfairness for the non-transferring policyholders in such circumstances as the relevant WPFs in Phoenix would retain the fair share of the fund for the non-transferring business. Due to the relatively large amount of Irish business in the SPI Fund it is possible that the transfer of business would bring forward the date at which the sunset clause for that fund might be triggered by circa 2 years from the current estimate of 2043, however this would not result in a loss of value for policyholders, but rather a change of form of benefit (from with-profits to non-profit).

Terms for Vesting Annuities - Guaranteed Annuities

The Irish annuities in the Phoenix NPF will be transferring to the PLAE NPF. Any future guaranteed annuities arising on the transferring Irish business will be written in the PLAE NPF. They will not be reinsured back to Phoenix.

Some of the transferring with-profits policies provide a benefit that is a guaranteed amount of annuity per annum. These benefits arise either because the with-profit benefit is expressed in annuity form, or because the with-profits benefit is expressed as a cash amount but the policy contains a guaranteed annuity option.

At the moment the four Phoenix WPFs with Irish business secure their vesting guaranteed annuities by making a payment to the Phoenix NPF whereas, after the Scheme, this arrangement will be with the PLAE NPF.

PLAE will have its own underwriting and pricing policy for the annuity business it writes. This will reflect the prevailing solvency regime under which PLAE will operate in Ireland, and local annuity experience in Ireland.

As the ultimate risk carriers while the reinsurance is in force, the Phoenix WPFs will retain the alternative options they currently have, namely to secure annuities externally of Phoenix or to retain the annuities and pay them from the relevant PLAE WPF's. In the unlikely event the PLAE WPFs retain the annuities at the behest of Phoenix; they would automatically come under the reinsurance agreement.

Phoenix does not currently guarantee any terms for the purchase of such annuities by the WPFs and so the fact that the annuity prices might be different in future does not change matters - it is already the current position that future annuity prices might be different.

There is a small amount of Irish unit linked business transferring to the PLAE NPF where the SPI WPF is liable for the cost of providing a guaranteed annuity rate when the guaranteed rate under the policy is better than rates available in the market. This liability will transfer to the PLAE SPI WPF but will be reinsured back to the Phoenix SPI WPF. Should such a policy take up the guaranteed annuity option then PLAE will establish the cost of providing the guaranteed annuity from its NPF using its own annuity rates and, to the extent this exceeds the value of the unit linked fund, will claim the balance under the reinsurance agreement from the Phoenix SPI WPF via the PLAE SPI WPF. In cases where such an annuity is being established the PLAE Actuary will consult with the Phoenix WPA, and so the Phoenix WPA will be in a position to determine if any fairness considerations arise.

Terms for Vesting Annuities – Non Guaranteed Annuities

Transferring with-profits pension's customers, whose benefits are in cash form, rather than annuity form, may wish to use all or part of their cash pot to purchase an annuity. Currently Phoenix will offer such customers an annuity calculated using the Phoenix annuity rate for Ireland, but customers have the option of purchasing an annuity at prevailing market rates with another provider if this gives them a better outcome. After the Scheme the transferring customers will be offered a PLAE rate, but will continue to have the option of purchasing an annuity at prevailing market rates with another provider if this gives them a better outcome. If the customer takes an annuity from PLAE this would then be written in the PLAE Non-Profit Fund and the associated cash pot transferred from the relevant PLAE WPF to the PLAE NPF.

4.3. Governance of With-Profits Funds

A Reinsurance Business Committee between Phoenix, RLL and PLAE will oversee all aspects of joint interest relating to the management of the reinsure agreements and will be provided with relevant information on the reinsurance including the following:

- Agreed Management Information;
- Advance copies of papers to the Phoenix With-Profits Committee related to the ongoing management of the affected funds, including proposed bonus declarations; and,
- Advance copies of any proposed changes to the Phoenix PPFMs or to the running of the funds in accordance with the PPFMs including investment decisions.

In order that PLAE can recognise the security provided by the fixed charges in its Solvency II calculations, there is a provision that the collateral assets backing the fixed charge can only be changed or substituted with the consent of PLAE. Technically PLAE has a right to terminate the reinsurance in the remote event of a breach by PLL. The Reinsurance Business Committee will monitor and manage the ongoing operation of the fixed charge collateral. This is not expected to have any impact on the investment strategy of the Phoenix WPFs as the funds are expected to hold significantly more assets of appropriate quality and liquidity than will be needed in the collateral pool at any given time.

The Reinsurance Business Committee will not have any powers in relation to the management of the Phoenix WPFs, but will report to the PLAE Finance Technical Committee, and Boards any actions that may be required as a result of the monitoring and review. The Board of PLAE will have the right to make representations to the Phoenix With-Profits Committee and Board should it consider there are specific matters relating to the Irish business that should be considered.

Each WPF will continue to be managed by Phoenix in accordance with its PPFM. PLAE has applied for a waiver from the requirement to maintain a With-Profits Operating Principles ('WPOP') in Ireland, on the grounds that they would only replicate the existing Phoenix PPFMs. Only consequential changes to the Phoenix PPFMs are expected to be made as a result of the transfer.

Phoenix may make changes to the PPFM, subject to noting and discussions at the PLAE Finance Technical Committee, and, where the change is material, provide PLAE with at least 6 weeks' notice.

PLAE will follow an independent parallel governance process in relation to its exercise of discretion. PLAE would ordinarily be expected to follow the bonus declarations made by Phoenix (given that these declarations define the reinsurance claims paid by Phoenix). PLAE does have the right to make representations to Phoenix as noted above, and has the right to declare a different set of bonus rates. However the terms of the Scheme prevent PLAE from paying lower amounts to its customers than it receives from Phoenix under the Reinsurance. The PLAE Board will be responsible for the approval of PLAE bonus declarations.

There will be no change to the approach to with-profits governance within Phoenix. The Phoenix With-Profits Committee (as opposed to the Phoenix Board) will continue to have the powers for setting investment and bonus policy for the SPI WP Fund, as is currently the case. The investment policy for the Irish portion of the SPI WP Fund will be subject to PLAE approval as a consequence of the fixed charge.

4.4 Administration

The administration of policies transferring from Phoenix is mainly outsourced to Diligenta Limited ("Diligenta") and SS&C International Managed Services Limited ("SS&C"). The Phoenix Group will relocate regulated activity, including servicing activity, from the UK to Ireland to ensure that the transfer does not give rise to UK licensing requirements for PLAE. The Phoenix Group intends that the changes required will be made within the time available and will not adversely impact the customer experience. There will be no change for those customers whose policy is administered in Ireland by SS&C, the other transferring customers will be informed of any changes, including to Customer Contact Centres, prior to the transfer.

4.5 Communications

I have reviewed the communications to be provided to the transferring with-profits customers to explain the Scheme and its implications and I am satisfied that these are clear and appropriate to the customers' needs. Should any customer raise a question or concern relating to the operation of the with-profits business as a result of the Scheme I will review the responses provided by Phoenix. If such correspondence raises new matters not covered in this report I will comment appropriately in my supplementary report.

I am satisfied that there is no benefit to non-transferring with-profits customers in receiving communications about the Scheme as they will be unaffected by the proposal other than in very remote circumstances, and even then there are not expected to be any material adverse impacts.

5. CONCLUSION

In my opinion as Phoenix With-Profits Actuary for the Alba WPF, the 90% WPF, the Phoenix WPF and the SPI WPF, the Scheme will not materially adversely affect the interests and reasonable expectations of the affected Phoenix with-profits customers and the protections afforded to these customers. In particular, I believe that the Scheme should have no material adverse impact on the security of customers' benefits and that the Scheme is consistent with treating customers fairly.

Finally, I have reviewed the reports prepared by the Independent Person and the Phoenix Chief Actuary. There is nothing in those reports that I disagree with.

Andrew Burke

Andrew Burke

Fellow of the Institute and Faculty of Actuaries