PHOENIX GROUP

AXA WEALTH LIMITED

Proposed Scheme to transfer entire business of AXA Wealth Limited to Phoenix Life Limited

Report by the Chief Actuary on the Impact of the Scheme on Policyholders of AXA Wealth Limited

13 July 2017

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 AXA Wealth Limited ("AWL"). Under this scheme (the "Scheme") the entire business of AWL is to transfer to Phoenix Life Limited ("Phoenix").

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

The report is written for the AWL Board in my capacity as Chief Actuary for AWL. As well as the Board, the report may be used by the Independent Expert, the High Court, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and any overseas regulators and courts 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 relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS200: 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 Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

2. SUMMARY

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

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

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

I conclude in section 7 that the Scheme will have no material adverse impact on the interests of AWL policyholders. In particular, in my opinion, there will be no material reduction in the security and benefit expectations of AWL policyholders.

3. BACKGROUND

3.1. Status

I am a Fellow of the Institute of Actuaries. I was appointed as Actuarial Function Holder of AWL from 21 December 2010 and I became the Chief Actuary when changes were introduced to the regulatory regime on 1 January 2016.

I am an employee of AXA Sun Life Direct Limited, which is a wholly owned subsidiary of Phoenix Group Holdings, the ultimate parent company of AWL. I am not a policyholder of any of the companies within the Phoenix Group, including AWL and

Phoenix. I do not currently have any Phoenix Group Holdings shares or 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 AWL

AWL was originally known as Colonial Mutual Life (Pension Annuities) Limited and was established in 1975. Its name was changed to Colonial Pension Funds (UK) Limited in 1996. It was acquired by Winterthur in 2000 and renamed as Winterthur Pension Funds UK Limited. Winterthur was subsequently acquired by AXA UK plc ("AXA") in 2006.

The name of the company was changed to AXA Wealth Limited in September 2010. During 2011, AWL underwent significant change. First, during that year AWL commenced writing new business for the first time since 2000. This consisted of simple non-profit products sold under the SunLife brand ("SunLife"), unit-linked life and pension business and Corporate Trustee Investment Plan ("CTIP") business.

Secondly, AWL was party to two Part VII Schemes (the "AWL Schemes"). Under the first of these, certain traditional life and pensions business of AWL was transferred to Winterthur Life (UK) Limited ("WLUK"), and some of the business of WLUK was transferred to AWL. Under the second of these, some of the business of Friends Life Company Limited was transferred to AWL.

The reason for the AWL Schemes was that AXA had sold the bulk of its UK life and pensions business to Friends Provident Holdings (UK) Limited ("FPH"). The Schemes enabled AXA to move all of its retained business into one company (namely AWL) and to move business that was being sold to FPH out of AWL.

On 1 November 2016, AWL was sold to the Phoenix Group and AWL is now a member of this group. The Phoenix Group includes four active regulated UK life companies – AWL, Phoenix, Abbey Life Assurance Company Limited and Phoenix Life Assurance Limited. Phoenix Life Holdings Limited ("PLHL") is the senior UK and European Community insurance holding company in the Group.

3.3. The Business of AWL

All of the long-term business of AWL is held within its long-term fund.

The business in AWL consists of:

- SunLife business, mainly guaranteed, non-profit whole of life sold to over 50s, principally to cover funeral costs together with a small number of term assurance policies. As at 31 March 2017, there were approximately 919,000 such policies in force with an average sum insured of £3,300 and average monthly premium of £16.
- Unit-linked life and pension business, most of which was branded as AXA Wealth and is now branded as Phoenix Wealth. As at 31 March 2017, there were approximately 39,000 policies in force and £4.4bn funds under management, including some unit-linked business reinsured to AWL from third party reinsurers.

- CTIP business. As at 31 March 2017, there were 70 plans in force and £8.5bn funds under management.

The investments for the unit-linked and CTIP business are undertaken by external fund managers under reinsurance or investment management agreements.

Following its acquisition by the Phoenix Group, AWL entered into two reinsurance agreements with Phoenix. Under one of these, Phoenix paid an Advance Claim Amount (effectively, an amount representing a percentage of the expected future profits on the reinsured business) to AWL and in return it will receive all future policyholder premiums and pay claims and expenses on the SunLife business. Under the other, Phoenix also paid an Advance Claim Amount to AWL and in return it will receive any policyholder premiums not allocated to units and deductions from units, and pay expenses on unit-linked and CTIP business. Following the reinsurance AWL retains the following risks:

- Counterparty exposure for the pre-existing reinsurance arrangements;
- Market and credit risks for the assets backing the capital held in AWL; and
- Some of the operational risks associated with the above and with past product mis-selling.

3.4. AWL Capital Policy

The Board of AWL set a new capital management policy (the "AWL CMP") for the company in November 2016 under which it seeks to hold sufficient capital to be able to meet capital requirements after a 1 in 10 year all risk event. As a result of this, the Board set an amount of £12m as the amount to be held under the AWL CMP.

In addition to ensure AWL retains enough liquidity to efficiently execute trades on the unit linked funds, a minimum ongoing level of liquid assets of £40m is also maintained.

3.5. Phoenix

Like AWL, Phoenix is a member of the Phoenix Group.

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. Since 1 November 2016 it has accepted reinsurance of new business written by AWL.

Phoenix has been involved in a number of Part VII schemes since 2005. Of these, the scheme under which the long-term insurance businesses of Scottish Mutual Assurance Limited and Scottish Provident Limited were transferred to Phoenix (the "Phoenix 2009 Scheme") is most relevant. This scheme sets out various terms for

the management of Phoenix's business, and will continue to do so irrespective of whether the Scheme goes ahead.

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 ("WPFs). 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. As at 31 March 2017, the Alba WPF and the SAL WPF relied on support from the NPF to meet their respective capital requirements.

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 best estimate liabilities ("BEL"), net of reinsurance, in each sub-fund of Phoenix as at 31 December 2016 are shown in the table below.

Fund	100% WPF	90% WPF	Alba WPF	BIIB Fund	Britannic WPF	Phoenix WPF	SAL WPF	SM WPF	SPI WPF	NPI WPF	NPF
Policies (000)	0	365	101	148	335	144	107	106	74	8	1,407
BEL (£m)	63	81	849	147	3,882	3,071	3,419	2,044	1,744	0	16,580

In total, Phoenix at 31 December 2016 had approximately 2.8 million policies in force with total assets in excess of £38 billion.

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 scenario testing, like for AWL, is currently based on holding sufficient capital to be able to meet capital requirements after a 1 in 10 year all risk event and produces a requirement 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 scenarios and percentages are 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.

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. For strong WPFs the additional capital is met by any surplus in the fund and allowance is made for management actions permitted within the PPFM. For weak WPFs the additional capital is met by the NPF and Shareholders' Fund.

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.

Under the terms of the PCP, Phoenix ensures that it holds sufficient assets that can be made available to the WPFs should they require support in the stress scenario. In addition, although not part of the PCP, Phoenix maintains a liquidity policy to ensure that it has sufficient liquid assets to meet policyholder claims, collateral requirements and any dividend payments.

3.6. Regulatory Regime

The regulatory solvency regime in place in the UK is known as Solvency II and was introduced from 1 January 2016. 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 with an additional margin held for risk.

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 this model has been approved by the PRA.

In addition, insurance companies can make applications to the PRA for the following reliefs or adjustments, 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.

AWL has not applied for any of the above, whilst Phoenix has applied and received approval to use TMTP and the Matching Adjustment.

In addition where companies include with-profits business, such as Phoenix, 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

The main objective of the Scheme is to transfer the business of AWL to Phoenix. This will enable Phoenix Group to make more efficient use of its capital. It will also result in the reduction of costs and improved operational efficiency as the current reinsurance arrangement between AWL and Phoenix will cease and there will be one less regulated life company in the group.

4.2. Summary of the Scheme

4.2.1 The Transfer

Under the Scheme, the long-term insurance business of AWL (the "Business") will transfer to Phoenix at the Transfer Date, which is expected to be 8 December 2017. However, the Scheme will be effective from 30 September 2017 for accounting and financial reporting purposes. The backdating will have no implications for policyholders.

All assets and liabilities of the AWL long-term fund will be transferred to the NPF in Phoenix. The assets and liabilities of the shareholders' fund of AWL will transfer to the Shareholders' Fund of Phoenix. On the Transfer Date of the Scheme, sufficient assets will be left in the company to meet the PRA's capital requirements for AWL

after the transfer. These assets will be transferred to Phoenix once the PRA has de-authorised AWL.

Under the Scheme, it is intended that Phoenix will become party at the Transfer Date to all external reinsurance treaties in relation to the business transferring to it to which AWL is party, and these treaties will continue to operate in the same way as they did before the Transfer Date.

The reinsurance agreements between AWL and Phoenix will collapse on implementation of the Scheme as the business to which they relate will all be in the NPF.

It is proposed that the transfer of any business which may have been written by AWL (or any predecessor firm) in Guernsey or to policyholders resident in Guernsey will be effected following the approval of a separate scheme in Guernsey. This scheme will provide for the transfer of policies on the same terms as the Scheme and is expected to have the same transfer date as the Scheme.

Should it not be possible for technical reasons to transfer any policy or group of policies at the time the Scheme is implemented then such policies will be subject to an Excluded Policies Reassurance Arrangement. In effect, this arrangement will ensure that any excluded policies will be treated for all practical purposes in the same way as if they had been transferred to Phoenix.

4.2.2 Impact on AWL Policies

The transferring AWL policies will become policies of Phoenix. The terms and conditions of the transferring policies will not change. Phoenix will become responsible for the administration and security of the transferring policies and they will be covered by the terms of the PCP.

Costs associated with the Scheme will be met by the Shareholders' Fund of Phoenix.

5. FINANCIAL POSITION BEFORE AND AFTER THE TRANSFER

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

As part of the considerations as to whether the benefit security of AWL policyholders will be affected by the Scheme, it is helpful to compare the solvency position of AWL before and Phoenix after the Scheme.

I have shown in the tables in sections 5.2 and 5.3 the position of AWL as at 31 March 2017 and of Phoenix at the same date assuming that the Scheme had been implemented then. The SCR for both companies is calculated using Phoenix Group's amended Internal Model which was approved by the PRA on 10 March 2017. The figures in respect of Phoenix have been supplied by the Chief Actuary of Phoenix. I have not independently verified these figures and I have relied on the statements made in his report.

I have commented in section 5.4 how events since 31 March 2017 are likely to have changed the figures and the conclusions that can be drawn from them.

In the tables in sections 5.2 and 5.3:

- Own Funds – these have been calculated as at 31 March 2017 using consistent methods and processes and subject to the same internal controls as the calculations done as at 31 December 2016 which were subject to review by both companies' external auditors, with the exception of the TMTP for Phoenix.
- The SCR – this is as calculated according to the internal model for each company, which has been approved by the PRA.
- Solvency Ratio – note that for Phoenix, this is calculated on two bases, one including all funds and the other including strong WPFs only to the extent that transfers from them will accrue to shareholders. By excluding policyholder benefits and risks in strong WPFs, the latter gives an indication of the strength of the company.

5.2. AWL Before the Transfer

Table 1 below shows the financial position of AWL and its solvency ratio as at 31 March 2017.

Table 1	AWL as at 31 March 2017		
	Own Funds	RFF Restriction	SCR
	£m	£m	£m
NP Fund and Shareholders' Fund	45	-	28
Total	**45**	**0**	**28**
Excess of Adjusted Own Funds over SCR	**£17m**		
Solvency Ratio – All funds	**163%**		

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 AWL CMP is higher than that required by the PRA's requirements outlined above. As at 31 March 2017, AWL met the higher levels implied by the AWL CMP.

5.3. Phoenix after the transfer

Table 2 shows pro-forma figures for Phoenix as if the Scheme had been implemented, again as at 31 March 2017 for ease of comparison.

Table 2	Phoenix as at 31 March 2017 after the effect of the Scheme		
	Own Funds	RFF Restriction	SCR
	£m	£m	£m
Unsupported WPFs	1,357	79	987
Supported WPFs	446	-	401
NPF and Shareholders' Fund	1,559	-	1,271
Total	**3,362**	**79**	**2,658**
Excess of Adjusted Own Funds over SCR	**£624m**		
Solvency Ratio – All Funds	**126%**		
Solvency Ratio excluding unsupported WPFs	**137%**		

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 March 2017.

The PCP (see section 3.6) 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.

5.4. Events since 31 March 2017

Since 31 March 2017, there have been a number of actions that have affected the financial position of Phoenix. The most significant of these to 30 June 2017 are as follows:

- Management Actions – A number of management actions undertaken by Phoenix have increased the excess of adjusted own funds by c£55m.
- Valuation Assumptions – Phoenix is due to undertake a further valuation as at 30 June 2017. As part of these and in line with established practice, the assumptions and methodologies have been reviewed and, where appropriate, the Board approved changes to these, particularly in relation to the assumptions used for longevity. These changes are estimated to increase the excess of adjusted own funds by c£50m.
- Dividend – At its meeting in June 2017, the Board approved a dividend payment of £155m, which will reduce the excess by this amount.

Overall taking into account the above, market conditions and the expected run-off of business since 31 March 2017, Phoenix met the regulatory capital requirements and the more onerous ones of the PCP as at 30 June 2017.

In my supplementary report, I will provide financial information as at 30 June 2017 and comment on relevant events affecting the solvency position from then to the date of that 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.

6. EFFECT OF THE SCHEME ON AWL POLICIES

6.1. Security of Benefits

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

I have reviewed the report prepared by the Chief Actuary of Phoenix for the Board of Phoenix. As noted above, I have not independently verified the figures and I have relied on the statements made in the report.

The report shows that Phoenix will meet the PRA requirements after the Scheme has been implemented and it will meet the requirements of the PCP.

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
- the PCP, 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 note that the Solvency Ratio in AWL is currently 163% and this will be 137% in Phoenix after the Scheme is implemented. However, for the reasons given below, I do not believe that a comparison of these ratios is a good indicator of the relative financial security offered by each company and instead I have considered the differences in respect of:

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

A comparison of the Solvency Ratio does not take into account that capital that is held in excess of the requirements of the company's respective capital policy can be distributed to its shareholders. Further, such a comparison does not take into account the relative sizes of the two companies – Phoenix is many times larger than AWL and its excess assets are, in absolute terms, much bigger; and AWL's small size and lower risk diversification mean that its capital position could be subject to a greater level of volatility than that of Phoenix.

There are no differences in the way that Phoenix and AWL calculate their Solvency II technical provisions and SCR. Whilst the risk profile of PLL is different from that of AWL currently, the nature of the risks is reflected in the amount required to be held under the SCR. The Solvency II rules are intended to ensure that both companies will provide financial strength and security for its policies such that each can survive severe events with at least a 99.5% probability of remaining solvent over a one year time horizon.

Both the AWL CMP and the PCP are based on a similar approach to determining the amount to be held as both rely on a 1 in 10 year all risks assessment.

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 AWL 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.

I also note that in terms of policyholder security currently AWL is reliant on PLL fulfilling its obligations under the reinsurance agreements. There are additional protections in those agreements so that in the unlikely event that Phoenix does run into financial difficulties the position of AWL and its policyholders was not materially different from that of Phoenix's other policyholders. As under the scheme, the AWL

policyholders will be put on to the same footing as the other Phoenix policyholders, there is no material loss of security as a result of the Scheme.

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

6.2. 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.

6.3. Quality of Administration

With effect from the Transfer Date, Phoenix will become responsible for the provision of services to policyholders. I understand at or soon after the Transfer Date Phoenix intend to make changes to the administration, but will seek to maintain the same service levels to policyholders. Given that the new providers of the service already provide equivalent services to Phoenix and that many of the existing staff will continue to be involved in future, there is no reason to expect the quality of administration for any transferring policyholder will deteriorate as a consequence of the Scheme.

6.4. Fund Management

The investment managers of the AWL assets transferring to Phoenix and the asset selection processes will not be changed as a consequence of the Scheme.

All internal unit-linked funds and arrangements relating to external unit-linked funds run by AWL will be replicated in Phoenix under the Scheme. It is not proposed that any changes will be made to investment strategies of the unit-linked funds or their pricing practices as a result of the transfer.

Therefore, there should be no negative effect on the investment performance or on unit pricing as a consequence of the Scheme.

6.5. New Business

I understand that Phoenix will continue to sell new SunLife and CTIP business. I also understand that the new business to be written by Phoenix after the implementation of the Scheme will be written on terms that Phoenix expects to be profitable and within such volumes that any additional risk to Phoenix will be covered by available capital such that Phoenix continues to satisfy the requirements of its capital policy.

6.6. Previous AWL Schemes

The AWL Schemes include certain provisions regarding the future management of AWL's business, in particular its unit-linked business. I have reviewed the provisions

of the AWL Schemes and I am satisfied that, where appropriate, these provisions have been replicated by equivalent provisions in the Scheme so that it is clear they continue to apply to the management of the transferring business. The Scheme itself will not affect the ongoing effect of the AWL Schemes, which will continue in full force and effect on the basis that Phoenix were a party instead of AWL.

6.7. Notification to policyholders

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

6.8. 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 policyholders of AWL. This is because, in my opinion, after the Transfer Date the level of security for benefits for the policies will not be materially adversely affected and because there will be no changes to policyholder benefits as a consequence of the Scheme.

6.9. Conclusion on transferring policies

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

7. CONCLUSION

In my opinion as Chief Actuary, taking into account the advice and opinions set out above, no class of AWL 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 policyholders and I also believe that the Scheme is consistent with AWL's obligation to treat customers fairly.

D P Neville
Fellow of the Institute of Actuaries
13 July 2017