PHOENIX GROUP

PHOENIX LIFE LIMITED

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

Report by the Chief Actuary on the Impact of the Scheme on Policyholders of Phoenix Life 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 Phoenix Life Limited ("Phoenix"). Under this scheme (the "Scheme") the business of AXA Wealth Limited ("AWL") is to transfer to Phoenix.

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 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 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 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 AWL.

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 and 6, I have analysed the impact of the Scheme on the policyholders of Phoenix.

I conclude in section 7 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.

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 and AWL. 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 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 sold by AWL.

Phoenix today is a member of the Phoenix Group. The Phoenix Group includes four active regulated UK life companies – Phoenix, AWL, 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.

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

Under a 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 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 were transferred to Phoenix.

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

Under a 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 were transferred to Phoenix.

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.

Pearl Life Holdings Limited ("PeLHL"), Phoenix's immediate parent company in the Phoenix group, acquired AXA Wealth's pensions and protection businesses on 1 November 2016. Following this, the majority of the business of AWL, which was among the AXA companies acquired by PeLHL, was reinsured to Phoenix under two reinsurance agreements (as more fully described in section 3.3).

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 ("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 and includes business originally written by Phoenix as well as business transferred as a result of the various Part VII schemes. The policies in the NPF mainly fall into the following categories:

- Unit-linked regular and single premium life and pension policies;
- Immediate and deferred annuities; and
- Term assurance, critical illness and income protection policies written on both guaranteed and reviewable premium bases.

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 SunLife branded 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 Corporate Trustee Investment Plan ("CTIP") business.

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	BIB 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.

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 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 scenario testing is currently based on holding sufficient capital to be able to meet capital requirements after a 1 in 10 year all risk event and now 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.

3.5. AWL

AWL is also a member of the Phoenix Group having been acquired from AXA UK plc in November 2016.

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, and in 2000 it was renamed as Winterthur Pension Funds UK Limited. Winterthur was subsequently acquired by AXA UK plc ("AXA") in 2006 and the name of the company was changed to AWL in 2010.

The business in AWL today was either transferred into it under two separate Part VII Schemes in 2011 or has been written directly by AWL since the start of 2011. AWL consists of a long-term fund and shareholders' fund. It has no with-profits business.

The business in AWL consists of:

- Simple non-profit business sold under the SunLife brand ("SunLife"), mainly guaranteed whole of life policies 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 919,000 policies in force with an average sum insured of £3,300 and average monthly premium of £16.
- Unit-linked life and pension business, which was branded as AXA Wealth and is now branded Phoenix Wealth. As at 31 March 2017, there were 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 unit-linked and CTIP business are undertaken by external fund managers under reinsurance or investment management agreements.

Following the reinsurance with Phoenix referred to in section 3.4, 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
- Operational risks associated with the above and with past product mis-selling.

The Board of AWL set a capital management policy (the "AWL CMP") 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.

3.6. 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 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.

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 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. 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 AWL to meet the PRA's capital requirements for it 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 reassurance 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 firms) 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 Existing Phoenix Policies

Policies within the long-term fund of Phoenix will not be transferred as a result of the Scheme and no changes are being proposed to the terms and conditions of policies currently within Phoenix under the Scheme.

All the current with-profit funds in Phoenix will continue to operate as discrete funds for the purposes of calculating policyholder benefits.

Following the Scheme, Phoenix will be writing new SunLife and CTIP business itself, which is a change from its recent strategy. However, since November 2016, new business written by AWL has been reinsured to Phoenix, so Phoenix has been accepting these risks since then.

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

5. FINANCIAL POSITION BEFORE AND AFTER THE TRANSFER

5.1. Impact of the Scheme on Phoenix

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

The Scheme is expected to improve the capital position of Phoenix for the reasons given below.

Own Funds – Own Funds will increase by the amount that the assets being transferred from AWL exceed the liabilities of this business. There will also be a small increase in the Risk Margin, which will reduce Own Funds.

SCR – The SCR will increase as a result of the business being transferred. However, it should be noted that due to the greater diversification available in Phoenix, the increase is less than the SCR held by AWL for the same business.

RFF Restriction – This is unaffected as no WPF is involved with the transfer.

Applications –

- Internal Model – Because the majority of the risks are already reinsured to Phoenix and AWL's other risks are similar to those already in Phoenix, this will not be a major model change, which would require the approval of the PRA.
- Transitionals – Again, because the majority of the risks associated with the Business are already reinsured, the transfer does not trigger a full recalculation of the TMTP.
- Matching Adjustment – The Business does not impact on 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.

The PCP 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 reinsured to Phoenix 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

I have shown in the tables in sections 5.3 and 5.4 the expected impact of the Scheme on Phoenix as if the Scheme had been implemented on 31 March 2017. The SCR is calculated using Phoenix Group's amended Internal Model which was approved by the PRA on 10 March 2017. I have commented in section 5.5 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 5.3 and 5.4:

- TMTP (which is part of Own Funds) – TMTP is as recalculated at 31 December 2016. The need for a further recalculation of TMTP has not been triggered since then.
- 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, with the exception of the TMTP, subject to review by Phoenix's external auditors.
- 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 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.

5.3. Phoenix before the Transfer

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

Table 1	Phoenix as at 31 March 2017 before 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	1,515	-	1,261
Total	**3,318**	**79**	**2,648**
Excess of Adjusted Own Funds over SCR	**£591m**		
Solvency Ratio – All funds	**125%**		
Solvency Ratio excluding unsupported WPFs	**136%**		

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 March 2017, Phoenix met the higher levels implied by the PCP.

5.4. 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%**		

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 March 2017.

5.5. 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 PHOENIX POLICIES

6.1. 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.

The majority of the risks associated with the Business have already been reinsured to Phoenix, so the transfer has limited impact on the risks in Phoenix. The risks that PLL will take on are those noted in section 3.5. The increase in risk will be allowed for by an increase of £10m in Phoenix's SCR (equivalent to 0.4% of the total SCR or 0.8% of the SCR of the NPF) and there will be a consequential increase in the amount held under the PCP.

Overall, as was shown in section 5, 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.

6.2. Benefit Expectations of Policies

No changes are being proposed under the Scheme to the terms and conditions of any policies. The Scheme therefore has no impact on the benefit expectations of holders of existing Phoenix policies.

6.3. With-Profit Policies in the WPFs

The conclusions from the last two sections apply equally to policies in the with-profits funds.

The With Profits Actuaries of Phoenix have confirmed that they agree with my opinion with regard to with-profits policies.

6.4. 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 existing business in Phoenix following the Scheme. Separate arrangements will apply to the transferring business. Therefore, there is no reason to expect the quality of administration to deteriorate as a consequence of the Scheme.

6.5. 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 in Phoenix. This is because the capital support that will be available to provide security for benefits of these 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 no changes to benefits for other policies as a consequence of the Scheme.

6.6. Notification to Policyholders

Phoenix policyholders are not transferring and 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 major risks associated with the transferring business have already been reinsured to Phoenix.

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

6.7. Conclusions on Phoenix Policyholders

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

7. 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 not have any adverse impact on the security of benefits of the existing policyholders in Phoenix. 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
13 July 2017