Milliman Client Report

The Part VII transfer of the business of AXA Wealth Limited to Phoenix Life Limited.

The supplementary report of the Independent Expert

Prepared by:

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1 INTRODUCTION

The proposed transfer

1.1 On 1 November 2016, AXA Wealth Limited ("AWL") was acquired by the Phoenix Group and AWL is currently one of the UK regulated life insurance companies in the Phoenix Group.

1.2 It is proposed to transfer all the business of AWL into another regulated life insurance company in the Phoenix Group, Phoenix Life Limited ("Phoenix") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). Such a transfer is often called a Part VII transfer.

1.3 This Part VII transfer of the business of AWL into Phoenix ("the transfer") is expected to be presented to the High Court of Justice of England and Wales (the "Court") for its Final Hearing on 21 November 2017.

1.4 If approved by the Court, the Scheme will become operative on 8 December 2017 (the "Transfer Date"), at which point the transferring business will legally transfer from AWL to Phoenix. The Scheme provides that it will take effect as between AWL and Phoenix for accounting purposes from 30 September 2017 (the "Effective Date").

My appointment as independent expert

1.5 I have been appointed by Phoenix and AWL to report, pursuant to Section 109 of the Financial Services and Markets Act ("FSMA") in the capacity of the Independent Expert, on the terms of the proposed scheme (the "Scheme") providing for the transfer of the long-term business of AWL to Phoenix.

1.6 My appointment as Independent Expert was approved by the Prudential Regulation Authority (the "PRA"), after consultation with the Financial Conduct Authority (the "FCA").

1.7 I prepared a report dated 14 July 2017 ("my main report") in which I considered the proposed Scheme for the Directions Hearing on 24 July 2017, and this report is the "Supplementary Report", the purpose of which is set out below.

The role of the Independent Expert

1.8 It is important to note that the role of the Independent Expert does not include consideration of the acquisition of AWL by Phoenix as that was subject to a separate process that concluded on 1 November 2016.

1.9 As set out in Section 3 of my main report, the role of the Independent Expert is to assess the proposed Part VII transfer and to report on this via the Scheme Report to the Court.

1.10 The Scheme Report consists of my main report and this Supplementary Report. Both reports are available on the following websites:

- www.phoenixlife.co.uk/about-phoenix-life/transfers-and-mergers/2017_awl_policy_transfer
- www.sunlife.co.uk/fm17
- www.phoenixwealth.co.uk/FM17

The purpose of this Supplementary Report

1.11 The purpose of this Supplementary Report is to provide an updated assessment of the likely effects of the proposed transfer ahead of the Final Hearing on 21 November 2017.

1.12 The updated assessment includes consideration of whether the conclusions reached in my main report remain valid in light of the updated financial information received, any other relevant significant events subsequent to the date of the finalisation of my main report, and any policyholder feedback or queries in relation to the Scheme.

1.13 This Supplementary Report should be read in conjunction with my main report. The reliances and limitations set out in Section 1 of my main report apply equally to this Supplementary Report. Defined terms used in my main report have the same meaning in this Supplementary Report and are set out in Appendix 4.

My assessment of the effect of the proposed Scheme

1.14 Given the inherent uncertainty of the outcome of future events it is not possible to be certain of the effect of the proposed Scheme on the affected policies and in order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold and this is the approach I have taken in preparing this Scheme Report. In practice this means that if the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, I do not consider that it would have a material effect on policyholders.

1.15 The framework in which I undertake my consideration of the proposed Scheme is set out in more detail in Section 3 of my main report.

Regulatory and professional guidance

1.16 The Supplementary Report has been prepared subject to the terms of the following Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council which came into effect on 1 July 2017:

- TAS 100: Principles for Technical Actuarial Work.
- TAS 200: Insurance.

1.17 In my opinion, my Supplementary Report complies with the TASs listed above. In complying with these requirements, I note that a number of the key documents listed in Appendix 3 have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, the TAS requirements.

1.18 In the context of the TASs, my main report and this Supplementary Report are component reports which together form an aggregate report.

1.19 In accordance with the Actuarial Profession Standards ("APS") issued by the Institute and Faculty of Actuaries, APS X2 requires members to consider whether their work requires an independent peer review. In my view this Supplementary Report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

The separate scheme in Guernsey

1.20 As mentioned in my main report, an equivalent scheme (the "Guernsey Scheme") will be presented to the Royal Court of Guernsey in relation to any policies issued by AWL to residents of Guernsey or policies which may otherwise constitute Guernsey long-term insurance business.

1.21 I confirm that the comments and conclusions in this report apply to all policyholders of AWL and Phoenix irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued. References to the "Scheme" should be taken to include the Guernsey Scheme.

2 THE EFFECT OF THE SCHEME ON THE SECURITY OF POLICYHOLDER BENEFITS

Introduction

2.1 The conclusions in my main report were based on the financial information provided by AWL and Phoenix as at 31 March 2017.

2.2 The Phoenix financial results as at 30 June 2017 were finalised and sent to the PRA in August 2017 and I have reconsidered my conclusions in light of this updated financial information.

2.3 Further, I have seen draft financial information as at 30 September 2017 for Phoenix and AWL and have considered whether my conclusions have been affected by the events and changes in market conditions since 30 June 2017.

The firms' internal capital management policies

2.4 As set out in Section 2 of my main report, in order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of the regulatory capital requirements, insurance companies usually aim to hold more capital than the amount strictly required to meet the regulatory minimum. The details of this target level of capital buffer are typically set out in the firm's capital management policy and changes to the internal capital policy usually require Board approval and appropriate consultation with the regulators (the PRA in the UK).

2.5 The capital management policy of AWL is the ACP (set out in Section 5 of my main report) and the capital management policy of Phoenix is the PCP (as set out in Section 6 of my main report).

2.6 Since my main report:

- There has been no change to the ACP.
- The PCP was reviewed in August 2017 and the Phoenix Board increased the amount of capital required under the PCP from 128% to 131% of the Solvency Capital Requirement ("SCR")[1].

2.7 It should be noted that, although the percentage of the SCR required to be held under the PCP has changed from 128% to 131%, the calibration of the PCP has not changed. It remains the case that the capital required under the PCP is calculated as the amount of capital that Phoenix needs to ensure that it would still cover its SCR after a 1 in 10 year risk event over a one-year time horizon.

The effect on the security of benefits of the updated financial information as at 30 June 2017

The changes in market conditions from 31 March 2017 to 30 June 2017

2.8 The relevant changes in market conditions from 31 March 2017 to 30 June 2017 were:

- The interest rates used to discount future cashflows increased slightly over the period: these rates are set by reference to rates (risk-free interest rates based on swap rates) published by EIOPA and have risen by, on average, approximately 16 basis points.
- The difference in yields between those available on corporate bonds and those available on similar (in terms of duration and coupon) government bonds (the credit spread) has reduced for most durations and corporate bond credit ratings during Q2 2017, with a larger reduction in the credit spread on corporate bonds of lower credit ratings.
- Major European equity markets remained relatively stable during the second quarter of 2017, with the FTSE 100, FTSE Allshare and FTSEurofirst 300 all experiencing increases/decreases of less than 1%.

[1] Section 2 of my main report gives definitions of various technical terms relating to regulatory capital requirements, including the SCR

2.9 Of these, the rise in interest rates had the largest effect (a reduction) on the Own Funds of Phoenix but this was offset by the effect on the SCR leading to a small increase in the solvency coverage ratio overall. In aggregate the changes in market conditions led to a small increase in the Phoenix solvency coverage ratio (less than 2%).

The financial information as at 30 June 2017

2.10 The financial information for AWL and Phoenix has been updated to 30 June 2017 and is shown in Appendix 1 of this report.

2.11 This financial information shows that, prior to the implementation of the Scheme:

- For AWL:
    - The Own Funds were £45 million (£45 million based on financial information as at 31 March 2017).
    - The excess capital above the SCR was £18 million (£17 million as at 31 March 2017).
    - The SCR coverage ratio was 166% (163% as at 31 March 2017).
- For Phoenix:
    - The Own Funds were £3.1 billion (£3.3 billion as at 31 March 2017).
    - The excess capital above the SCR was £555 million (£591 million as at 31 March 2017).
    - The SCR coverage ratio was 136% (136% as at 31 March 2017).

2.12 The main reasons for these changes are:

- The run-off of the Phoenix business. The Phoenix business is closed to new business and therefore is decreasing over time as policyholders claim or surrender their policies and their policies cease. This will reduce the technical provisions and the SCR.
- A number of assumption changes. In particular changes to the longevity assumption to reflect industry and Phoenix experience, and changes to financial market conditions (in particular fixed interest yields) as set out above have reduced the technical provisions.
- Changes in the assumptions used to calculate the SCR led to an overall reduction in the SCR and the main ones were:
    - Changes to the allowance for a mass lapse event;
    - An increase in the SCR due to a reduction to the impact that management actions have in stressed scenarios; and
    - Changes to fixed interest yields.

The pro-forma solvency position of Phoenix as at 30 June 2017

2.13 The pro forma financial position (i.e. that assuming the Scheme had been implemented on 30 June 2017) of Phoenix is shown in Appendix 2 of this report. This shows that:

- The Own Funds would have been £3.2 billion (£3.4 billion based on financial information as at 31 March 2017).
- The excess capital above the SCR would have been £589 million (£624 million as at 31 March 2017).
- The SCR coverage ratio would have been 138% (137% as at 31 March 2017).

My conclusions based on the financial information as at 30 June 2017

2.14 The financial information as at 30 June 2017 shows little change from that in my main report as at 31 March 2017 and, in particular, after the Scheme, Phoenix's solvency coverage is projected to be 138% which is comfortably in excess of the requirements of the PCP.

2.15 I am satisfied that the financial information as at 30 June 2017 provides no reason to change the conclusions of my main report.

My comfort in the financial information as at 30 June 2017

2.16 In respect of the Phoenix financial information as at 30 June 2017:

- The SCR has been calculated using the Phoenix Group Internal Model (the "PGIM").
- The TMTP has been recalculated to allow for various changes since 31 March 2017. This recalculation has not been submitted to the PRA for approval.
- The Solvency II results have been subject to review and subsequent approval by the Phoenix Board, the Phoenix Audit Committee, and the Phoenix Chief Actuary.

2.17 In respect of the AWL financial information as at 30 June 2017:

- The SCR has been calculated using the PGIM.
- The Solvency II results have been subject to review and subsequent approval by the AWL Board, the AWL Audit Committee, and the AWL Chief Actuary.

2.18 I have not carried out an independent review of the financial results as at 30 June 2017 for AWL and Phoenix but I have reviewed an analysis of the change in the financial results between 31 March 2017 and those at 30 June 2017.

2.19 Given the level of scrutiny to which the financial information in respect of both companies has been subject, I consider it reasonable to rely upon it in the reconsideration of my conclusions for this Supplementary Report.

The effect on the security of benefits of events since 30 June 2017

2.20 The relevant changes in financial market conditions in the period 30 June 2017 to 30 September were:

- The interest rates used to discount future cashflows decreased slightly over the period: these rates are set by reference to rates (risk-free interest rates based on swap rates) published by EIOPA and have fallen by, on average, approximately 9 bps.
- The difference in yields between that available on corporate bonds and on similar (in terms of duration and coupon) government bonds (the credit spread) has remained largely unchanged at most durations and corporate bond credit ratings during the period.
- Major equity markets have risen over the period. The FTSE 100, FTSE Allshare and S&P 500 have all increased by approximately 2%.

2.21 In addition, in July 2017 Phoenix acquired a portfolio of equity release mortgages for the price of £600 million which improved the solvency position.

2.22 The financial positions of Phoenix and AWL as at 30 September 2017 have not been finalised at this point but I have seen draft financial information for AWL and Phoenix as at 30 September 2017 that takes into account all of the above and I am satisfied that this financial information provides no reason to change the conclusions of my main report.

3 THE EFFECT OF THE SCHEME ON THE REASONABLE EXPECTATIONS OF POLICYHOLDERS

The AWL policies

3.1 It remains the case that the implementation of the Scheme will have no effect on the following in respect of the transferring AWL policies:

- The terms and conditions of the policies (except that the policies will become policies of Phoenix).
- The charges that apply to the policies,
- The investment objectives of the unit-linked funds.
- The pricing of the unit-linked funds.
- The exercise of discretion in respect of the management of the unit-linked funds.
- The outsourcing and asset management arrangements for the policies and the governance around these, including the performance standards to which these outsourcing and asset management arrangements are held.

3.2 In terms of the management and governance of the transferring AWL business, nothing has changed since my main report. This will, following the implementation of the Scheme, be subject to the governance of the Board of Phoenix and I remain satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of management and governance that apply to the transferring AWL policies.

3.3 In terms of the administration and servicing of the AWL policies:

- In respect of the SunLife policies nothing is different to when I finalised my main report. These are being migrated to Diligenta and this is expected to be completed on 9/10 December 2017 immediately following the Transfer Date (8 December 2017).
- In respect of the AWL unit-linked business:
  - The existing staff will administer the business on the existing system immediately after the Transfer Date.
  - The administration (including the relevant staff) is due to transfer to Diligenta in early 2018.
  - Diligenta will use the existing administration system while it builds a new system (that will include all of the functionality of the existing system) and when the new system is deemed ready, the AWL unit-linked business will be transferred across and the current staff will administer the business on the new system from this point. This is expected to take place in the first quarter of 2018.

3.4 The changes to the administration and servicing arrangements for the AWL policies are not dependent on the Scheme and will take place whether or not the Scheme is implemented.

3.5 It should be noted that Phoenix already relies upon Diligenta for the administration of the majority (over 65%) of its business and this relationship is subject to oversight by the Phoenix Managing Director of Operations and the Commercial Partnerships Director and is governed in accordance with the contract between Phoenix and Diligenta: the Payment Execution Services Agreement ("PESA").

3.6 There are various committees attended by the key stakeholders of Phoenix and Diligenta that meet monthly and can escalate concerns up to the Relationship Management Group Committee, the Managing Director of Operations and the Commercial Partnerships Director. Thus Phoenix can ensure that Diligenta adheres to the terms of the PESA.

3.7 Therefore, there is no reason to change the conclusions of my main report in respect of the administration and servicing of the affected policies and I remain satisfied that the implementation of the Scheme will not have a material effect on the standards of administration and service applied to the transferring policies.

The Phoenix policies

3.8 It remains the case that the implementation of the Scheme will have no effect on the following in respect of the existing Phoenix policies:

- The terms and conditions of the policies.
- The charges that apply to the policies.
- The methodology used to calculate the surrender values of the non-profit policies.
- The investment objectives of the unit-linked funds.
- The pricing of the unit-linked funds.
- The exercise of discretion in respect of the management of the unit-linked funds.
- The principles and practices used in the management of the Phoenix with-profits business in its ring-fenced funds.
- The bonus and pay-out policies applied to Phoenix with-profits policies.
- The rights of the Phoenix policies to any future distributions from the inherited estates.
- The methodology used to calculate asset shares and surrender values of Phoenix with-profits policies.
- The operation of Phoenix, the ring-fenced funds or the Phoenix Non-Ring Fenced Fund (“PNRFF”) business.
- The outsourcing and asset management arrangements for the policies of Phoenix and the governance around these, including the performance standards of Phoenix to which these outsourcing and asset management arrangements are held.
- The management and governance of the Phoenix policies.
- The risk appetite to which Phoenix is managed.

Conclusion

3.9 I am satisfied that none of the developments since my main report affect my conclusions regarding the effect of the Scheme on expected policyholder outcomes and expectations and that there are no reasons to change the conclusions of my main report with respect to the reasonable benefit expectations of the policyholders and the standards of administration, service, management and governance that apply to the policies.

4 CORRESPONDENCE AND QUESTIONS RECEIVED FROM POLICYHOLDERS

Introduction

4.1 Phoenix has received various correspondence from policyholders in respect of the proposed Scheme.

4.2 At the time of writing this report, there have been 36 formal objections to the Scheme, all of which remain open (correspondence is ongoing). 4 policyholders have indicated they intend to attend the Court for the Sanctions hearing.

4.3 Whilst the formal objections cover a range of issues, there is overlap between the issues raised by individual policyholders, and these can be broadly categorised as follows (and I address them in this order below):

- The policyholders want choice in respect of the Scheme. Policyholders do not want to transfer into Phoenix or the Phoenix Group, they want the option to opt out of the transfer and remain with AWL, and/or the option to transfer to a different provider (17 objections).
- The policyholders have concerns in respect of Phoenix. Policyholders have objected to their policy moving to Phoenix as they have negative feelings towards Phoenix, have had a bad experience in the past with Phoenix, or have not heard of Phoenix before (14 objections).
- The policyholders have concerns in respect of the financial strength of AWL (2 objections).
- The policyholders have concerns over the Part VII Transfer process (2 objections).
- The policyholder has requested a refund of the premiums paid under the policy (1 objection).

4.4 Phoenix has corresponded with these policyholders by letter and/or email and, in a number of instances, by telephone. I have been provided with copies of the correspondence with policyholders up to 3 November 2017 including transcripts of telephone calls where necessary.

Policyholder choice in respect of the Scheme

4.5 As described in Section 1 of this Supplementary Report, the acquisition of AWL by Phoenix Group was completed on 1 November 2016. This means that AWL is currently part of the Phoenix Group and, if sanctioned by the Court, the proposed Scheme will transfer the AWL policies from one company in the Phoenix Group into another. Whether the Scheme is sanctioned or not, the AWL policies will be part of the Phoenix Group.

4.6 Some policyholders have expressed a wish to opt out of the transfer, to remain with AWL or to choose a different provider as the recipient of their policy.

4.7 The insurance business transfer process in the UK does not permit individual policyholders to opt out of a proposed Part VII transfer scheme or to choose to transfer their policy to a different provider. It is for the Court to decide whether the proposals are fair and whether it should approve the Scheme.

Policyholder concerns regarding Phoenix

4.8 A number of policyholders raised concerns regarding Phoenix relating to the following areas:

- The policyholders have a negative impression of the Phoenix Group.
- The policyholders have had a negative previous experience of Phoenix and/or the Phoenix Group.
- The policyholders have not heard of Phoenix before.

4.9 As described above, whether or not the Scheme is sanctioned, the AWL policies will be part of the Phoenix Group. In Section 1.21 of this report I have considered the financial strength of Phoenix updated for events since my main report and I am satisfied that Phoenix is expected to be sufficiently strong after the transfer such that there will not be a material adverse effect on the security of transferring policies of AWL or on the existing Phoenix policies.

4.10 My conclusions regarding the comparison between standards of administration, service, management and governance before and after the Scheme were provided in Sections 8, 9, 10 and 11 of my main report and I have re-examined these conclusions in Section 3 of this Supplementary Report. I remain of the view that the implementation of the proposed Scheme will not lead to a material adverse effect on the standards of administration, service, management and governance applicable to the AWL and Phoenix policies.

4.11 A detailed description of Phoenix is set out in Section 6 of my main report. The Phoenix Group can trace its origins back to 1782 with the establishment of Phoenix Assurance. Phoenix currently has approximately £38 billion of assets under management as at 30 June 2017.

4.12 Further details of the Phoenix Group's history and Phoenix's history can be found on the Group's website (www.thephoenixgroup.com).

Policyholder concerns regarding the financial strength of AWL

4.13 It is important to note that Phoenix, the company into which the AWL policies would be transferred, is financially strong as I describe in Section 1.21 of this Supplementary Report and this should be the key concern for the transferring AWL policyholders.

4.14 However, a number of policyholders have expressed a concern in respect of the financial strength of AWL and that AWL may be on the verge of insolvency. Appendix 1 of this Supplementary Report shows the financial information for AWL as at 30 June 2017 and shows that AWL comfortably exceeds the regulatory requirements and has excess capital covering 166% of those regulatory capital requirements. I have seen draft financial information for AWL as at 30 September 2017 and this also shows that policyholders should have comfort that AWL (including SunLife) is financially strong.

Policyholder concerns in respect of the Part VII process

4.15 Some policyholders expressed concerns regarding:

- The role of the Court in the Part VII process.
- The opportunities for policyholders to have their objections and feedback heard in the process.

4.16 In Section 3 of my main report I set out an overview of the Part VII transfer process and of the role of Independent Expert and I described the protections provided by the UK legal and regulatory system for policyholders in relation to insurance business transfers.

4.17 The companies involved in the proposed transfer must give notice of the proposed transfer to policyholders and other interested parties and must make available various key documents in respect of the proposed transfer including the Scheme report, a statement to policyholders setting out the terms of the Scheme and a summary of the Scheme report, and the notice of the Scheme. These documents are typically made available on the company website, and for this transfer can be found at:

- www.phoenixlife.co.uk/about-phoenix-life/transfers-and-mergers/2017_awl_policy_transfer
- www.sunlife.co.uk/fm17
- www.phoenixwealth.co.uk/FM17

4.18 This means that affected policyholders can ask questions of the companies and raise objections to the companies before the proposed transfer is put before the Court for sanction.

4.19 Ultimately it is for the Court to decide whether or not to sanction the Scheme. The Court's review of the proposed Scheme takes place at the Sanctions Hearing (also called the Final Hearing) where the Court takes into account the views of the regulators, the Independent Expert, various statements by the parties to the transfer, and any objections raised by policyholders and other interested parties. Policyholders have the right to be heard by the Court and may present their objections to the Scheme at the Court Sanctions hearing.

Policyholder request for a refund of premiums

4.20 The whole of life and term assurance contracts written by SunLife do not permit the return of premiums under the terms and conditions of the contract.

Other policyholder enquiries

4.21 Certain policyholders, although not raising an objection to the Scheme, asked whether I had separately considered the different products written by AWL and Phoenix and a particular question was raised in respect of the Corporate Trustee Investment Plans ("CTIPs").

4.22 I confirm that, when assessing the proposed Scheme I analysed the risks associated with each product type and considered the effect of the proposed Scheme on each product type. The product types that were similarly affected by the implementation of the Scheme were reported on together in my main report. Therefore, although there is not a section in my main report that deals solely with each product type, I have considered each product type, including the CTIP policies, in their own right.

Conclusion

4.23 I am satisfied that, by responding to policyholders directly addressing their specific comments and, where relevant, objections, Phoenix is dealing with the objections received in a reasonable way and is trying to resolve these fully prior to the final Court Sanctions Hearing.

4.24 The policyholder enquiries received do not raise any issues that were not considered in the work leading up to my main report and therefore I am satisfied that there are no reasons to change the conclusions in my main report.

5 THE POLICYHOLDER COMMUNICATIONS

Introduction

5.1 At the Directions Hearing on 24 July 2017, the Court granted Phoenix a waiver from the requirement to communicate directly with its existing policyholders in respect of the Scheme.

5.2 A communication pack was sent to all AWL policyholders for whom Phoenix had a name and address on its computerised database and different communication strategies and mailing packs were used as follows:

- SunLife policyholders received a letter addressing key questions that policyholders may have, a short guide to the Scheme and a summary of my main report.
- Individual unit-linked policyholders received a covering letter, a Scheme guide and a Questions and Answers leaflet.
- For CTIP trustees, AWL and Phoenix engaged with the trustees and their advisers through the usual relationship team, and provided a guide to the Scheme and a full copy of my main report.

5.3 Mailing packs were also sent to Independent Financial Adviser Firms connected with transferring policies and the employee benefit consultants of the CTIP trustees, and to any funeral plan providers with an interest in any of the SunLife policies.

5.4 The Scheme was also publicised in the following ways:

- The following websites:
  - www.phoenixlife.co.uk/about-phoenix-life/transfers-and-mergers/2017_awl_policy_transfer
  - www.sunlife.co.uk/fm17
  - www.phoenixwealth.co.uk/FM17
- Published notices in a form approved by the PRA in the London Gazette, the Edinburgh Gazette, the Belfast Gazette, the international edition of the Financial Times, and the following national newspapers in the UK: the Times, the Daily Telegraph, the Sun, the Daily Mirror and the Daily Mail.
- At the request of the supervisory authority in the Republic of Ireland (the Central bank of Ireland or "CBI"), published notices were also placed in the Iris Oifiguil, the Irish Times and the Irish Independent.

5.5 This Supplementary Report will also be made available on the websites listed above.

Delayed notification of a segment of AWL policyholders

5.6 In the course of the policyholder communications exercise approximately 8,000 SunLife policyholders, holding approximately 9,000 policies out of the total population of approximately 958,000 transferring policies, were omitted from the main policyholder mailing.

5.7 Subsequent investigations by Phoenix have shown that these policies:

- Are all non-profit whole of life policies;
- Collectively account for approximately 1% of the total population of transferring policyholders by number; and
- As set out in Section 5 of my main report, the SunLife policies are typically non-profit whole of life contracts with an average sum assured of approximately £3,300 at 2016 year end.

5.8 The omitted policyholders were sent the appropriate policyholder packs promptly after the omission was identified and will therefore have received a minimum of 3.5 weeks' notice of the final hearing (scheduled for Tuesday 21 November). The covering letters in these policyholder packs were amended to emphasise that the helpline is open until the day before the final hearing for any questions or objections in relation to the proposed transfer.

5.9 Guidance from the UK regulators is that they would not normally consider a period of less than six weeks between sending notices to policyholders and the date of the court hearing as adequate and I have therefore considered whether I am satisfied that this will not have a material adverse effect on the policyholders concerned (the "omitted policyholders"). In respect of this I note that:

- As my conclusions in my main report (Section 12) and this Supplementary Report (Section 7) show, I am satisfied that, in respect of the SunLife policyholders, the implementation of the Scheme will not have a material adverse effect on their security of benefits, their reasonable expectations with respect to their benefits, or the standards of administration, service, management and governance applicable to the policies.
- The proposed transfer will not change the terms and conditions of any of the policies.
- The omitted policyholders represent a very small proportion (approximately 1%) of the total population of transferring policyholders by number.
- AWL and Phoenix have carried out extensive advertising of the proposed Scheme (as described in Section 10 of my main report).
- The omitted policyholders will have received 3.5 weeks' notice of the Final Hearing date and Scheme proposals.
- AWL and Phoenix's experience of the SunLife policyholder base in relation to notification of the Scheme has been that policyholders who wish to ask questions or raise any concerns about the transfer do so relatively quickly, phoning or writing in within 1 to 2 weeks.
- To date policyholders have not raised any material concerns regarding the proposed transfer.

5.10 Given the subsequent actions taken by Phoenix and the reasons above, I am satisfied that the omitted policyholders will not be materially adversely affected by having received shorter notice of the final hearing than the rest of the transferring policyholders.

6 OTHER CONSIDERATIONS IN RESPECT OF THE SCHEME

Notification of EEA states

6.1 Phoenix requested that the PRA should notify the supervisory authorities in all EEA States in respect of the Scheme.

6.2 Certain supervisory authorities, for example the CBI in Ireland, have requested that Phoenix carries out additional publicity of the Scheme and Phoenix has complied with all such requests. At the time of writing this report, there have been no objections from supervisory authorities and consequently there is no reason to change the conclusions of my main report.

Changes to the Scheme

6.3 There have been some minor changes to the Scheme since I finalised my main report.

6.4 Firstly, there have been some changes due to an unrelated Part VII transfer: the transfer of the entire business of Friends Life Limited and Friends Life and Pensions Limited ("FLP") to Aviva Life & Pensions UK Limited ("Aviva").

6.5 This transfer was approved on 13 September 2017 and became effective on 1 October 2017 and as a consequence of that scheme, the unit-linked reinsurance arrangement formerly between FLP and AWL has transferred so as to be between Aviva and AWL. There have been no changes to the terms of the reinsurance arrangement.

6.6 The Scheme for the transfer of the AWL business to Phoenix has therefore been amended so references to FLP now refer to Aviva.

6.7 Secondly, a small number of typographical errors have been corrected.

6.8 I am satisfied that these changes do not provide any reason to change the conclusions set out in my main report.

The Phoenix PPFM

6.9 Since the completion of my main report, there have been no changes to Phoenix’s Principles and Practices of Financial Management.

Applications by Phoenix to the PRA

The Phoenix TMTP

6.10 The projected post-Scheme Phoenix solvency coverage, as shown in Appendix 2, of 138% includes allowance for the TMTP (transitional measure on technical provisions, as described in Section 2 of my main report). As discussed in Section 2 of my main report the PRA has stated publicly that the benefit conferred by the TMTP can be considered Tier 1 capital.

6.11 Under the Solvency II rules, the TMTP is reduced to zero over 16 years and, all else being equal, the run off of the TMTP would decrease the solvency coverage. However, the natural emergence of surplus on the closed Phoenix business will assist with the management of this run off as, in each year, the surplus is projected to comfortably cover the amortisation of the TMTP in that year.

6.12 There is a mandatory recalculation of the TMTP as at 31 December 2017. This recalculation will take account of the relevant economic changes and other events since the last recalculation and will include an increase to the TMTP to reflect the reinsurance of the Abbey Life Assurance Company (“ALAC”) into Phoenix as described below.

6.13 Phoenix’s projections of the Solvency coverage ratio as the TMTP runs off and show that, in each future year, Phoenix is projected to exceed the requirements of the PCP.

6.14 Therefore, I am satisfied that there is no reason to change the conclusions of my main report.

The Phoenix matching adjustment application

6.15 Phoenix plans to apply to the PRA to change its matching adjustment (as described in Section 2 of my main report). If approved by the PRA, this will result in a small improvement to the solvency position of Phoenix.

The reinsurance of ALAC to Phoenix

6.16 On 30 December 2016, Phoenix Group acquired ALAC and ALAC is currently one of the UK regulated life insurance companies in the Phoenix Group.

6.17 At its meeting on 8 November 2017, the Board of Phoenix approved, in principle, the reinsurance of the majority of the business of ALAC to Phoenix with effect from 31 December 2017.

6.18 In isolation, this reinsurance would be expected to reduce the solvency coverage of Phoenix and, to mitigate this, it is planned that, on 31 December 2017, Phoenix will receive an additional capital injection from Pearl Life Holdings Limited.

6.19 Overall, taking into account the reinsurance of ALAC, the capital injection and the increase to the TMTP due to the reinsurance of ALAC, the solvency coverage of Phoenix is expected to reduce but remain comfortably in excess of the requirements of the PCP.

Part VII transfers in the future

6.20 Phoenix may, at some point in the future, decide to carry out further Part VII transfers. Clearly it is not possible at this stage to give an opinion on the details of any such a transfer but it should be noted that, in respect of any such application to the Court for the sanction of a future Part VII transfer:

- The Court will be provided with a report on the transfer by an independent expert and reports by the Chief Actuaries of all companies involved.
- The PRA and FCA will review the proposed transfer and will, in most cases, provide reports to the Court: The provision by the PRA of reports to assist the Court is described as "standard practice" in their Statement of Policy from April 2015 and it is usual for the FCA to also file reports at Court to assist the Court in its consideration of the Scheme.
- The Court will review all the information provided and will decide whether or not to sanction the transfer.

6.21 Having considered the process and requirements for Part VII transfers in the UK, I am satisfied that any such transfer would be subject to an appropriate level of scrutiny and a robust approval process and I am therefore satisfied that the possibility of a future Part VII transfer does not provide any reasons to change the conclusions of my main report.

The UK referendum on 23 June 2016

6.22 In a referendum held on 23 June 2016, a majority voted for the UK to leave the European Union which has led to considerable political upheaval in the UK and significant turbulence in both UK and global financial markets. In my main report I noted that the long-term effects of the referendum for the UK in general and Phoenix in particular were unclear and that I would cover any further developments in the implications of the referendum result in my Supplementary Report.

6.23 In the time since my main report, whilst there has been considerable speculation in the media as to the likely long-term effects of the referendum result, the situation is not significantly clearer than at the time my main report was finalised and therefore there is no reason to change the conclusions in my main report.

Tax

6.24 Confirmation has been received from HM Revenue and Customs that the treatment of AWL's pensions business will be unaffected by the Scheme.

The Effective Date and Transfer Date of the Scheme

6.25 As I set out in Section 7 of my main report, if approved by the Court, the Scheme will become operative on 8 December 2017 (the "Transfer Date"), at which point the AWL business will legally transfer from AWL to Phoenix.

6.26 The Scheme provides that it will take effect as between AWL and Phoenix, including for accounting purposes and for determining the levels of policyholder benefits, from 1 October 2017 (the "Effective Date").

6.27 The Transfer Date and Effective Date are on different dates (which is unusual although by no means unique) for logistical reasons as at it will enable Phoenix and AWL to avoid the need to carry out a separate valuation of the transferring business as at the Transfer Date.

6.28 I have discussed this with Hogan Lovells[2] who is satisfied that, because the Scheme provides that this mechanism only applies as between AWL and Phoenix and does not affect the rights of policyholders or third parties in relation to the transferring business, from a legal perspective the mechanism will not have a material adverse effect on the policyholders affected by the Scheme.

6.29 I have also discussed this with senior management of Phoenix and AWL, who are satisfied that there is no other scope for the mechanism to adversely affect policyholders.

6.30 As I set out in Section 3 of my main report, I am satisfied that is appropriate for me to rely on the conclusions of Hogan Lovells in relation to the legal effect of the Scheme.

[2] The legal advisers of Phoenix and AWL

7 MY CONCLUSIONS

7.1 I have reviewed the updated financial information as at 30 June 2017 and the pro forma figures showing AWL and Phoenix if the Scheme had been implemented on that date and I have reviewed the business developments and market movements since 30 June 2017.

7.2 I am satisfied that there are no reasons to change the conclusions in Section 12 of my main report and that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of AWL and Phoenix.
- The reasonable expectations of the policyholders of AWL and Phoenix with respect to their benefits.
- The standards of administration, service, management and governance applicable to the AWL and Phoenix policies.

7.3 I am satisfied that the Scheme is equitable to all classes and generations of AWL and Phoenix policyholders.

Oliver Gillespie 9 November 2017

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

APPENDIX 1: SOLVENCY II FINANCIAL INFORMATION AS AT 30 JUNE 2017 PRIOR TO THE IMPLEMENTATION OF THE SCHEME

Phoenix

£ million	Unsupported RFFs	Supported RFFs	PNRFF	Total
Assets	**12,836**	**5,078**	**19,821**	**37,735**
BEL	11,732	4,888	18,652	35,271
Risk Margin	202	160	573	935
TMTP	436	330	853	1,620
Technical provisions	**11,498**	**4,717**	**18,371**	**34,586**
Own Funds (post TMTP)	**1,338**	**361**	**1,450**	**3,149**
SCR	**1,046**	**386**	**1,163**	**2,594**
Excess Assets after SCR	**292**	**- 25**	**287**	**555**
Capital policy requirement	**1**	**120**	**303**	**424**
Excess assets after capital policy	**291**	**- 144**	**- 16**	**131**
Solvency coverage ratio	**128%**	**94%**	**125%**	**121%**
Solvency coverage ratio (excl. unsupported RFFs)				**136%**

AWL

	£ million
Assets	**6,077**
BEL	6,020
Risk Margin	12
TMTP	-
Technical provisions	**6,032**
Own Funds (post TMTP)	**45**
SCR	27
RFF Restriction Applied	
Excess Assets after SCR	**18**
Capital policy requirement	**12**
Excess assets after capital policy	**6**
Solvency coverage (SCR)	**166%**

APPENDIX 2: SOLVENCY II FINANCIAL INFORMATION AS AT 30 JUNE 2017 AFTER THE IMPLEMENTATION OF THE SCHEME

Phoenix

£ million	Unsupported RFFs	Supported RFFs	PNRFF	Total
Assets	**12,836**	**5,078**	**25,891**	**43,805**
BEL	11,732	4,888	24,672	41,291
Risk Margin	202	160	579	941
TMTP	436	330	853	1,620
Technical provisions	**11,498**	**4,717**	**24,398**	**40,612**
Own Funds (post TMTP)	**1,338**	**361**	**1,494**	**3,193**
SCR	**1,046**	**386**	**1,172**	**2,604**
Excess Assets after SCR	**292**	**-25**	**322**	**589**
Capital policy requirement	**1**	**120**	**306**	**426**
Excess assets after capital policy	**291**	**-144**	**15**	**163**
Solvency coverage ratio	**128%**	**94%**	**127%**	**123%**
Solvency coverage ratio (excl. unsupported RFFs)				**138%**

APPENDIX 3: DATA RELIED UPON

Document	Date of document
The supplementary report of the Chief Actuary of AWL on the Scheme	8 November 2017
The supplementary report of the Chief Actuary of Phoenix on the Scheme	8 November 2017
Pre- and post-Scheme financials as at 30 June 2017 for AWL and Phoenix	9 September 2017
Solvency II Pillar I (Internal Model) entity report – 30 June 2017	3 October 2017
Note on delayed notification 1% of population	25 October 2017
Memo re split Effective Date Transfer Date structure – Hogan Lovells	21 April 2017
Board memo re Reinsurance of ALAC to Phoenix	8 November 2017

APPENDIX 4: GLOSSARY OF TERMS

A glossary of abbreviations used in the main report and this report is given below.

A	
ACP	The AWL capital management policy
ALAC	Abbey Life Assurance Company
APS	Actuarial Profession Standards
Asset share	A measure of a policy's value in the absence of guarantees, defined as the total premiums paid by policyholders, accumulated by actual investment returns, less attributable expenses, benefits paid and other relevant deductions.
AWL	AXA Wealth Limited
B	
BAU	Business as usual
BEL	The best estimate liability under Solvency II
C	
CA	Chief Actuary
Capita	Capita Life & Pensions Services Limited
CBI	The Central Bank of Ireland, the insurance supervisor in the Republic of Ireland
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CTIP	Corporate Trustee Investment Plans
D	
Diligenta	Diligenta Limited
E	
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
Excluded Policies	AWL policies that cannot be transferred to Phoenix
F	
FA	Finance Act (followed by the year of that Act – e.g. 2004, 2010 or 2012)
FCA	Financial Conduct Authority

FOS	Financial Ombudsman Service
FPH	Friends Provident Holdings
FRR	Financial Resources Requirement
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTSE	Financial Times Stock Exchange

H

HMRC	HM Revenue & Customs
Hogan Lovells	Hogan Lovells International LLP

I

IE	Independent Expert

L

LTF	The long-term insurance Fund

M

MA	Matching Adjustment
MAP	Matching Adjustment Portfolio
MCR	Minimum Capital Requirement

N

NPF	Non-profit Fund

O

ORSA	Own Risk and Solvency Assessment

P

PCP	The Phoenix Capital Policy
PESA	The Payment Execution Services Agreement – essentially the master services agreement between Phoenix and Diligenta.
PGIM	The Phoenix Group internal model
PGMS	Pearl Group Management Services
Phoenix	Phoenix Life Limited

PLAL	Phoenix Life Assurance Limited
PLHL	Pearl Life Holdings Limited
PNRFF	The Phoenix Non Ring-Fenced Fund
PRA	The Prudential Regulation Authority

R

RFF	Ring-fenced funds
RPI	Retail Price Index
RPS	Registered pension scheme
RTI	Real Time Information

S

SCR	Solvency Capital Requirement
SHF	Shareholders' Fund
SIMF	Senior Insurance Management Functions
SIMR	The PRA's Senior Insurance Managers Regime

T

TAS	Technical Actuarial Standards
TCF	Treating Customers Fairly
TMTP	Transitional Measure on Technical Provisions
Transfer Date	The date on which the transfer is effected (expected to be 8 December 2017)

V

VA	Volatility Adjustment
VAP	Volatility adjustment portfolio

W

WPA	With-Profits Actuary
WPC	With-Profits Committee
WPF	With-Profits Fund