PHOENIX GROUP

AXA WEALTH LIMITED

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

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

8 November 2017

1. Purpose of Report

This report is a supplementary report to my report entitled 'Report by the Chief Actuary on the Impact of the Scheme on Policyholders of AXA Wealth Limited' dated 13 July 2017 ("my report"). All definitions and abbreviations used in my report apply also to this supplementary report.

In my report I concluded that no class of policyholder of AXA Wealth Limited ("AWL") will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should have no material adverse impact on the security of AWL policyholders.

In this supplementary report, I consider whether, taking into account developments since the date of my report and their potential impact on AWL and Phoenix and on AWL's policyholders, it remains appropriate to proceed with the Scheme. In considering the position, it is important to distinguish between changes that affect or would affect AWL policyholders in any event, irrespective of the implementation of the Scheme, and changes in the position of policyholders or a particular group of policyholders that arise or might arise as a result of the implementation of the Scheme. It is only the second type of change that is of relevance in deciding whether the conclusions reached in my report remain valid notwithstanding any changed circumstances.

As part of my consideration of the Scheme in this supplementary report, I have updated the financial analysis to use financial information as at 30 June 2017 (see section 3), taken into account events that have occurred since then and considered whether the impact of the Scheme on the security and benefits of AWL policyholders would be affected in light of that updated information.

My conclusions are given in section 6.

This supplementary 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 PRA, the FCA and any overseas regulators and courts in forming their own judgements about the Scheme. It is supplementary to my report and should accordingly be read alongside my report.

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 supplementary report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

2. Developments since my report

2.1 Changes to the Scheme

Following the date of my report, AWL received notice of a proposal to transfer the entire business of Friends Life Limited and Friends Life and Pensions Limited ("FLP") to Aviva Life & Pensions UK Limited ("Aviva") by means of an insurance business transfer scheme under Part VII of FSMA (the "Aviva Scheme"). The Aviva Scheme was approved on 13 September 2017 and became effective on 1 October 2017. As a consequence of the Aviva Scheme, a unit-linked reinsurance arrangement formerly between FLP and AWL has transferred so as to be between Aviva and AWL, and certain references to FLP in the draft Scheme (specifically, in the provisions dealing with future changes to unit-linked funds) are now to be read as applying to Aviva rather than FLP. The Scheme has therefore been amended to take account of this change, as well as to pick up a small number of typographical errors.

I am satisfied that none of the changes affect the impact of the Scheme on policyholders.

2.2 Economic Conditions since the end of March 2017

The financial analysis in my report was prepared as at 31 March 2017. Investment markets have been relatively stable and in broad terms gilt yields and equity and property values have increased since the end of March. The following table sets out the value of some key indicators of economic conditions during 2017.

	31/3/2017	30/6/2017	30/9/2017	31/10/2017
FTSE-100	7332.9	7312.7	7372.8	7493.08
Change since 31/3/17		*-0.1%*	*0.7%*	*2.3%*
Corporate Bond Spreads (basis points over gilts)				
AAA	39.0	38.5	35.9	33.3
AA	77.0	62.9	73.9	69.2
A	121.5	108.2	106.9	105.6
BBB	126.7	116.3	112.0	108.7
Property Index	1427.9	1462.3	1500.9	1516.44
Change since 31/3/17		*+2.4%*	*+5.1%*	*+6.2%*
15 year gilt yield	1.61%	1.74%	1.79%	1.79%

The impact of these and other movements have been reflected in the analysis shown in section 3.

2.3 Developments affecting the financial position of Phoenix

My report showed the position of AWL before and Phoenix after the Scheme based on the position as at 31 March 2017. I also included comment on the impact of events from then to 30 June 2017. The following summarise the key actions in the second half of 2017 which have affected or will affect the financial position of AWL and/or Phoenix and which are not included in the financial analysis shown in section 3.1. The impact of these on the financial analysis is considered in section 3.2.

2.3.1 **Valuation Assumptions** – AWL and Phoenix undertook a valuation of its assets and liabilities as at 30 September 2017 and Phoenix is due to undertake a further valuation as at 31 December 2017. As part of these, and in line with established practice, the assumptions and methodologies were reviewed and, where appropriate, the Boards approved changes to these. In addition, Phoenix undertook a review of its material stress assumptions and as a result, a number of changes were approved by the Board in October 2017.

2.3.2 **Purchase of an Equity Release Portfolio** – In July 2017, Phoenix acquired a portfolio of equity release mortgages for a price of c£600m, which led to an increase in the solvency position of Phoenix.

2.3.3 **Review of CMP** – In August 2017, the Phoenix Board reviewed the amount required to be held under the PCP. As a result, the Phoenix Board increased the amount of capital held under the PCP and it now requires Phoenix to hold capital equal to 31 percent of the SCR (previously 28 percent) in addition to the capital necessary to meet the SCR itself.

2.3.4 **Applications to PRA** – Phoenix has made applications to the PRA in respect of:

- TMTP – Phoenix has applied to undertake a recalculation of its TMTP as at 31 December 2017.
- Major Model Change – Phoenix submitted a Major Model Change application on 31 October 2017. The main impact of this will be to add a stress on the assumption made for late retirements.
- Matching Adjustment – Phoenix plans to apply shortly to the PRA to make changes to its Matching Adjustment application, which if approved, will lead to a small increase in the solvency position of Phoenix.

2.3.5 **Reinsurance from Abbey Life Assurance Limited ("ALAC") and Related Actions** – At its meeting on 8 November 2017, the Board of Phoenix approved in principle the reinsurance to Phoenix of the majority of the business of ALAC with effect from 31 December 2017 (the "Reinsurance"). Additionally, at 31 December 2017, Phoenix will receive additional support from PeLHL. The result of the Reinsurance, the TMTP recalculation in respect of the Reinsurance and the capital injection is that there is expected to be a reduction to the solvency position of Phoenix.

3. Review of financial analysis

I have reviewed the contents of section 5 of my report and an update is given below.

3.1. Position of AWL before and Phoenix after the transfer

My report showed the projected position of AWL before and Phoenix after the Scheme based on the position as at 31 March 2017. The following tables and the comments in this section 3 update this analysis as at 30 June 2017, taking into account the economic conditions as referred to in section 2.2 of this supplementary report.

Table 1 below shows the financial position of AWL as at 30 June 2017. The estimated position as at 31 March 2017 in my report is shown for comparison.

Table 1	AWL as at 30 June 2017 before the effect of the Scheme			*AWL as at 31 March 2017 before the effect of the Scheme*		
	Own Funds	RFF Restric'n	SCR	*Own Funds*	*RFF Restrict'n*	*SCR*
	£m	£m	£m	*£m*	*£m*	*£m*
NP Fund and Shareholders' Fund	45	-	27	*45*	*-*	*28*
Total	**45**	**-**	**27**	***45***	***-***	***28***
Excess of Adjusted Own Funds over SCR			**£18m**		***£17m***	
Solvency Ratio			**166%**		***163%***	

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

Table 1 shows that between 31 March 2017 and 30 June 2017 there was a small increase in the Excess of Adjusted Own Funds over SCR.

Table 2 below shows the estimated financial position of Phoenix as at 30 June 2017, as if the Scheme had been implemented on that date. The estimated position as at 31 March 2017 given in my report is shown for comparison.

Table 2	**Phoenix as at 30 June 2017 after the effect of the Scheme**			***Phoenix as at 31 March 2017 after the effect of the Scheme***		
	Own Funds	**RFF Restric'n**	**SCR**	***Own Funds***	***RFF Restrict'n***	***SCR***
	£m	£m	£m	*£m*	*£m*	*£m*
Unsupported WPFs	1,338	72	974	*1,357*	*79*	*987*
Supported WPFs	361	-	386	*446*	-	*401*
NP Fund and Shareholders' Fund	1,494	-	1,172	*1,559*	-	*1,271*
Total	3,193	**72**	**2,532**	***3,362***	***79***	***2,658***
Excess of Adjusted Own Funds over SCR			**£589m**		***£624m***	
Solvency Ratio – All funds			**126%**		***126%***	
Solvency Ratio excluding unsupported WPFs			**138%**		***137%***	

Table 2 shows that between 31 March 2017 and 30 June 2017 there was a reduction in the Excess of Adjusted Own Funds over SCR, but no material change to the solvency ratios.

3.2. Impact of events since 30 June 2017

Under Solvency II, AWL and Phoenix calculate and report their solvency position and other key financial metrics to the PRA on a quarterly basis. The position as at 30 June 2017 is shown above. The valuation as at 30 September 2017 has not been finalised, but the provisional position, taking into account events referred to in section 2.3.1 2.3.2 and 2.3.3, market movements and the run-off of policies to that date, showed that the Excess of Adjusted Own Funds over SCR of Phoenix had increased compared to the position at 30 June 2017 and that Phoenix continued to meet the more onerous requirements of the PCP.

As noted in section 2.3, a number of other events and actions have occurred since the end of September or are planned to take place before the end of 2017. Taking into account those, market movements and the run-off of policies since then, Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP at the date of this supplementary report and is expected to do so at the end of 2017.

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.

4. Effect of the Scheme on AWL policyholders

4.1. Policyholder Security

The key points in my report with regard to the effect of the Scheme on the security of AWL policyholders were:

- Phoenix currently meets its PRA capital requirements and those of its PCP which provides an additional buffer over the PRA requirements.
- The financial position of Phoenix will be improved following implementation of the Scheme.
- There are only small differences in approach between Phoenix and AWL in calculating their respective technical provisions and SCR and operating their respective capital policies.

From the analysis shown in section 3 of this supplementary report I note that Phoenix currently meets its regulatory capital requirements and the more onerous requirements of the PCP and after the Scheme is implemented, it will on a pro-forma basis continue to meet these requirements.

I also note that there have been no changes to the way technical provisions and SCR is calculated nor to the operation of the respective capital policies.

Therefore, my opinion remains unchanged that there will be no material adverse impact on the security for benefits for AWL's policyholders after the Scheme is implemented.

4.2. Policyholder Benefits

In my report, I noted that the Scheme would have no impact on the benefits of AWL policyholders. None of the developments since my report have affected the conclusions drawn by me in my report and, therefore, my opinion remains that the benefits of the AWL policyholders will not be affected by the implementation of the Scheme.

5. Other Matters

5.1. Policyholder Communications

I have reviewed the mailing pack, including the Scheme guides, which have been sent to AWL policyholders and made available on the relevant websites. I am satisfied that the information regarding the proposals as contained therein adequately bring the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this supplementary report to the attention of policyholders.

9550 phone calls and letters have been received as at 3 November 2017 of which at least 9519 were from AWL policyholders. An analysis of these calls and letters indicated that approximately 53 % were related to the transfer.

As at 3 November 2017, 36 objections have been received to the transfer, all of which have come from AWL policyholders. The objections relate to a variety of concerns, including that policyholders do not want their policies to be transferred to another company and/or have concerns about the process being followed, or have concerns about whether there will be changes to terms and conditions. I have reviewed the objections received from AWL policyholders together with the responses to those objections. I note that all objections have been replied to and have been passed to the regulators and to the Independent Expert for their information, and will also be passed to the Court.

I have not seen anything in those objections from AWL policyholders that affects the conclusions in my report and this supplementary report.

6. Conclusion

My view is that the changes in the economic conditions and the other matters mentioned in this supplementary report have not affected the conclusions that I reached in my report. Therefore my opinion remains that no class of AWL policyholder will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme will not have any adverse impact on the security of benefits of policyholders. I believe that the Scheme is consistent with AWL's obligation to treat its customers fairly.

D P Neville
Fellow of the Institute of Actuaries
Chief Actuary
8 November 2017