Solvency and Financial Condition Report 2017

PHOENIX GROUP

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Summary

INTRODUCTION AND BACKGROUND

Phoenix Group is the largest UK consolidator of closed life assurance funds with more than five million policyholders and assets under management of £74 billion, specialising in the efficient management of in-force policies with limited writing of new business. Phoenix Group has a wide range of legacy life assurance products written across different funds within its operating Life Companies.

From 1 January 2016, the Solvency II capital assessment and the Group's regulatory supervision was performed at the Phoenix Life Holdings Limited ('PLHL') level being the highest EEA insurance Holding Company. A waiver that was in place permitting Group supervision to take place at the level of the ultimate parent Phoenix Group Holdings ('PGH'), via other methods as opposed to full Group supervision, expired on 30 June 2017. The Group's capital position is now being managed at the PGH level only, and therefore this SFCR is prepared at the PGH Group level rather than the PLHL level.

For the year ended 31 December 2016 separate Solvency and Financial Condition Reports ('SFCRs') were prepared for the PLHL Group and each insurance subsidiary. Following the successful application in December 2017 for a single SFCR, the Group now produces a Group-wide SFCR (hereafter referred to as 'the Group SFCR') to meet the public disclosure requirements of the Group and each insurance subsidiary.

Unless otherwise specified, references to 'Phoenix', 'Phoenix Group' or 'PGH Group' mean PGH and all its subsidiary undertakings. A simplified group structure chart is presented in Section A.1.2.1.

The insurance subsidiaries (also referred to as 'the Life Companies') of the Group included in the Group SFCR comprise of:

- Phoenix Life Limited ('PLL');
- Phoenix Life Assurance Limited ('PLAL');
- Abbey Life Assurance Company Limited ('ALAC'); and
- Phoenix AW Limited ('PAWL', formerly AXA Wealth Limited ('AWL')).

In addition the SFCR also includes PA (GI) Limited ('PA(GI)'), an entity owned by the Group, that wrote general insurance business in the past.

The SFCR has been prepared in accordance with the PRA Rules and Solvency II regulations, hereafter referred to as 'the regulations'. The Group SFCR and the accompanying Quantitative Reporting Templates ('QRTs') included in Appendices 1-6 provide detailed information on the Group and its insurance subsidiaries business and performance, system of governance, risk profile, valuation for solvency purposes and capital position.

BUSINESS AND PERFORMANCE

2017 was another successful year for the Group, with Phoenix continuing its track record of meeting or exceeding its publicly stated targets.

The integrations of the AXA Wealth and Abbey Life businesses, acquired in quarter four of 2016, are ahead of plan and substantially complete. The Group exceeded its original synergy targets, delivering cost and capital benefits from these transactions.

On 23 February 2018, Phoenix announced the proposed acquisition of the majority of Standard Life Assurance Limited, Vebnet Limited and a strategic partnership with Standard Life Aberdeen plc.

The £2,930 million acquisition will establish the Group as the largest closed life consolidator in Europe. The acquisition will be financed by total cash consideration of £1,971 million made up of a fully underwritten rights issue of £950 million, with the remaining cash consideration of £1,021 million funded by a mix of new debt and Phoenix's own resources. In addition, Standard Life Aberdeen plc will take a 19.99% equity stake in the enlarged Group on completion valued at £959 million, based on the share price at 22 February 2017. The Board believes the acquisition is strategically and financially compelling and hopes the Group's shareholders will support the proposed rights issue.

The Group has generated an operating profit of £368 million (2016: £351 million) for the year ended 31 December 2017. The increase compared to the prior year is primarily driven by the inclusion of a full year contribution from the AXA Wealth and Abbey Life businesses acquired in 2016, together with the net positive impacts of actuarial assumption and model and methodology changes during 2017. These factors have been partly offset by the lower positive impact of management actions recognised within operating profit in 2017 compared to the prior year. Substantially all of the operating profit arises in the UK.

The IFRS result for the year has been adversely impacted by negative investment variances arising from the hedging programme, which is calibrated to protect the Group's Solvency II surplus. When combined with one-off costs associated with debt refinancing and integration activities, the Group generated an IFRS loss before tax attributable to owners of £(28) million (2016: £(128) million).

The performance of the Group and its insurance subsidiaries set out in section A is described using results as presented in the IFRS financial statements. The operating profit (which is a non-GAAP measure) is stated after adjustments to exclude the impact of short-term economic variances and items considered to occur outside the normal course of business. Further details on the components and the key drivers of the operating profit are included in section A.2.

Summary continued

SYSTEM OF GOVERNANCE

The PGH Board is responsible for the strategic direction of the Phoenix Group and is accountable for compliance with the Solvency II requirements. The insurance subsidiaries' Boards are responsible for managing the overall direction and performance of the companies. They are also ultimately accountable for compliance with the Solvency II requirements that relate to them.

The PGH Board and insurance subsidiaries' Boards are committed to high standards of corporate governance and are supported by the appropriate Board committees and Management committees. Further details on the governance structure of the Boards and its committees is included in section B.1.

Although there were no significant changes to the governance arrangements during the year, on 31 January 2018, PGH became UK tax resident, having previously been Jersey resident for tax purposes. As a result PGH now holds all its Board and committee meetings in the UK. The PLHL Board has now become an executive board with PGH absorbing the majority of PLHL's responsibilities.

RISK PROFILE

Phoenix Group operates a standardised Risk Management Framework ('RMF') for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures. The Group defines risk appetite (covering the level of risk it is willing to accept) in pursuit of its strategic objectives in the areas of policyholder security and conduct, earnings volatility, liquidity, and the control environment.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess its capital requirements. Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth business within the scope of the Group's Internal Model in March 2017. The capital assessment of the Abbey Life business remained on a Standard Formula basis as at 31 December 2017. Therefore, the Solvency II position of the Group at that date and the results presented in this SFCR are based on a partial Internal Model.

An application to include the acquired Abbey Life business into the Group's Internal Model was made in the second half of 2017 and was approved in March 2018.

The chart below shows the composition of the Group's undiversified SCR as at 31 December 2017. The largest component of the undiversified SCR is underwriting risk for the Group, which is the risk that the frequency or severity of insured events may be worse than expected, and includes expenses risk.

The definitions of the risk categories are provided in section C with further details on the SCR set out in section E.2.1.

A	37%	Underwriting risk
B	25%	Market risk
C	25%	Credit risk
D	0%	Liquidity
E	12%	Operational risks
F	1%	Other risks

A summary of the undiversified SCR of the Group and the insurance subsidiaries is presented below:

Risk profile of insurance subsidiaries and the Group	Section reference	PLL %	PLAL %	ALAC %	PA(GI) %	PGH Group %
Underwriting risk	C.1	36	42	–	–	37
Market risk	C.2	23	21	12	–	25
Credit risk	C.3	25	29	74	–	25
Liquidity risk	C.4	–	–	–	–	–
Operational risk	C.5	15	8	14	100	12
Other risks	C.6	1	–	–	–	1
Total		100	100	100	100	100

Significant business and other events during 2017 that impacted the risk profile of the Group and its insurance subsidiaries included:

- a transfer, under Part VII of the Financial Services and Markets Act 2000, of the majority of assets of PAWL to PLL. Following the Part VII transfer, PAWL's authorisation was withdrawn at its own request with effect from 9 March 2018;
- establishment of reinsurance agreements between ALAC and PLL (for substantially all non-profit business, excluding unit-linked funds);
- a weakening of longevity base and improvements assumptions and a strengthening of mortality assumptions as a result of a greater number of deaths than expected; and
- introduction of late retirement stress assumptions that increased the capital requirements for PLL and PLAL.

Summary continued

VALUATION FOR SOLVENCY PURPOSES

For the purposes of Solvency II reporting, the Group applies the Solvency II valuation rules to value its assets, technical provisions and other liabilities. The principle that underlies the valuation methodology for Solvency II purposes is to recognise assets and liabilities at an amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

The excess of assets over liabilities measured on a Solvency II basis for the Group and its insurance subsidiaries is set out in the table below:

31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other Group entities £m	Consolidation and other adjustments £m	PGH Group £m
Excess of assets over liabilities	3,607	1,974	492	4	64	20,867	(20,915)	6,093

Section D provides further information on the description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities, including explanations of the material differences between IFRS and Solvency II.

CAPITAL MANAGEMENT

As the Group's capital is now being managed exclusively at the PGH level significant steps were taken during 2017 to strengthen the capital position at the ultimate parent level. This has involved the substitution of the issuer of the Group's qualifying debt from PGH Capital Limited to PGH and the issuance of further hybrid capital instruments. PGH issued £450 million of Tier 3 bonds in two tranches of £300 million in January 2017 and £150 million in May 2017, the proceeds of which were used to repay senior bank debt and £178 million of the Group's senior bonds (redeemed at a premium of £25 million).

In July 2017, US$500 million Tier 2 bonds with a coupon of 5.375% were issued by PGH, due 2027. The proceeds were used to repay senior bank debt that does not count as regulatory capital in the PGH Solvency II capital calculation. The remaining £166 million outstanding balance on the senior bank debt was repaid in August 2017.

Management actions have also strengthened the Group capital position in the year, notably approval to incorporate the AXA Wealth business in the scope of the Group Internal Model, the business transfer of PAWL to PLL and asset allocation and hedging strategies.

At 31 December 2017, the capital position for PGH and its insurance subsidiaries is presented in the table below:

31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other Group entities £m	Consolidation and other adjustments £m	PGH Group £m	PGH Group year ended 31 December 2016 £m
Eligible Own Funds	3,685	1,955	492	4	64	21,758	(21,286)	6,672	6,054
SCR	(2,897)	(1,590)	(91)	(3)	(16)	(859)	634	(4,822)	(4,929)
Solvency II surplus	**788**	**365**	**401**	**1**	**48**	**20,899**	**(20,652)**	**1,850**	**1,125**
Ratio of Eligible Own Funds to SCR	**127%**	**123%**	**540%**	**123%**	**405%**			**138%**	
Shareholder capital coverage ratio	**151%**	**151%**	**540%**	**123%**	**405%**			**164%**	

The SFCR for the year ended 31 December 2016 was produced for the PLHL Group but also included a PGH Group result in the Summary section on a pro forma basis. The PGH Group result of £1,125 million in the table above includes the pro forma adjustments (comprising the PAWL Internal Model approval received in March 2017, the £300 million Tier 3 debt issuance that took place in January 2017 and a dynamic recalculation of TMTP).

The PGH Group, and its insurance subsidiaries held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore, fully complied with the capital requirements.

QUALITY OF OWN FUNDS

Eligible Own Funds represent the available capital to support the SCR.

As at 31 December 2017, the Group's Solvency II surplus over the Consolidated Group SCR is £1,850 million, with a ratio of Eligible Own Funds to SCR of 138%. The increase in the Solvency II surplus from £1,125 million reflects the issuance of subordinated bonds during 2017 together with management actions completed, offset partly by the impact of dividend payments and finance costs.

76% of the Group's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital, share premium account related to ordinary share capital, surplus funds and the reconciliation reserve. This includes Transitional Measures on Technical Provisions ('TMTP') which are included in the calculation of Basic Own Funds as Tier 1 capital. The TMTP allows firms to apply a transitional deduction to their technical provisions. Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous Solvency I regulatory regime and the technical provisions under the Solvency II regulatory regime in order to enhance stability in the insurance sector.

Regulatory approval has also been received from the PRA for the application of Matching Adjustment to liabilities in the Matching Adjustment portfolios within PLL and PLAL. The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect in increasing Own Funds and reducing the SCR.

Summary continued

CAPITAL MANAGEMENT

The impact of the TMTP and the Matching Adjustment being set to zero is set out in section D.2.7. Further details regarding the Group and each insurance subsidiaries' capital positions are set out in section E.1.

SCR BY RISK CATEGORY

The SCR is the amount of capital an insurer is required to hold under the regulations. Further details are set out in section E.2.

SHAREHOLDER CAPITAL COVERAGE RATIO

In the calculation of the Solvency II surplus, the SCR of unsupported with-profit funds and the Group's pension schemes is included, but the related Eligible Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the pension schemes are therefore not recognised in the Solvency II surplus, as there is uncertainty as to the extent (if any) to which such surpluses will accrue to shareholders. However such surpluses are available to absorb economic shocks, thereby increasing resilience to economic stresses.

The Group focuses on the metric of shareholder capital coverage ratio, as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjustment to exclude amounts relating to unsupported with-profit funds and the PGL Pension Scheme.

As at 31 December 2017, the shareholder capital coverage ratio for the Group is 164%.

SENSITIVITIES AND SCENARIO ANALYSIS

As part of the Group's internal risk management processes, the Solvency II surplus is tested against a number of financial scenarios. The results of that stress testing on the Group's and each insurance subsidiaries' Solvency II surplus are provided below and demonstrate the resilience of the Solvency II surplus.

No results are presented for PA(GI) and PAWL as they no longer write insurance business. As the majority of ALAC's business is reinsured into PLL, no stand-alone ALAC results are presented.

Solvency II Surplus £m	PLL	PLAL	PGH Group
Base: 1 January 2018[1]	**788**	**365**	**1,850**
Following a 20% fall in equity markets	797	363	1,851
Following a 15% fall in property values	744	362	1,801
Following a 60bps interest rates rise[2]	796	441	1,958
Following a 80bps interest rates fall[2]	778	303	1,752
Following credit spread widening[3]	702	324	1,676
Following a 6% decrease in annuitant mortality rates[4]	601	282	1,536
Following a 10% increase in assurance mortality rates	684	367	1,739
Following a 10% change in lapse rates[5]	724	297	1,713

1 Assumes stress occurs on 1 January 2018.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
4 Equivalent of six month increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

FUTURE DEVELOPMENTS

During 2018, Phoenix Group is focused on completion of the proposed Standard Life Assurance transaction, whilst also progressing activity to put in place a new UK-registered holding company for the Group as soon as practicable post completion of the acquisition.

Other priorities include:

- continuing strategic asset allocation initiatives to invest in higher yielding asset classes such as infrastructure and commercial real estate debt;
- exploring investment opportunities in the bulk purchase annuity market as a complementary source of annuity back books;
- in line with the strategy, Phoenix will continue to target consolidation opportunities in the closed life market; and
- look for further ways to enhance the customer experience, ensuring a positive customer journey, with more focus on the use of the digital channel.

The risk remains that the Group will be impacted by macroeconomic uncertainty or the evolving regulatory environment. The Group will continue to identify and implement new management actions to enhance and maintain a robust capital position.

Directors' responsibility statement

DIRECTORS' RESPONSIBILITY STATEMENT
PHOENIX GROUP HOLDINGS

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2017.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2017, the Group has complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to the Group; and

b) it is reasonable to believe that in respect of the period from 31 December 2017 to the date of the publication of the single group Solvency and Financial Condition Report, the Group has continued so to comply and will continue so to comply in the future.

Clive Bannister
Group Chief Executive Officer

James McConville
Group Finance Director

For and on behalf of the Group Board of Directors

Date: 2 May 2018

PHOENIX LIFE LIMITED ('PLL'), PHOENIX LIFE ASSURANCE LIMITED ('PLAL'), ABBEY LIFE ASSURANCE COMPANY LIMITED ('ALAC') AND PHOENIX AW LIMITED ('PAWL') (TOGETHER 'THE LIFE COMPANIES')

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2017.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report for the Life Companies in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2017, the Life Companies have complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to the Life Companies; and

b) it is reasonable to believe that in respect of the period from 31 December 2017 to the date of the publication of the single group Solvency and Financial Condition Report, the Life Companies have continued so to comply and will continue so to comply in the future.

Andrew Moss
Phoenix Life – Chief Executive Officer

David R Cheeseman
Phoenix Life – Finance Director

For and on behalf of the Board of Directors of the Life Companies

Date: 1 May 2018

Directors' responsibility statement continued

DIRECTORS' RESPONSIBILITY STATEMENT CONTINUED
PA(GI) LIMITED ('PA(GI)')
Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2017.

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report for PA(GI) in all material respects in accordance with the PRA Rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2017, PA(GI) has complied in all material respects with the requirements of the PRA Rules and Solvency II regulations as applicable to PA(GI); and

b) it is reasonable to believe that in respect of the period from 31 December 2017 to the date of the publication of the Solvency and Financial Condition Report, PA(GI) has continued so to comply and will continue so to comply in the future.

Rakesh Thakrar
PA(GI) Director

Andrew Moss
PA(GI) Director

For and on behalf of the Board of Directors of PA(GI)

Date: 2 May 2018

Auditor's report

AUDITOR'S REPORT

Report of the external independent auditor to the Directors of Phoenix Group Holdings ('the Group') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

REPORT ON THE AUDIT OF THE RELEVANT ELEMENTS OF THE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT

Opinion

Except as stated below, we have audited the following documents prepared by **Phoenix Group Holdings** ('the Group'), comprising of Phoenix Group Holdings and the authorised insurance entities **Phoenix Life Limited, Phoenix Life Assurance Limited, Abbey Life Assurance Company Limited, and PA(GI) Limited** as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Group as at 31 December 2017 ('**the Narrative Disclosures subject to audit**'); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 ('**the Group Templates subject to audit**'); and
- Company templates ('**the Company Templates subject to audit**') of
  - Phoenix Life Limited and Phoenix Life Assurance Limited, S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.28.01.01;
  - Abbey Life Assurance Company Limited S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21, S.28.01.01; and
  - PA(GI) Limited S.02.01.02, S.23.01.01 and S.28.01.01.

The Narrative Disclosures subject to audit and the Group and Company Templates subject to audit are collectively referred to as the '**relevant elements of the Group Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the Group Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report where it relates to the Group Solvency Capital Requirement and Solo Solvency Capital Requirements of **Phoenix Life Limited, Phoenix Life Assurance Limited and PA(GI) Limited**;
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.25.02.22;
- Company templates of **Phoenix Life Limited, Phoenix Life Assurance Limited and PA(GI) Limited** S.05.01.02 and S.25.03.21;
- Company templates of **Phoenix AW Limited;**
- Company templates of **Abbey Life Assurance Company Limited** S.05.01.02;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report; and
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations. ('the sectoral information)'; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**');

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of **Phoenix Group Holdings** as at **31 December 2017** is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

The Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is not appropriate; or

The Directors have not disclosed in the Group Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the Group Solvency and Financial Condition Report is authorised for issue

Emphasis of Matter – Basis of Accounting & Restriction on Use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

AUDITOR'S REPORT CONTINUED

REPORT ON THE AUDIT OF THE RELEVANT ELEMENTS OF THE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT CONTINUED

Emphasis of Matter – Basis of Accounting & Restriction on Use continued

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based and which have been supplemented by approvals and determinations made by the PRA under section 138A of FSMA as disclosed in section E.4 of the Group Solvency and Financial Condition Report..

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision-making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the Group Solvency and Financial Condition Report.

Other Matter

The Group has authority to calculate its Group Solvency Capital Requirement using a partial Internal Model ('the Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion and in accordance with PRA Rules, we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Group's application or approval order.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Phoenix Group Holdings, Phoenix Life Limited, Phoenix Life Assurance Limited, Abbey Life Assurance Company Limited and PA(GI) Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP
London

03 May 2018

The maintenance and integrity of the Phoenix Group Holdings website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

APPENDIX – RELEVANT ELEMENTS OF THE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT THAT ARE NOT SUBJECT TO AUDIT

PHOENIX GROUP HOLDINGS

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of Group template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of Group template S.22.01.22:

- Column C0030 – Impact of transitional on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement

The following elements of Group template S.23.01.22:

- Row R0020: Non-available called but not paid in ordinary share capital at group level
- Row R0080: Non-available surplus at group level
- Row R0100: Non-available preference shares at group level
- Row R0120: Non-available share premium account related to preference shares at group level
- Row R0150: Non-available subordinated liabilities at group level
- Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
- Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
- Row R0210: Non-available minority interests at group level
- Row R0380: Non-available ancillary own funds at group level
- Rows R0410 to R0440 – Own funds of other financial sectors
- Row R0680: Group SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non available own funds

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

PHOENIX LIFE LIMITED

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of template S.12.01.02:

- Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions

The following elements of template S.22.01.21:

- Column C0030 – Impact of transitional measure on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement

The following elements of template S.23.01.01:

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.01.01:

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

APPENDIX – RELEVANT ELEMENTS OF THE GROUP SOLVENCY AND FINANCIAL CONDITION REPORT THAT ARE NOT SUBJECT TO AUDIT CONTINUED

PHOENIX LIFE ASSURANCE LIMITED

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of template S.02.01.02:

- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of template S.12.01.02:

- Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0110 to R0130 – Amount of transitional measure on technical provisions

The following elements of template S.22.01.21:

- Column C0030 – Impact of transitional measure on technical provisions
- Row R0010 – Technical provisions
- Row R0090 – Solvency Capital Requirement

The following elements of template S.23.01.01:

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.01.01:

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

ABBEY LIFE ASSURANCE COMPANY LIMITED

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

PA(GI) LIMITED

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

The following elements of template S.23.01.01:

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.01.01:

- Row R0310: SCR.

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Basis of preparation

The QRTs and the disclosures in the SFCR have been prepared in accordance with all applicable PRA Rules and Solvency II regulations, hereafter referred to as 'the regulations'.

Some sections of the SFCR require information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles ('GAAP') as presented in the financial statements. The Phoenix Group consolidated financial statements and the financial statements of the insurance subsidiaries are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB').

The SFCR is presented in pound sterling rounded to the nearest million, which is consistent with the presentation in the IFRS consolidated financial statements of PGH.

The SFCR excludes disclosures required by the regulations which are not applicable to the PGH Group and its insurance subsidiaries, which include, but are not limited to:

- information on non-life business as the Group only has life business;
- information on Solvency II Insurance Special Purpose Vehicles ('SPVs');
- information on the Volatility Adjustment and transitional measures on risk-free interest rates as none of the insurance subsidiaries in the Group have applied these measures;
- information on significant branches within the meaning of the regulations; and
- Standard Formula and full Internal Model QRTs and related disclosures as the PGH Group SCR at 31 December 2017 was calculated partially on a Standard Formula and partially on an Internal Model basis. Standard Formula QRTs continue to apply for ALAC at 31 December 2017.

Comparatives are included throughout the document, where required by the regulations.

Certain financial information in the SFCR has been rounded. As a result of the rounding, the totals in the tables presented in this SFCR may vary slightly from the data presented in the QRTs in Appendices 1-6.

Section A
Business and performance

IN THIS SECTION

BUSINESS AND PERFORMANCE

Section A
Business and performance continued

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Information regarding the Group and its insurance subsidiaries

PGH has a Premium Listing on the London Stock Exchange, and is a member of the FTSE 250 Index.

All insurance subsidiaries are private companies limited by shares incorporated, registered and domiciled in the UK.

They are all regulated by the PRA and the Financial Conduct Authority ('FCA'). Some of PGH's non-insurance subsidiaries are also regulated by the FCA. The PRA's and FCA's contact details are provided below:

Bank of England
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Financial Conduct Authority
25 The North Colonnade
London
E14 5HS

The name and contact details of the external auditors for PGH and its insurance subsidiaries are provided below:

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

A.1.2 Legal and organisational structure of the Group

A.1.2.1 Legal structure of the Group

As at 31 December 2017, no shareholder of PGH held a direct or indirect holding representing 10% or more of the capital or voting rights and as a result there are no qualifying holdings to be disclosed.

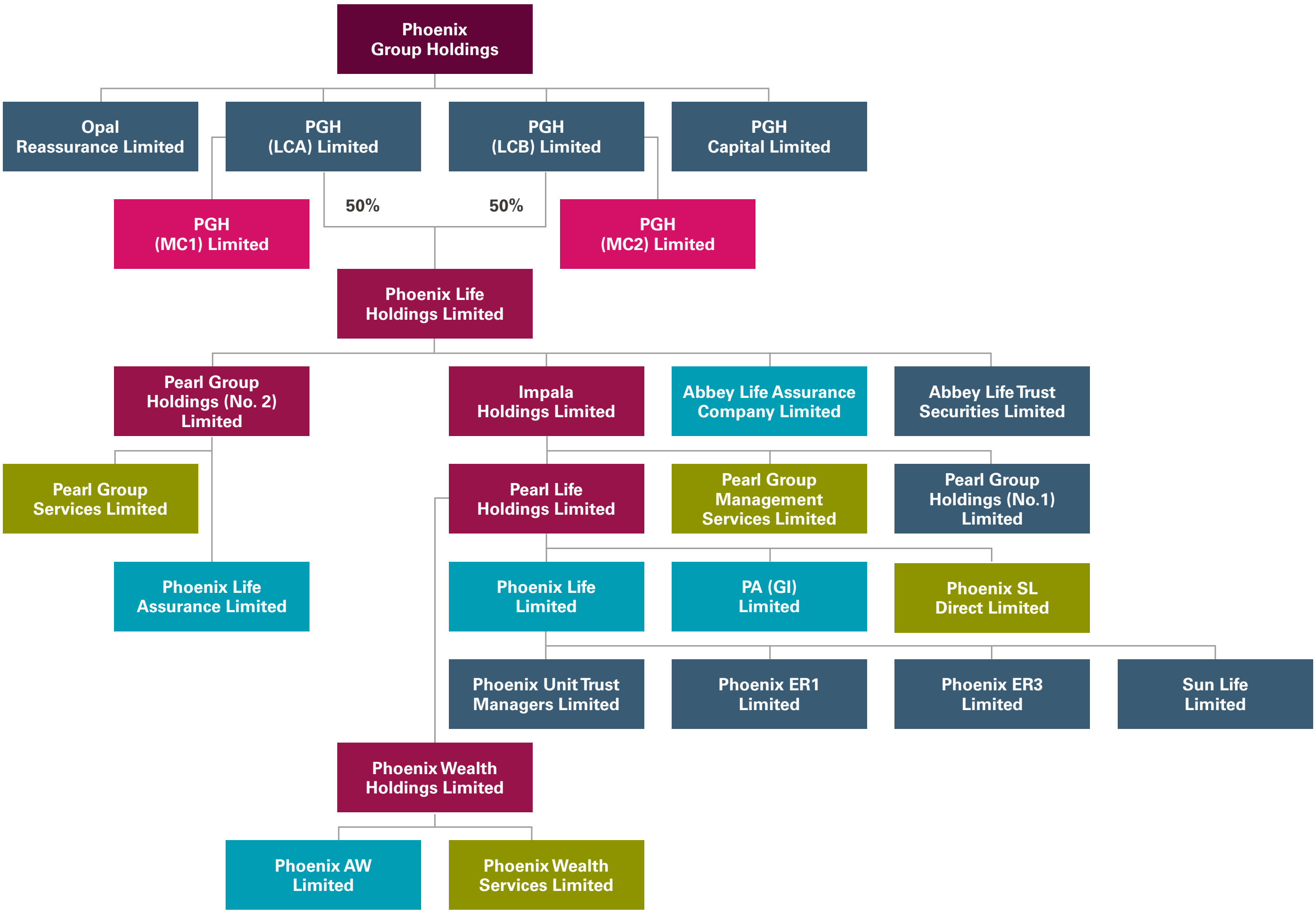
The following notifications as at 31 December 2017 have been disclosed under the FCA's Disclosure Guidance and Transparency Rules in respect of notifiable interests exceeding 3% of the voting rights of the issued share capital.

As at 31 December 2017	% of total voting rights
Artemis Investment Management LLP	9.98
Standard Life Aberdeen plc	5.24
Prudential plc	7.99
BlackRock Inc.	5.15
Ameriprise Financial Inc	5.11
Aviva plc	5.04

A simplified Group structure chart as at 31 December 2017 is provided below, and shows PGH's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED
A.1 BUSINESS CONTINUED
A.1.2 Legal and organisational structure of the Group continued
A.1.2.1 Legal structure of the Group continued



- Insurance holding companies
- Management services
- Phoenix Group Holdings – the ultimate EEA parent undertaking
- Financial institutions
- UK Solvency II regulated insurance companies
- Other companies

A complete listing of all the entities in the Group is included in Appendix 1.6.

Phoenix AW Limited's authorisation was withdrawn at its own request with effect from 9 March 2018. At this point the entity falls under 'other companies'.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 Legal and organisational structure of the Group continued

A.1.2.2 Legal structure of the insurance subsidiaries

The position of PLL, PLAL, PAWL, ALAC and PA(GI) in the Group structure is shown in the chart above. The persons who were direct or indirect holders of qualifying holdings (i.e. where a shareholder has 10% of more of voting rights) in each insurance subsidiary as at 31 December 2017 are set out in the structure chart. There were no significant changes during the year.

A.1.2.3 Material undertakings of the Group

A list of the material related undertakings and their immediate parent undertakings within the PGH Group are provided below. All undertakings are 100% owned by their immediate parent undertakings, except Phoenix Life Holdings Limited, which is jointly owned by its immediate parent undertakings. The table below also shows the subsidiaries of the Group's regulated insurance companies.

Entity name	Legal form	Type of undertaking[1]	Immediate parent undertaking	Country of incorporation[1]
Phoenix Group Holdings	Company limited by shares	Insurance Holding Company	n/a	Cayman Islands
Opal Reassurance Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings	Bermuda
PGH (LCA) Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings	GB
PGH (LCB) Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings	GB
PGH Capital Limited	Company limited by shares	Other related undertaking	Phoenix Group Holdings	GB
PGH (MC1) Limited	Company limited by shares	Financial institution	PGH (LCA) Limited	GB
PGH (MC2) Limited	Company limited by shares	Financial institution	PGH (LCB) Limited	GB
Phoenix Life Holdings Limited	Company limited by shares	Insurance holding company	PGH (LCA) Limited PGH (LCB) Limited	GB
Pearl Group Holdings (No.2) Limited	Company limited by shares	Insurance holding company	Phoenix Life Holdings Limited	GB
Impala Holdings Limited	Company limited by shares	Insurance holding company	Phoenix Life Holdings Limited	GB
Abbey Life Assurance Company Limited	Company limited by shares	Life insurance undertaking	Phoenix Life Holdings Limited	GB
Abbey Life Trust Securities Limited	Company limited by shares	Other related undertaking	Abbey Life Assurance Company Limited	GB
Pearl Group Services Limited	Company limited by shares	Ancillary services undertaking	Pearl Group Holdings (No.2) Limited	GB
Phoenix Life Assurance Limited	Company limited by shares	Life insurance undertaking	Pearl Group Holdings (No.2) Limited	GB
Pearl Life Holdings Limited	Company limited by shares	Insurance holding company	Impala Holdings Limited	GB
Pearl Group Management Services Limited	Company limited by shares	Ancillary services undertaking	Impala Holdings Limited	GB
Pearl Group Holdings (No.1) Limited	Company limited by shares	Other related undertaking	Impala Holdings Limited	GB
Phoenix Life Limited	Company limited by shares	Life insurance undertaking	Pearl Life Holdings Limited	GB
PA (GI) Limited	Company limited by shares	Non-life insurance undertaking	Pearl Life Holdings Limited	GB
Phoenix SL Direct Limited (formerly AXA Sun Life Direct Limited)	Company limited by shares	Ancillary services undertaking	Pearl Life Holdings Limited	GB
Phoenix Wealth Holdings Limited (formerly Winterthur Life UK Holdings Limited)	Company limited by shares	Insurance holding company	Pearl Life Holdings Limited	GB
Phoenix Unit Trust Managers Limited	Company limited by shares	UCITS management company	Phoenix Life Limited	GB
Phoenix ER1 Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Phoenix Life Limited	GB
Phoenix ER3 Limited	Company limited by shares	Non-regulated undertaking carrying out financial activities	Phoenix Life Limited	GB
SunLife Limited	Company limited by shares	Other related undertaking	Phoenix Life Limited	GB
Phoenix AW Limited (formerly AXA Wealth Limited ('AWL'))	Company limited by shares	Life insurance undertaking[2]	Phoenix Wealth Holdings Limited (formerly Winterthur Life UK Holdings Limited)	GB
Phoenix Wealth Services Limited (formerly AXA Wealth Services Limited)	Company limited by shares	Ancillary services undertaking	Phoenix Wealth Holdings Limited (formerly Winterthur Life UK Holdings Limited)	GB

1 Type of undertaking and country of incorporation as defined for purposes of the QRT S.32.01, Undertakings in the scope of the Group (see Appendix 1.6).

2 PAWL's authorisation was withdrawn at its own request with effect from 9 March 2018. At this point the entity is treated as an 'other related undertaking'.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 Legal and organisational structure of the Group continued

A.1.2.4 Governance and organisation

A clear organisational structure, with documented delegated authorities and responsibilities from the PGH Board and onwards to the Life Companies' Boards is in place.

The PGH Board is responsible for managing the overall direction and performance of the PGH Group, including the performance of the subsidiary companies. It is also ultimately accountable for compliance with the Solvency II requirements. Certain matters must be referred to the PGH Board in accordance with the PGH Board's 'Matters Reserved'.

The responsibility for managing the subsidiary companies rests with the respective companies' Boards, subject to the restrictions which are set by the PGH Board, as established within the 'Matters Reserved' by the PGH Board.

Further information on the governance structure is provided in section B.

A.1.3 Material Lines of Business and geographical areas

The Group operates four material lines of insurance business based on the characteristics of the different products administered. All business is underwritten in the United Kingdom, with the exception of some business written in a registered branch in the Republic of Ireland which is not material to the Group. The table below shows the relevant Lines of Business ('LoB') for each insurance subsidiary.

	PLL	PLAL	ALAC	PAWL
Insurance with-profit participation	✓	✓	✓	–
Index-linked and unit-linked insurance	✓	✓	✓	✓
Health insurance	✓	–	✓	–
Other life insurance	✓	✓	✓	✓

PAWL no longer writes any long-term business or has any material LoB, as it's authorisation was withdrawn at its own request from 9 March 2018.

PA(GI) also no longer writes general insurance business or has any material LoB.

Reinsurance arrangements are in place with reinsurers external to the Phoenix Group to cover blocks of immediate annuities, some permanent health, critical illness, term assurance and unitised with-profit contracts. In addition reinsurance arrangements exist amongst group companies as explained further in this document.

A.1.3.1 Insurance with-profit participation

The insurance with-profit participation LoB comprises of conventional with-profit products and unitised with-profit products.

A with-profit, or participating, policy is one where the policyholder participates in the profits of the fund. An insurer aims to distribute part of its profit to the with-profit policyholders in the form of bonuses. The value of such distributions is based on, among other things, the performance of the underlying pool of assets. Policy pay-outs are generally subject to a minimum guarantee and are 'smoothed' to lessen the impact of changes in the underlying value of the assets in the short term. With-profit products are primarily either endowments or deferred annuities. Endowments may be single or regular premium policies with minimum guaranteed sums on death or maturity, while deferred annuities are accumulation vehicles for pensions with beneficial tax treatment at retirement age.

All with-profit policies are entitled to potential incremental bonuses throughout the life of the policy as well as a terminal, or final, bonus. The terminal bonus represents the policyholder's final share of the assets of the fund. Any available surplus held in a with-profit fund may only be used to meet the requirements of the fund itself or be distributed in defined proportions to the fund's policyholders and the Life Companies' shareholders. For example, the traditional with-profit fund with a 90:10 policyholder/shareholder split, entitles policyholders to a 90% share, and its shareholders to a 10% share of the profits in any bonus declared.

In certain 'supported' with-profit funds, the shareholders provide capital support to the fund. The capital is exposed to all economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'.

The majority of the Group's with-profit funds are 90:10 funds, with a small number of 100:0 funds.

A.1.3.2 Index-linked and unit-linked insurance

The value of unit-linked products is linked directly to the performance of the underlying assets. The policyholder typically bears all of the investment risk with unit-linked products. The benefits attributable to the policyholder are determined by reference to the investment performance of a specified pool of assets. The policyholder elects which units to purchase within a diversified open-ended fund. Unit-linked funds include personal and group pension plans and feature regular and single premium savings. They operate on a similar basis to mutual funds, with a fee often charged based on the value of the funds.

Customers do not legally own the underlying assets or the units themselves; they own a contract (the policy) with a right to a benefit. The value of that benefit is determined by reference to the price of their chosen fund.

The Group's unit-linked business comprises contracts with and without options and guarantees.

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.3 Material Lines of Business and geographical areas continued

A.1.3.3 Health insurance

The Group's health insurance business comprises individual and group income protection products, income protection riders and standalone critical illness products, and includes contracts with and without options and guarantees.

A.1.3.4 Other life insurance

This LoB includes all remaining underwritten business and comprises of conventional non-profit products, protection policies such as life and disability policies which pay out lump sum on death or disability, group life, level and fixed escalation annuities in payment, deferred annuities and index-linked annuities.

The majority of the business included in this LoB is annuity business. Annuities generally provide a fixed specified income stream over the life of the policyholder. Annuities are mainly written within non-profit funds. For these annuities, the Life Companies are exposed to all investment and demographic risks and are generally entitled to retain 100% of the incremental investment returns from the assets backing this business.

Also included in this LoB is the SunLife branded whole of life protection products underwritten by PLL. SunLife offers, whole of life cover direct to customers aged 50 and over through an in-house distribution company and through other distribution partners. The main SunLife products are: the Guaranteed Over 50 plan which provides a cash lump sum upon death, which is typically used to cover funeral costs; and regular premium Funeral Plans, which are whole of life insurance policies which back the financial liability that third party funeral providers incur when they sell funeral packages to individuals.

A.1.4 Significant business and other events

The following significant events took place during 2017 and up to the date of this report.

A.1.4.1 PLL reinsurance with ALAC

On 30 December 2016, the Phoenix Group (PLHL) acquired 100% of the issued share capital of ALAC.

From 29 December 2017, substantially all of the risks and rewards of the existing and new business of ALAC (that were not subject to existing reassurance arrangements and with the exception of the unit-linked funds and with-profits funds) was transferred to PLL by way of two reinsurance agreements.

The first treaty relates to annuity policies within the Matching Adjustment portfolio and the second treaty relates to all other business in-scope of the reinsurance transactions. PLL received a premium from ALAC of £2,478 million.

Certain external reinsurance treaties and a deed of covenant were also novated as part of the transaction.

On 29 December 2017, PLL received a net capital contribution of £155 million from its parent Pearl Life Holdings Limited ('PeLHL') representing £305 million capital support required to facilitate the transaction, net of an assumed additional dividend of £150 million.

A.1.4.2 Part VII transfer of PAWL to PLL

On 8 December 2017, all of the long-term business and the majority of the assets and liabilities of PAWL were transferred to PLL for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ('the Scheme'). It was approved by the High Court on 21 November 2017. The effective date of the transaction was 30 September 2017. The Scheme replaced the reinsurance agreements amongst these companies.

Following the Part VII transfer PAWL's authorisation was withdrawn at its own request with effect from 9 March 2018.

A.1.4.3 ALAC Internal Model application

An application to expand the Group's Internal Model to include ALAC was submitted to the PRA during the fourth quarter of 2017 and was approved by the PRA on 1 March 2018. At 31 December 2017, the calculation of the ALAC SCR remained on Standard Formula which is the basis of this report. The SCR of PLL, including in respect of those risks reinsured from ALAC was calculated using the Internal Model.

A.1.4.4 Financial Conduct Authority ('FCA') thematic reviews

On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. Following completion of the review, ALAC is subject to additional investigations. Specifically, the FCA is exploring whether remedial and/or disciplinary action is necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, ALAC is being investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. The FCA has confirmed that these investigations have been commenced in order to enable the FCA to establish the reasons for the practices within firms and determine whether customers have suffered detriment as a result. No conclusion has been reached as to whether there have been any breaches of regulatory requirements. The commencement of investigations itself therefore cannot be taken to indicate that disciplinary action against ALAC will result nor does it indicate that a penalty will inevitably be imposed or that redress will be payable.

In addition, on 14 October 2016, the FCA published its thematic review of non-advised annuity sales. In its findings, the FCA identified concerns in a small number of firms (including ALAC) relating to significant communications that took place orally, usually on the telephone. The FCA also identified other areas of possible concern, including in relation to the recording and maintenance of records of calls. The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised.

From 29 December 2017, the risks associated with these thematic reviews were reinsured into PLL, which benefits from an indemnity from PLHL by way of a contingent subscription agreement.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.4 Significant business and other events continued

A.1.4.4 ALAC Annuity sales practice review continued

The Group has recognised a provision of £54 million (comprised of £39 million in PLL and £15 million in PLHL) as at 31 December 2017 (2016: £25 million) in relation to its best estimate of its obligations arising as a result of ALAC's past practices in the areas covered by the two thematic reviews. Any resultant outflow of economic benefits is subject to uncertainty given the absence of final findings from the FCA review procedures, which would determine the extent to which the FCA may require ALAC to carry out remediation activities or impose financial penalties.

Under the terms of the Group's acquisition of ALAC, Deutsche Bank has provided PLHL with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in ALAC as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175 million and it applies to all regulatory fines and 80 to 90 % of the costs of customer remediation. The indemnity would be expected to mitigate the Group's costs in the event of a crystallisation of exposures deemed not to trigger the recognition of a provision based on current information, or deterioration in management's estimate of the liabilities associated with present obligations.

At 31 December 2017, a reimbursement asset of £23 million (2016: £nil) has been recognised in other receivables under this indemnity.

A.1.4.5 Transfer of Abbey Life Staff Pension Scheme

The obligations of ALAC to the Abbey Life Staff Pension Scheme ('Abbey Scheme') were transferred to PeLHL on 30 June 2017 for a consideration of £114 million. Upon transfer, ALAC de-recognised a deficit of £90 million and recognised a loss of £24 million within administration expenses. The transfer has no impact on the PGH Group position.

A.1.4.6 PA(GI) provisions

In 2015, PA(GI), was subject to a Companies Court judgement that directed that PA(GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA(GI) until 2006. As a consequence, PA(GI) is liable for complaint handling and redress with regard to the complaints. The PA(GI) provision of £40 million (2016: £33 million) represents the Group's best estimate of the likely future costs. However, this is subject to a number of risks and uncertainties including volumes of future complaints, the rates by which those complaints are upheld and the average redress value. At 31 December 2017, a reimbursement asset of £32 million (2016: £nil) has been recognised in other receivables in connection with the Group's exposure to these complaints.

This represents recoveries due from third parties under contractual arrangements. Recoveries of £7 million (2016: £nil) have been received during the year in cash.

A.1.4.7 Shareholder borrowings

Phoenix has taken significant steps in recent years to both reduce the level of debt within the Group and simplify its corporate structure. This progress continued in 2017 with the issue by PGH of a £450 million subordinated Tier 3 bond due 2022, in two tranches of £300 million in January 2017 and £150 million in May 2017. The proceeds were used to repay senior bank debt and £178 million of the Group's senior bonds which were redeemed at a premium of £25 million.

In July 2017, US$500 million Tier 2 bonds with a coupon of 5.375% were issued by PGH, due 2027. The proceeds were used to repay senior bank debt that does not count as regulatory capital in the PGH Solvency II capital calculation.

The remaining £166 million outstanding balance on the senior bank debt was repaid in August 2017.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

A summary of the Group's and each insurance subsidiary's performance during the year ended 31 December 2017 is presented below and in sections A.3 and A.4. The information is presented on an operating profit basis and reconciled to the IFRS result in line with financial statements.

Further details on the Group's operating profit metric is included below.

Year ended 31 December 2017	Section reference	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Operating profit/(loss)	**A.2.1**	**210**	**25**	**154**	**–**	**–**	**(21)**	**368**
Investment return variances and economic assumption changes on long-term business	A.3.1	(40)	4	56	–	–	(26)	(6)
Variance on owners' funds	A.3.1	(24)	(48)	–	–	–	(15)	(87)
Total investment return variances and economic assumption changes	**A.3.1**	**(64)**	**(44)**	**56**	**–**	**–**	**(41)**	**(93)**
Other income and expense items:								
Amortisation of acquired-in-force business and other intangibles	A.4.1	(25)	–	–	–	–	(94)	(119)
Other non-operating items	A.4.1	(171)	(4)	35	(53)	18	95	(80)
Finance costs attributable to owners	A.4.1	(15)	–	–	–	–	(89)	(104)
Total other income and expenses	**A.4.1**	**(211)**	**(4)**	**35**	**(53)**	**18**	**(88)**	**(303)**
IFRS (loss)/profit before tax attributable to owners		**(65)**	**(23)**	**245**	**(53)**	**18**	**(150)**	**(28)**

1 Other items comprise performance of other entities in the PGH Group and impacts of consolidation adjustments at the PGH Group level.

ALAC was acquired by the Group on 30 December 2016, as a result no comparatives are provided in the table below.

Year ended 31 December 2016	Section reference	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Operating profit/(loss)	**A.2.1**	**400**	**(36)**	**–**	**1**	**–**	**(14)**	**351**
Investment return variances and economic assumption changes on long-term business	A.3.1	(140)	(79)	–	–	–	12	(207)
Variance on owners' funds	A.3.1	24	(12)	–	–	–	(17)	(5)
Total investment return variances and economic assumption changes	**A.3.1**	**(116)**	**(91)**	**–**	**–**	**–**	**(5)**	**(212)**
Other income and expense items:								
Amortisation of acquired-in-force business and other intangibles	A.4.1	(20)	–	–	–	–	(62)	(82)
Other non-operating items	A.4.1	20	(4)	–	128	(34)	(205)	(95)
Finance costs attributable to owners	A.4.1	(15)	–	–	–	–	(75)	(90)
Total other income and expenses	**A.4.1**	**(15)**	**(4)**	**–**	**–**	**–**	**(342)**	**(267)**
IFRS (loss)/profit before tax attributable to owners		**269**	**(131)**	**–**	**129**	**(34)**	**(361)**	**(128)**

1 Other items comprise performance of other entities in the PGH Group and impacts of consolidation adjustments at the PGH Group level.

Operating profit

The PGH Group reports a non-GAAP measure of performance being operating profit. Operating profit is used as a performance measure of the underwriting activities of the Group as well as a key metric to manage the business. Operating profit is considered an appropriate measure of the underlying performance of the Group's business as it excludes the impact of short-term economic volatility and other one-off items.

This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. It also includes the shareholder share of bonus of the with-profit funds.

Operating profit includes the effects of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Group's core operating activities (for example, actuarial modelling enhancements and data reviews). The operating profit excludes investment return variances and economic assumption changes, non-operating items considered to fall outside of the course of the Group's normal operations and shareholder tax.

Further details regarding operating profit are set out in section B1 and B1.2 of the PGH Group Annual Report and Accounts for the year ended 31 December 2017.

Investment return variances and economic assumption changes

Variances between actual and expected investment returns, and the impact of changes in economic assumptions on the valuation of liabilities are accounted for outside of the operating profit and presented in profit before tax attributable to owners.

Other income and expenses

Other income and expense items which are excluded from operating profit comprise:

- amortisation and impairment of intangible assets;
- finance costs attributable to owners; and
- non-operating items such as financial impacts of mandatory regulatory change, integration, restructuring or other significant one-off projects, and any other items which, in Management's view should be disclosed separately by virtue of their nature or incidence.

Information on premiums, claims and expenses is not used as a primary measure of underwriting performance by the Group, however the relevant information split by LoB is presented in the S.05.01.02 QRT included in Appendix 1.2 for PGH Group, Appendix 2.2 for PLL, Appendix 3.2 for PLAL, Appendix 4.2 for ALAC, and Appendix 5.2 for PAWL.

A.2.1 Analysis of operating profit

Operating profit incorporates an expected return. The expected return on investments is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on risk-free yields at the start of each financial year.

The long-term risk-free rate used as the basis for deriving the long-term investment return is set by reference to the EIOPA swap curve plus 10 basis points ('bps'). A risk premium of 350bps is added to the risk-free yield for equities, 250bps for properties, 150bps for other fixed interest assets and 50bps for gilts.

The principal assumptions underlying the calculation of the long-term investment return are:

	2017 %	2016 %
Equities	5.0	5.8
Properties	4.0	4.8
Gilts	2.0	2.8
Other fixed interest	3.0	3.8

An analysis of the overall operating profit split by material LoB is presented in the table below. Further detail regarding each entity and comparatives are provided in sections A.2.1.1 to A.2.1.6.

Year ended 31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Insurance with-profit participation	53	(46)	–	–	–	(30)	(23)
Index-linked and unit-linked insurance	36	–	52	–	–	–	88
Health insurance	–	–	–	–	–	–	–
Other life insurance (predominantly annuities and protection business)	114	68	89	–	–	14	285
Total operating profit by Line of Business	**203**	**22**	**141**	**–**	**–**	**(16)**	**350**
Long-term return on owners' funds and NP surplus assets	7	3	13	–	–	(5)	18
Total operating profit/(loss)	**210**	**25**	**154**	**–**	**–**	**(21)**	**368**

1 Other items comprise performance of other entities in the PGH Group and impacts of consolidation at the PGH Group level.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED
A.2 UNDERWRITING PERFORMANCE CONTINUED
A.2.1 Analysis of operating profit continued
A.2.1.1 Operating profit – PLL

An analysis of the operating profit for PLL split by material LoB is presented below. Substantially, all of the operating profit arises in the UK.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Insurance with-profit participation	53	50
Index-linked and unit-linked insurance	36	9
Health insurance	–	–
Other life insurance (predominantly annuities and protection business)	114	219
Total operating profit by Line of Business	**203**	**278**
Impact of changes in IFRS reserving methodology	–	109
Long-term return on owners' funds and NP surplus assets	7	13
Total operating profit	**210**	**400**

The operating profit of £53 million (2016: £50 million) on insurance with-profit participation business represents the shareholders' one-ninth share of the total bonuses of the 90:10 with-profit funds and is in line with the comparative period.

The operating profit on index-linked and unit-linked insurance of £36 million (2016: £9 million) largely arises from margins earned on unit-linked business of £46 million (2016: £31 million) reflecting an increase due to the reinsurance and subsequent transfer of the PAWL business into PLL, effective 1 November 2016. In addition, operating losses arose of £(6) million (2016: £(16) million) due to demographic experience variances during the period and a loss of £(6) million (2016: £(4) million) following strengthening of persistency assumptions.

The operating profit on other life insurance of £114 million, (2016: £219 million) is generated from spreads earned on annuities and the release of margins of £43 million (2016: 34 million), favourable non-economic experience variances of £13 million (2016: £4 million) principally as a result of longevity experience, the positive impact of updating longevity and mortality base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation ('CMI') 2016 core projection tables of £39 million (2016: £37 million) and the benefit of updates made to expense assumptions of £36 million (2016: £8 million) incorporating operational synergies following the integration of the AXA Wealth business. 2016 includes the one off effects of £55 million in relation to recognising additional liquidity premium on Equity Release Mortgage ('ERM') assets and £46 million in relation to a change in the deferred annuities reserving basis.

There was a £109 million operating profit in 2016 due to the changes in IFRS actuarial reserving methodologies.

The long-term return on owners' funds of £7 million (2016: £13 million) reflects the asset mix, which is primarily cash-based assets, fixed interest securities and interest receivable on loans to Group companies.

BUSINESS AND PERFORMANCE CONTINUED
A.2 UNDERWRITING PERFORMANCE CONTINUED
A.2.1 Analysis of operating profit continued
A.2.1.2 Operating profit – PLAL
An analysis of the operating profit for PLAL split by material LoB is presented below. All of the operating profit arises in the UK.

	Year ended 31 December 2017 £m	**Year ended 31 December 2016 £m**
Insurance with-profit participation		
Unsupported with-profit funds	31	31
With-profit funds where internal capital support is provided	(77)	(72)
Index-linked and unit-linked insurance	–	1
Health insurance	–	–
Other life insurance (predominantly annuities and protection business)	68	44
Total operating profit by Line of Business	**22**	**4**
Impact of changes in IFRS reserving methodology	–	(50)
Long-term return on owners' funds and NP surplus assets	3	10
Total operating profit/(loss)	**25**	**(36)**

The unsupported with-profit fund operating profit of £31 million (2016: £31 million) represents the shareholders' one-ninth share of the policyholder bonuses, and is in line with the comparative period.

The with-profit funds where internal capital support has been provided generated an operating loss of £(77) million (2016: £(72) million loss). The loss is principally driven by the strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and the associated assumptions in relation to late retirements.

The operating profit of £68 million (2016: £44 million) on other life insurance is generated from spreads earned on annuities, investment return, release of margins, non-economic experience variances and assumption changes, and reflects the £35 million (2016: £39 million) positive impact of updating longevity base and improvements assumptions to reflect the most recent CMI 2016 core projection tables.

There was a £(50) million loss in 2016 due to changes in the IFRS actuarial reserving methodologies.

The long-term return on owners' funds of £3 million (2016: £10 million) reflects the asset mix, which is primarily cash-based assets, fixed interest securities and interest receivable on loans to Group companies.

BUSINESS AND PERFORMANCE CONTINUED
A.2 UNDERWRITING PERFORMANCE CONTINUED
A.2.1 Analysis of operating profit continued
A.2.1.3 Operating profit – ALAC
An analysis of the operating profit for ALAC split by material LoB is presented below. All of the operating profit arises in the UK. No comparatives are included as ALAC was acquired by the Group on 30 December 2016. ALAC's stand-alone 31 December 2016 SFCR includes full year 2016 underwriting performance, being the operating profit after tax generated from LoBs for life obligations.

Year ended 31 December 2017	2017 £m
Index-linked and unit-linked insurance	52
Other life insurance (predominantly annuities and protection business)	89
Total operating profit by Line of Business	**141**
Long-term return on owners' funds and NP surplus assets	13
Total operating profit	**154**

The operating profit on index-linked and unit-linked insurance of £52 million principally arises from margins earned on unit-linked business of £46 million and the benefit of updates made to expense assumptions of £6 million due to operational synergies following the integration of the business into the Group.

The operating profit of £89 million on other life insurance is generated from spreads earned on annuities and the release of margins of £23 million, the positive impact of updating longevity and mortality base and improvement assumptions to reflect latest experience analyses and the most recent CMI 2016 core projection tables of £27 million, the benefit of updates made to expense assumptions of £20 million due to operational synergies following the integration of the business into the Group and £16 million arising from modelling enhancements.

The long-term return on return on owners' funds of £13 million reflects the asset mix which is primarily cash-based assets and fixed interest securities.

A.2.1.4 Operating profit – PAWL
From the date of acquisition by the Group until the Part VII transfer of long-term business into PLL on 30 September 2017 substantially all risks were reinsured to PLL and therefore there is no operating profit to report in respect of PAWL.

A.2.1.5 Operating profit – PA(GI)
PA(GI) no longer writes insurance business and accordingly has nothing to report in terms of underwriting performance.

The movement during the reporting period for the provision detailed in section A.1 is presented split by LoB in S.05.01.02 QRT included in Appendix 6.2. The only relevant LoB is miscellaneous financial loss.

A.2.1.6 Operating profit – Other Group entities and consolidation adjustments
An analysis of the operating profit for other group entities and group consolidation adjustments is presented below. All of the operating profit arises in the UK.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Service Companies' operating profit	21	27
Holding companies' costs	(20)	(4)
Other entities' operating (loss)	–	(3)
Consolidation adjustments	(22)	(34)
Total operating (loss)	**(21)**	**(14)**

The operating profit for the Service Companies of £21 million (2016: £27 million) comprises income from the Life and holding companies in accordance with the respective MSAs less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period reflects the impact of Life Company run-off.

Holding companies' costs were £(20) million (2016: £(4) million). The increase compared to the prior period principally reflects a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transactions entered into with PLL in the second half of 2016, the recognition of the net interest cost on the Abbey Life Pension Scheme and the impact of higher project recharges from the Service Companies.

Consolidation adjustments of £(22) million (2016: £(34) million) largely relate to the elimination of intra-group transactions, including transactions with the Group pension schemes.

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

A.3.1 Analysis of investment return variances and economic assumption changes

Investment return variances and economic assumption changes represent the impact of short-term volatility and comprise:

Year ended 31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Investment return variances and economic assumption changes on long-term business	(40)	4	56	–	–	(26)	(6)
Variance on owners' funds	(24)	(48)	–	–	–	(15)	(87)
Total investment return variances and economic assumption changes	**(64)**	**(44)**	**56**	**–**	**–**	**(41)**	**(93)**

Year ended 31 December 2016	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Investment return variances and economic assumption changes on long-term business	(140)	(79)	–	–	–	12	(207)
Variance on owners' funds	24	(12)	–	–	–	(17)	(5)
Total investment return variances and economic assumption changes	**(116)**	**(91)**	**–**	**–**	**–**	**(5)**	**(212)**

1 Other items comprise performance of other entities in the PGH Group and impacts of consolidation at the PGH Group level.

The investment performance measure used by the Group and each insurance subsidiary is investment return variances and economic assumption changes. These represent the impact of short-term volatility. Further details including comparatives for the Group and each insurance subsidiary are set out below.

A.3.1.1 Analysis of investment return variances and economic assumptions changes – PLL

The negative investment return variances and economic assumption changes on long-term business of £(40) million (2016: £(140) million) are primarily driven by losses on hedging positions held by the Company following equity market gains in the period. The Life Company's exposure to equity movements arising from future with-profit bonuses and future unit-linked charges is hedged to benefit the regulatory capital positon. The impact of equity market movements on the value of hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not, Losses on these hedging positions have been partly offset by the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets.

Investment return variances in 2016 also included a £(66) million loss resulting from c.80 bps reduction (2017: c.8 bps reduction) in fixed interest yields during that period, increasing the margin held in respect of longevity risk.

The negative variance on owners' funds of £(24) million (2016: £24 million positive) is principally driven by interest rate swaption positions held in the shareholder fund. Such positions are held to hedge the impact of interest rate risk on the regulatory capital position. With swap yields remaining relatively stable during the period, option value associated with these contracts has fallen due to expected option expiry and reduced volatility.

A.3.1.2 Analysis of investment return variances and economic assumptions changes – PLAL

The investment return variances and economic assumption changes on long-term business are £4 million (2016: £(79) million) and include the minor effects of yield and credit spread changes during the period. Investment return variances in 2016 included an £(84) million loss resulting from c.80bps reduction (2017: c8 bps reduction) in fixed interest yields during that period, increasing the margin held in respect of longevity risk.

The negative variance on owners' funds of £(48) million (2016: £(12) million) is driven by losses on equity market hedging and interest rate swaption positions held by the Company in the shareholder fund for the same purposes as described in A.3.1.1.

A.3.1.3 Analysis of investment return variances and economic assumptions changes – ALAC

The positive investment return variances and economic assumption changes on long-term business of £56 million are primarily driven by small equity market gains, the tax benefits from the reinsurance transaction with PLL and updates to economic assumptions in de-risking products for corporate clients.

A.3.1.4 Analysis of investment return variances and economic assumptions changes – PAWL

The vast majority of the assets of PAWL relate to the unit-linked business where investment returns achieved are attributed to the policyholders. The nature of the other long-term business means there is no material component of return from investments during the year.

A.3.1.5 Analysis of investment return variances and economic assumptions changes – PA(GI)

Investment income of less than £1 million (2016: less than £1 million) arose from PA(GI)'s investment in collective investment schemes.

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

A.3.1.6 Analysis of investment return variances and economic assumptions changes – Other entities and consolidation adjustments

The negative investment return variances and economic assumptions changes on long-term business of £(27) million (2016: £12 million positive) are primarily driven by the elimination of intra-group items, including transactions between PLL and the Group's pension schemes.

The negative variance on owners' funds of £(15) million (2016; £(17) million) is driven by losses from equity hedging positions held in the Group holding companies.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.2 Investment income and expenses

The tables below present the actual investment income split by asset class and the component of such income for the PGH Group and each insurance subsidiary. Expenses are shown in total as they all relate to investment management fees.

The actual investment return includes investment returns for the benefit of both policyholders and shareholders.

A.3.2.1 Investment income and expenses – PGH Group

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PGH Group £m	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investment income by asset category:												
Fixed and variable rate income securities	594	504	–	–	–	–	93	1,467	–	–	**687**	**1,971**
Equities	–	–	147	10	–	–	488	108	5	3	**640**	**121**
Loans and receivables	9	16	–	–	–	–	2	28	–	–	**11**	**44**
Derivatives	2	–	–	–	–	–	(12)	1,131	–	–	**(10)**	**1,131**
Collective investment schemes	1	5	152	217	–	–	1,686	(80)	50	31	**1,889**	**173**
Participations	–	–	487	350	–	17	1,121	2,353	18	20	**1,626**	**2,740**
Investment property	–	–	–	–	22	21	8	35	–	–	**30**	**56**
Cash and deposits	4	7	–	–	–	–	–	–	1	1	**5**	**8**
Other assets	1	1	–	–	–	–	4	(7)	2	27	**7**	**21**
Investment return	**611**	**533**	**786**	**577**	**22**	**38**	**3,390**	**5,035**	**76**	**82**	**4,885**	**6,265**
Investment expenses											(160)	(129)
Net investment return after deduction of investment expenses											**4,725**	**6,136**

The net investment return of £4,725 million (2016: £6,136 million) for PGH Group reported above differs from the amount reported in the PGH Annual Report and Accounts for the year ended 31 December 2017 of £4,986 million (2016: £6,361 million) as the amount disclosed above excludes the investment return attributable to minority interests in consolidated investment funds.

The main driver for the decrease in investment return compared to the prior period is impact of relative movements in fixed interest yields on net fair value gains and losses from fixed and variable income securities, derivatives and collective investment schemes.

Amounts included as participations comprise collective investment undertakings where the Group holds a greater than 20% interest.

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued

A.3.2.2 Investment income and expenses – PLL

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PLL £m	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investment income by asset category:												
Fixed and variable rate income securities	309	342	–	–	–	–	88	973	–	–	**397**	**1,315**
Equities	–	–	12	10	–	–	5	21	–	–	**17**	**31**
Loans and receivables	28	21	–	–	–	–	2	23	–	–	**30**	**44**
Derivatives	–	–	–	–	–	–	(22)	735	–	–	**(22)**	**735**
Collective investment schemes	–	3	35	147	–	–	636	(472)	26	29	**697**	**(293)**
Participations	–	–	407	300	–	–	1,045	2,198	18	20	**1,470**	**2,518**
Investment property	–	–	–	–	22	21	15	27	–	–	**37**	**48**
Cash and deposits	2	3	–	–	–	–	–	–	1	1	**3**	**4**
Other assets	1	1	–	–	–	–	6	–	(4)	5	**3**	**6**
Investment return	**340**	**370**	**454**	**457**	**22**	**21**	**1,775**	**3,505**	**41**	**55**	**2,632**	**4,408**
Investment expenses											(88)	(105)
Net investment return after deduction of investment expenses											**2,544**	**4,303**

The net investment return of £2,544 million (2016: £4,303 million) includes investment returns for the benefit of policyholders and shareholders. The main driver for the decrease in investment return compared to the prior period is impact of relative movements in fixed interest yields on net fair value gains and losses from fixed and variable income securities, derivatives and collective investment schemes.

Amounts included as participations comprise collective investment undertakings where PLL holds a greater than 20% interest.

A.3.2.3 Investment income and expenses – PLAL

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total PLAL £m	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investment income by asset category:												
Fixed and variable rate income securities	129	161	–	–	–	–	20	483	–	–	**149**	**644**
Equities	–	–	3	–	–	–	38	87	5	3	**46**	**90**
Loans and receivables	13	17	–	–	–	–	–	6	–	–	**13**	**23**
Derivatives	–	–	–	–	–	–	10	417	–	–	**10**	**417**
Collective investment schemes	–	–	39	59	–	–	235	239	4	3	**278**	**301**
Participations	–	–	69	50	–	–	44	144	–	–	**113**	**194**
Investment property	–	–	–	–	–	–	(7)	9	–	–	**(7)**	**9**
Cash and deposits	2	4	–	–	–	–	–	–	–	–	**2**	**4**
Other assets	–	–	–	–	–	–	(2)	–	2	–	**–**	**–**
Investment return	**144**	**182**	**111**	**109**	**–**	**–**	**338**	**1,385**	**11**	**6**	**604**	**1,682**
Investment expenses											(26)	(23)
Net investment return after deduction of investment expenses											**578**	**1,659**

The net investment return of £578 million (2016: £1,659 million) includes investment returns for the benefit of policyholders and shareholders. The main driver for the decrease in investment return compared to the prior period is the impact of relative movements in fixed interest yields on net fair value gains and losses from fixed and variable income securities, derivatives and collective investment schemes.

Amounts included as participations comprise collective investment undertakings where PLAL holds a greater than 20% interest.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued
A.3.2.4 Investment income and expenses – ALAC

ALAC was acquired by the Group on 30 December 2016. The table below shows the full year comparatives.

	Investment income/(expenses) components											
	Interest £m		Dividend £m		Rent £m		Fair value gains and (losses) £m		Other £m		Total ALAC £m	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investment income by asset category:												
Fixed and variable rate income securities	111	164	–	–	–	–	4	298	–	–	**115**	**462**
Equities	–	–	132	131	–	–	445	651	–	–	**577**	**782**
Loans and receivables	2	–	–	–	–	–	–	–	–	–	**2**	**–**
Derivatives	–	–	–	–	–	–	15	10	–	–	**15**	**10**
Collective investment schemes	–	–	3	–	–	–	113	–	20	–	**136**	**–**
Participations	–	–	16	16	–	–	32	227	–	–	**48**	**243**
Investment property	–	–	–	–	–	1	–	–	–	–	**–**	**1**
Cash and deposits	(1)	–	–	–	–	–	–	–	–	–	**(1)**	**–**
Other assets	–	–	–	–	–	–	–	–	8	–	**8**	**–**
Investment return	**112**	**164**	**151**	**147**	**–**	**1**	**609**	**1,186**	**28**	**–**	**900**	**1,498**
Investment expenses											(12)	(14)
Net investment return after deduction of investment expenses											**888**	**1,484**

The net investment return of £888 million (2016: £1,484 million) includes investment returns for the benefit of policyholders and shareholders. The main driver for the decrease in investment return compared to the prior period is the impact of relative movements in fixed interest yields on net fair value gains and losses from fixed and variable income securities, derivatives and collective investment schemes.

Amounts included as participations comprise collective investment undertakings where ALAC holds a greater than 20% interest.

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED
A.3 INVESTMENT PERFORMANCE CONTINUED
A.3.2 Investment income and expenses continued
A.3.2.5 Investment income and expenses – PAWL

	Investment income/(expenses) components					
	Dividend £m		Fair value gains and (losses) £m		Total PAWL £m	
	2017	2016	**2017**	2016	**2017**	2016
Investment income by asset category:						
Fixed and variable rate income securities	–	–	–	1	**–**	**1**
Collective investment schemes	74	84	702	1,458	**776**	**1,542**
Investment return	**74**	**84**	**702**	**1,459**	**776**	**1,543**
Investment expenses					–	–
Net investment return after deduction of investment expenses					**776**	**1,543**

The net investment return of £776 million (2016: £1,543 million) principally comprises investment returns for the benefit of policyholders within the unit-linked funds. The main driver for the decrease in investment return compared to the prior period is the impact of relative movements in equity markets and fixed interest yields on net fair value gains and losses from collective investment schemes. Equity market gains and reductions in fixed interest yields were less pronounced in 2017 when compared with 2016, accounting for the decreased returns.

A.3.2.6 Investment income and expenses – PA(GI)
There was a small element (less than £1 million) of investment income arising from PA(GI)'s investment in collective investment schemes.

A.3.3 Information on securitisation
The Group has limited direct investments in securitisation vehicles within its shareholder and non-profit funds (excluding unit-linked funds) of £1,216 million as at 31 December 2017 (2016: £938 million). The total investment return on these investments is £27 million (2016: £90 million). A further breakdown is shown in the table below:

£m	PLL		PLAL		PAWL		ALAC		PA(GI)		PGH Group	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Investments in securitisation	1,179	646	24	126	–	–	13	166	–	–	1,216	938
Investment return	27	60	(1)	12	–	–	1	18	–	–	27	90

Any indirect exposures via the collectives' falls within the unit-linked and with-profit funds where such investments are held primarily for the benefit of the policyholders and are not deemed significant to the Group.

BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

Other material income and expense items are outlined below:

Year ended 31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Other income and expense items:							
Amortisation of acquired-in-force business and other intangibles	(25)	–	–	–	–	(94)	(119)
Other non-operating items	(171)	(4)	35	(53)	18	95	(80)
Finance costs attributable to owners	(15)	–	–	–	–	(89)	(104)
Total other income and expenses	**(211)**	**(4)**	**35**	**(53)**	**18**	**(88)**	**(303)**

1 Other items comprise performance of non- life entities in the Group and impacts of consolidation at the PGH Group.

Year ended 31 December 2016	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other[1] £m	PGH Group £m
Other income and expense items:							
Amortisation of acquired-in-force business and other intangibles	(20)	–	–	–	–	(62)	(82)
Other non-operating items	20	(4)	–	128	(34)	(205)	(95)
Finance costs attributable to owners	(15)	–	–	–	–	(75)	(90)
Total other income and expenses	**(15)**	**(4)**	**–**	**128**	**(34)**	**(342)**	**(267)**

1 Other items comprise performance of non-life entities in the Group and impacts of consolidation at the PGH Group.

A.4.1.1 Other income and expenses – PLL

Acquired in-force business of £388 million has been recognised on the IFRS balance sheet following various Part VII transfers into the Company from 2006 to 2012. This is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The remaining estimated life of the contracts is approximately 23 years. The amortisation charge for the period was £(15) million (2016: £(17) million loss). The balance of £(10) million (2016: £(3) million loss) relates to the amortisation charge for the period on a reinsurance asset of £102 million, which was recognised upon the inception of the reinsurance agreement with PAWL on 1 November 2016 and amortised on a basis which recognised the emergence of the economic benefits. The remaining £89 million was released on the Part VII transfer of PAWL into PLL, effective 30 September 2017.

Other non-operating items of £(171) million include £(131) million loss on inception of the reinsurance agreements with ALAC, £(38) million loss in respect of the PAWL Part VII transfer, £(8) million loss in respect of a commitment to the reduction of ongoing charges for workplace pension products and a £6 million profit from the internal transfer of annuity contracts to de-risk the with-profits funds. The £20 million in 2016 includes a £31 million gain following completion of the 'Buy-In' agreement with the PGL Pension Scheme ('PGL Scheme') and £26 million positive impact from a longevity swap agreement with RGA partly offset by the recognition of a £(22) million loss on the completion of the reinsurance agreement with PAWL, £(8) million loss in respect of a commitment to the reduction of ongoing charges for workplace pension products and £(6) million loss from the internal transfer of annuity contracts to de-risk the with-profits funds.

Finance costs attributable to owners of £(15) million (2016: £(15) million) relate to a £200 million 7.25% unsecured subordinated loan, of which further details are included in section D.1.2.

A.4.1.2 Other income and expenses – PLAL

Other non-operating items principally relate to a commitment to the reduction of ongoing charges for workplace pension products of £(4) million loss (2016: £(4) million loss).

A.4.1.3 Other income and expenses – ALAC

Other non-operating items of £35 million include a £100 million gain on the inception of the reinsurance agreements with PLL and a £7 million profit from the recapture of a longevity swap, partially offset by a £(34) million loss in respect of the recognition of a provision relating to the Companies' past annuity sales practices, a £(24) million loss following the transfer of the staff pension scheme to PLHL (see section A.1.4.5), and a £(14) million loss in respect of a commitment to the reduction of ongoing charges for workplace pension products.

A.4.1.4 Other income and expenses – PAWL

Other non-operating items of £(53) million relate to the loss recognised on Part VII transfer of PAWL's business to PLL, effective 30 September 2017 (see section A.1.4.2). The £128 million for 2016 included an advance claim amount of £283 million received upon inception of a reinsurance agreement with PLL and was based on the expected risks and future profits of the existing in scope business. PAWL subsequently recognised income and expenses of £69 million and £237 million respectively that had been previously deferred as all future risks and benefits transferred to PLL.

BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES CONTINUED

A.4.1 Other material income and expenses continued

A.4.1.5 Other income and expenses – PA(GI)

Other non-operating items are £18 million and include £(21) million of providing for claims and associated cost relating to historic creditor insurance underwritten by the Company, offset by the recognition of a reimbursement asset of £32 million in respect of recoveries due and £7 million recoveries received from third parties under contractual arrangements. The £(34) million for 2016 also relates to providing for such claims and the associated costs.

A.4.1.6 Other income and expenses – Other entities and consolidation adjustments

	Service Companies £m		Holding Companies £m		Other entities £m		Consolidation adjustments £m		Total other £m	
Year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Amortisation of acquired in-force business and other intangibles	–	–	–	–	–	(2)	(94)	(60)	(94)	(62)
Other non-operating items	–	5	(80)	(68)	–	(105)	175	(37)	95	(205)
Finance costs attributable to owners	–	–	(80)	(67)	(1)	(1)	(8)	(7)	(89)	(75)
Total other income and expenses	**–**	**5**	**(160)**	**(135)**	**(1)**	**(108)**	**73**	**(104)**	**(88)**	**(342)**

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. Following the acquisition of the AXA Wealth and Abbey Life businesses in 2016, a further £0.2 billion of acquired in-force business and other intangibles have been recognised in the Group's IFRS balance sheet.

Other non-operating items of £95 million include the impact of group consolidation adjustments of £175 million (including the elimination of gains and losses arising on intergroup reinsurance transactions and transfers of business), partly offset by a premium of £(25) million paid on redemption of £178 million principal of the senior unsecured bond, costs of £(21) million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses, costs of £(20) million in respect of short-term expense overruns arising from the AXA Wealth businesses prior to the completion of the implementation and other corporate costs.

Finance costs attributable to owners of £(89) million have increased by £14 million, comprising a £8 million decrease in bank finance costs driven by the repayment of bank debt; and a £22 million increase in other finance costs driven by hybrid debt issuances in the year, together with the impacts of the acceleration of deferred issue cost recognition on senior debt repaid in the year.

A.4.2 Leasing arrangements

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. The Group, PLL, PLAL and ALAC have operating leases both as lessor and as lessee. PAWL and PA(GI) have no lease arrangements.

There are no finance leases.

The Group and Life Companies primarily leases out investment properties as lessor. Rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

Where the Group is the lessee, payments made under operating leases net of any incentives received from the lessor are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The table below presents the operating lease rental income and expense for the period ended 31 December 2017 and 31 December 2016, which is included in total investment return and within administrative expense.

Year ended 31 December £m	PLL		PLAL		ALAC		Other Group entities		PGH Group	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Rental income	22	21	–	–	–	1	1	16	23	38
Rental expense	1	1	–	1	–	3	–	1	1	6

Section A
Business and performance continued

BUSINESS AND PERFORMANCE CONTINUED

A.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding business and performance.

Section B
System of governance

IN THIS SECTION

SYSTEM OF GOVERNANCE

Section B
System of governance continued

SYSTEM OF GOVERNANCE
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

This section provides information on the system of governance in place for the PGH Group and its insurance subsidiaries. Any material changes that have taken place over the reporting period are also included. Details on the structure of the Boards are provided, with a description of their main roles and responsibilities and those of the relevant committees, as well as a description of the main accountabilities and responsibilities of all key functions.

B.1.1 System of governance

The objective of the Group's Governance Model is to ensure that management is empowered to run the business on a day-to-day basis in accordance with the delegated authority received from the respective Boards, whilst ensuring that Directors are able to discharge their statutory and regulatory responsibilities, and that the Boards have appropriate oversight and supervision of the Group's business. Accordingly, there is a clear organisational structure, with documented delegated authorities and responsibilities, from the PGH Board to the insurance subsidiary Boards and onwards to the Executive Committee ('ExCo') and divisional senior management.

There is a uniform model across the Group which sets the responsibilities of each Board and which also stipulates the matters reserved for each Board. Each Board has the power to manage the relevant Company in accordance with legislation (Companies Act), regulations (including the Listing, Prospectus and Disclosure Transparency Rules and the regulations of the FCA and the PRA), constitution (Memorandum and Articles of Association), and Governance Code (UK Corporate Governance Code). This involves referral of certain matters to shareholders for approval. Therefore each Board:

- where relevant has the power to manage the insurance subsidiaries in accordance with laws and regulations;
- sets 'Matters Reserved' which is a schedule of items which must go to that Board for approval. This operates as an escalation route to ensure that relevant matters are referred up through the appropriate Board structures;
- delegates powers to Board committees through terms of reference; and
- delegates powers to Executive Directors and management through Delegations of Authority.

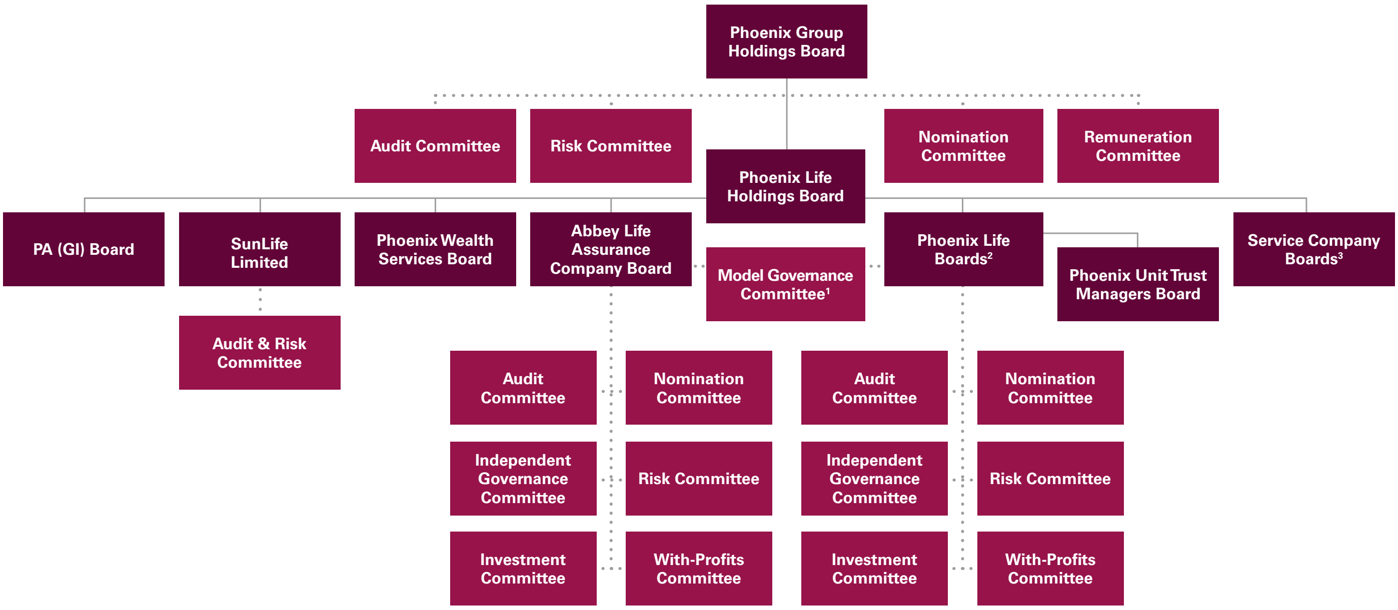
Management committees support management in making decisions under the Delegations of Authority (and are also used to review proposals before they go to the Boards).

A system of Solvency II key functions (Actuarial, Internal Audit, Risk and Compliance) operates within the Group, reporting to both management oversight committees and Board committees accordingly. Representatives from Actuarial and Risk and Compliance are members of the ExCo (further information can be found in section B.1.4). In addition, the Internal Audit function reports directly to the Board Audit Committees. There are also a number of other key functions in the Group including Group Finance, Treasury, Group Tax, Legal Services, Human Resources ('HR'), Corporate Communications, Strategy and Corporate Development, Investor Relations and Company Secretariat.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.2 Board and Committee structure

The chart below shows the operating Boards and Board Committee structure within the Group as at 31 December 2017. The second chart shows their high level responsibilities.



Committee reporting line
Board reporting line

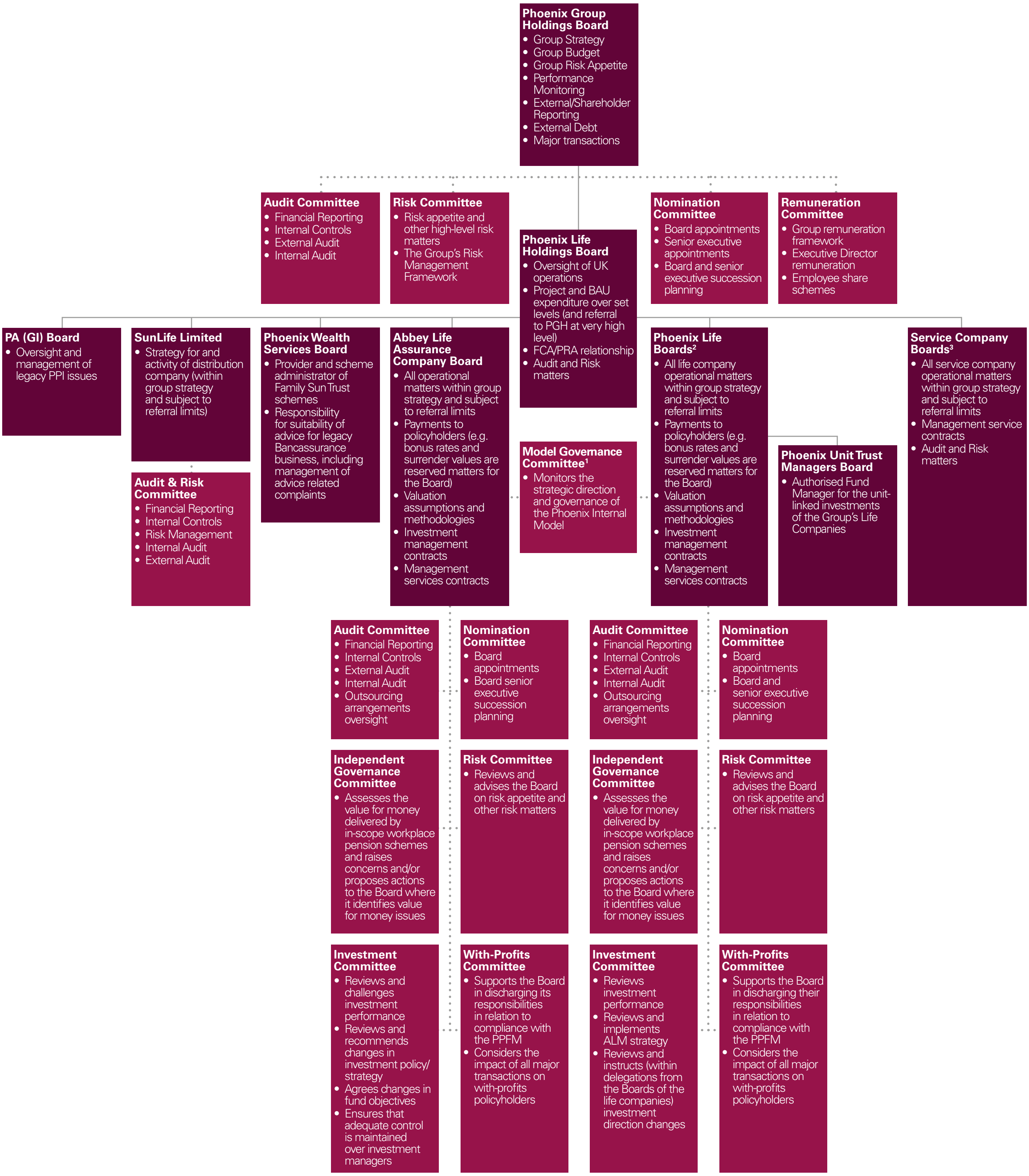
1 The Model Governance Committee is a joint committee of the Boards of Abbey Life Assurance Company Limited, Phoenix Life Limited, Phoenix Life Assurance Limited and PA(GI) Limited.
2 Covers Phoenix Life Limited and Phoenix Life Assurance Limited.
3 Covers Pearl Group Management Services Limited and Pearl Group Services Limited.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Board and Committee structure continued



····· Committee reporting line
—— Board reporting line

1 The Model Governance Committee is a joint committee of the Boards of Abbey Life Assurance Company Limited, Phoenix Life Limited, Phoenix Life Assurance Limited and PA(GI) Limited.
2 Covers Phoenix Life Limited and Phoenix Life Assurance Limited.
3 Covers Pearl Group Management Services Limited and Pearl Group Services Limited.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 Board and Committee structure continued

Although there were no significant changes to the governance arrangements during the year, on 31 January 2018, PGH became UK tax resident, having previously been Jersey resident for tax purposes. As a result, PGH will now be holding all its Board and committee meetings in the UK. The PLHL Board has now become an executive board with PGH absorbing most of PLHL's responsibilities.

B.1.3 PGH system of governance

B.1.3.1 Board responsibilities

PGH is listed on the London Stock Exchange, is registered in the Cayman Islands and until 31 January 2018 was resident in Jersey. The Board is committed to high standards of corporate governance and complies with the UK Corporate Governance Code which sets standards in good practice for UK listed companies. The PGH Board sets the strategy and risk appetite for the Group and is responsible for elements of external and shareholder reporting.

B.1.3.2 Composition and running of the PGH Board

The PGH Board comprises of 11 Directors including a Non-Executive Chairman, two Executive Directors and eight independent Non-Executive Directors ('NEDs'). Those performing roles which require approval pursuant to the Senior Insurers Managers Regime ('SIMR') have been duly approved.

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and additional Board meetings, and to devote appropriate preparation time ahead of each meeting. The PGH Board historically met in Jersey and met seven times during 2017. From 31 January 2018, the PGH Board will be meeting in the UK and is scheduled to meet seven times in 2018 including for a two-day strategy setting meeting. Additional meetings will be held as required, and the NEDs hold meetings with the Chairman, without the Executive Directors being present, as they did on several occasions in 2017.

B.1.3.3 PGH Board Committee Framework

The PGH Board has delegated specific responsibilities to four standing committees of the Board. The terms of reference of the committees can be found on the Group's website (http://www.thephoenixgroup.com/about-us/corporate-governance/board-committees/terms-of-reference.aspx) and also further details are available in the PGH Annual Report and Accounts for the year ended 31 December 2017 (pages 48 to 62). The four committees which support the PGH Board are:

- Audit Committee;
- Risk Committee;
- Nomination Committee; and
- Remuneration Committee.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.4 Role of executive management team

The Executive Management team is led by the Group CEO, who is supported by the ExCo. Their roles at 31 December 2017 are summarised in the table below:

Name	Position	Roles and responsibilities
Fiona Clutterbuck	Head of Strategy, Corporate Development and Communications	– Supports the CEO in the formulation of the strategy and the business planning for the Group; – Leads implementation of the Group's strategy as regards any potential acquisitions or disposals; and – Leads external Group communications in liaison with the Group Finance Director and Head of Investor Relations.
Stephen Jefford	Group Human Resources Director	– Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high quality employees; – Provides guidance and support on all HR matters to the Group CEO, ExCo, and the Group Board and Remuneration Committee; and – Delivers HR services to the Group.
James McConville	Group Finance Director	– Develops and delivers the Group's financial business plan in line with strategy; – Ensures the Group's finances and capital are managed and controlled; – Develops and delivers the Group's debt strategy and other treasury matters; – Ensures the Group has effective processes in place to enable all reporting obligations to be met; – Supports the Group CEO in managing the Group's key external stakeholder; and – Enhances shareholder value through clear, rigorous assessment of business opportunities.
Andrew Moss	Chief Executive, Phoenix Life	– Leads the development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses; – Leads the Phoenix Life business to optimise outcomes for customers in terms of both value and security; and – Ensures Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.
Wayne Snow	Chief Risk Officer	– Leads the Group's risk management function, embracing changes in best practice and regulation including Solvency II; – Oversees and manages the Group's relationship with the FCA and PRA; and – Supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.
Simon True	Group Chief Actuary	– Ensures capital is managed efficiently across the Group; – Manages the Group's solvency position; – Leads the development of the Group's investment strategy; and – Identifies and delivers opportunities to enhance shareholder value across the Group.
Quentin Zentner	General Counsel	– Leads provision of legal advice to the Group Board, other Phoenix Group Boards, ExCo and senior management; – Oversees and co-ordinates maintenance of, and adherence to appropriate corporate governance procedures across the Group; and – Designs and implements a framework to manage the legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations.

A number of changes have been made to the Executive Management team since 31 December 2017 and following the publication of the year ended 31 December 2017 PGH Group Annual Report and Accounts on 15 March 2018.

Fiona Clutterbuck and Wayne Snow left the Group on 1 April 2018. Fiona's responsibilities are absorbed by Simon True and Wayne's role will be taken over by Susan McInnes.

Rakesh Thakrar (Deputy Group Finance Director) and Antonios Kassimiotis (Managing Director of Operations) join the Executive Management team.

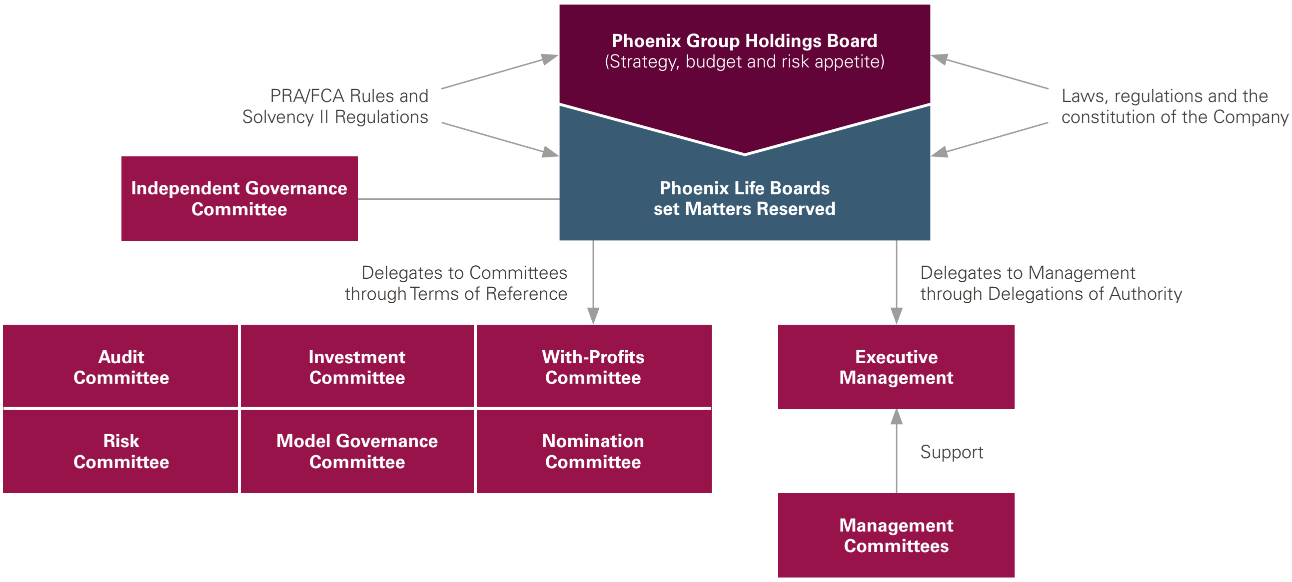
Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.5 Board and Committee structure – PLL, PLAL and PAWL

The chart below summarises the governance and delegation structure of PLL, PLAL and PAWL as at 31 December 2017. The With-Profits Committee and the Independent Governance Committee are committees of the Boards of PLL and PLAL only.



There were no significant changes to the system of governance for PLL, PLAL and PAWL during the year.

As set out in section A.1.4.2 following the Part VII transfer of all the long-term business of PAWL to PLL, PAWL's authorisation was withdrawn at its own request with effect from 9 March 2018. As a result, appropriate updates will be made to PAWL's governance arrangements to align to the other non insurance subsidiaries of the Group.

B.1.5.1 Roles and responsibilities of the PLL, PLAL and PAWL Boards

The role of the PLL, PLAL and PAWL Boards are to:

- provide entrepreneurial leadership of PLL, PLAL and PAWL within a framework of prudent and effective controls which enable risks to be assessed and managed;
- set PLL, PLAL and PAWL's strategic aims, ensure that the necessary financial and human resources are in place for the Company's to meet their objectives, and review management performance; and
- uphold PLL, PLAL and PAWL's values and standards and ensure that obligations to its shareholders, policyholders and other stakeholders are understood and met.

The PLL, PLAL and PAWL Boards are responsible and accountable for strategic matters (within the strategy set by the PGH Board), oversight of management and the performance of the PLL, PLAL and PAWL business.

B.1.5.2 Composition of the PLL, PLAL and PAWL Boards

The PLL, PLAL and PAWL Boards comprise of nine Board members, four of whom are Executive Directors and five of whom are independent NEDs.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.5 Board and Committee structure – PLL, PLAL and PAWL continued

B.1.5.3 PLL, PLAL and PAWL Committee Framework

The PLL, PLAL and PAWL Boards have established and delegated specific responsibilities to the following standing committees of the Boards:

- Audit Committee;
- Investment Committee;
- Independent Governance Committee (PLL and PLAL committee only);
- Model Governance Committee ('MGC');
- Nomination Committee;
- Risk Committee; and
- With-Profits Committee (PLL and PLAL committee only).

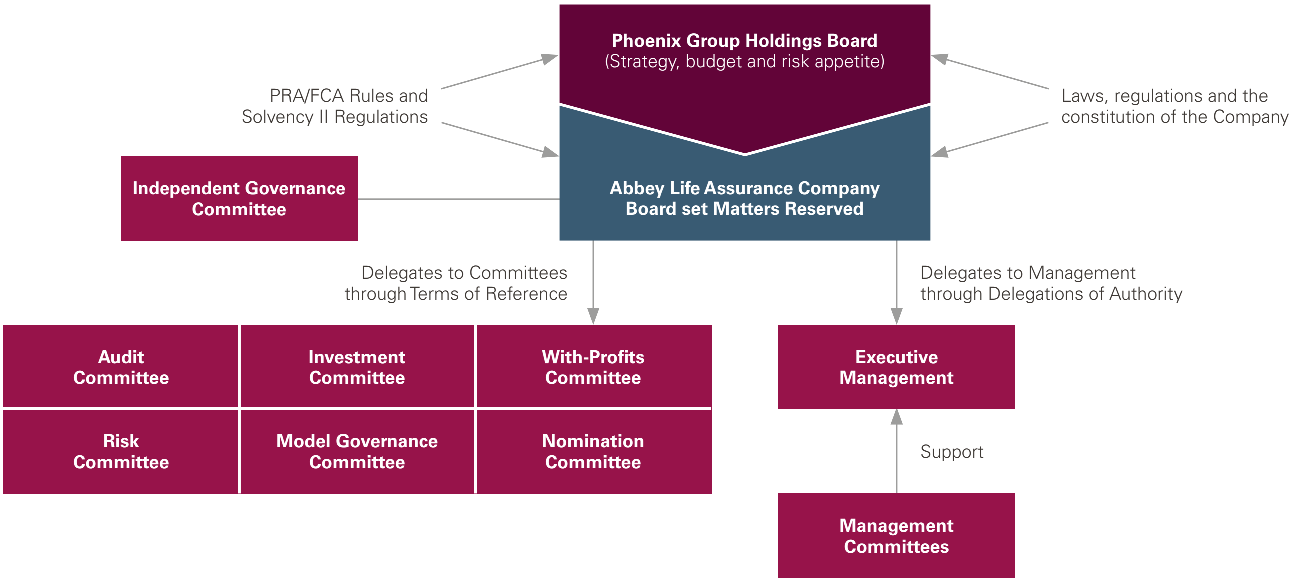
The Independent Governance Committee and With-Profits Committee are each chaired by an independent member of the committee who is not a Director. Both of these committees have a number of independent members who are not Directors.

The other standing committees of the PLL, PLAL and PAWL Boards are chaired by NEDs.

Further details regarding each of these committees are set out in section B.1.8.

B.1.6 Board and Committee structure – ALAC

The chart below summarises the governance and delegation structure of ALAC as at 31 December 2017.



B.1.6.1 Roles and responsibilities of the ALAC Board

The role of the ALAC Board is to:

- provide entrepreneurial leadership of ALAC within a framework of prudent and effective controls which enable risk to be assessed and managed;
- set the ALAC strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and review management performance; and
- uphold the ALAC values and standards and ensure that obligations to its shareholders, policyholders and other stakeholders are understood and met.

The ALAC Board is responsible and accountable for strategic matters (within the strategy set by the PGH Board), oversight of management and the performance of the ALAC business.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.6 Board and Committee structure – ALAC continued

B.1.6.2 Composition of the ALAC Board

The ALAC Board comprises of nine Board members, four of whom are Executive Directors and five of whom are NEDs.

B.1.6.3 Committee Framework

The ALAC Board has delegated specific responsibilities to seven standing committees of the Board, which are:

- Audit Committee;
- Investment Committee;
- Independent Governance Committee;
- Model Governance Committee;
- Nomination Committee;
- Risk Committee; and
- With-Profits Committee.

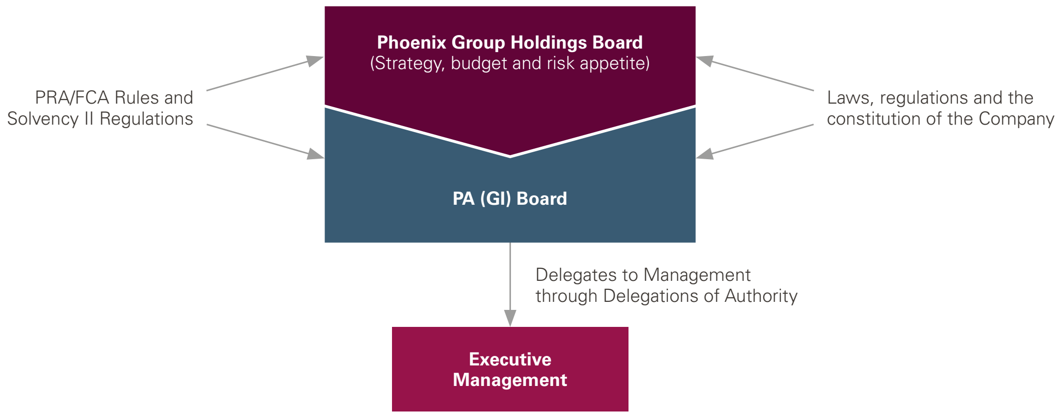
The Independent Governance Committee and With-Profits Committee are each chaired by an independent member of the committee who is not a Director. Both of these committees have a number of independent members who are not Directors.

The other standing committees of the ALAC Board are chaired by NEDs.

Further details regarding each of these committees are set out in section B.1.8.

B.1.7 Board and Committee structure – PA(GI)

The chart below shows the PA(GI) Board structure as at 31 December 2017.



The PA(GI) Board comprises of four Executive Directors. The PA(GI) Board has no formal committees in place.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.8 Committees of the Boards

Details of the composition and role/duties of each standing committee of the Boards are outlined below:

Committee	Role, duties and responsibilities
Audit Committee (PLL/PLAL/PAWL/ALAC)	– Monitor the overall integrity of financial reporting. – Review the overall effectiveness of the relevant Company's internal control and risk management system and the Internal Audit function. – Agree the nature and scope of external audits and to oversee the relationship with the external auditors. – Monitor and review the effectiveness of the Finance function and the integrity of financial reporting. – Approve the remit of the Group Internal Audit ('GIA') function.
Investment Committee (PLL/PLAL/PAWL/ALAC)	– Establish and implement investment strategy and to regularly review investment and Asset Liability Management ('ALM') strategy whilst ensuring customers are treated fairly. – Initiate or review proposals for material changes in investment direction, and to approve such changes. – Review relative investment performance and oversee the governance of the relationships between the relevant Company and all investment managers, including oversight and review of fees, fee structures and Service Level Agreements. – Oversight and review of the appropriateness of investment mandates. – Liaise with management committees that have responsibility for the shareholder impact of investment matters and also with the With-Profits Committee which has responsibility for the policyholder impact of investment matters.
Independent Governance Committee (PLL/PLAL/PAWL/ALAC)	– Act in the interest of members of the contract-based workplace pension schemes operated by the relevant Company and assess the ongoing value for money delivered by them.
Model Governance Committee (PLL/PLAL/PAWL/ALAC)	– Monitor the strategic direction and overall governance of the Internal Model used by the relevant Company. – Provide assurance to the relevant Board on the ongoing appropriateness, performance and effectiveness of the Internal Model.
Nomination Committee (PLL/PLAL/PAWL/ALAC)	– Lead the process for appointments and ensure that the Board retains an appropriate balance of skills, knowledge, experience and diversity to support the strategic objectives of the relevant Company. – Ensure there is a formal, rigorous and transparent approach to the appointment of Directors including maintaining an effective framework for succession planning. – Approve proposals for the appointment or removal of Directors to/from the Board. – Regularly review the structure, size and composition of the Board and make recommendations with regard to any changes that are deemed necessary. – Identify and nominate candidates to fill Board vacancies as and when they arise, and give consideration to succession planning. – Review annually the time required from NEDs and recommend the re-appointment to the Board of any NED at the end of their specified term of office.
Risk Committee (PLL/PLAL/PAWL/ALAC)	– Advise the relevant Board on all risk matters including risk appetite and tolerance in setting the future strategy. – Maintain the RMF, reviewing the risk appetite framework and limits. – Approve the overall risk management strategy and principal risk policies including monitoring compliance. – Oversight of the design and execution of the stress and scenario testing framework, and also ensuring that risks to the business plan are adequately identified and assessed through stress testing and scenario analysis.
With-Profits Committee (PLL/PLAL/ALAC)	– Support the relevant Board in discharging its governance responsibilities in relation to compliance with the Principles and Practices of Financial Management ('PPFM'). – Assess, report on, and provide clear advice and, where appropriate, recommendations to the Board on the way in which each with-profit fund is managed and whether this is properly reflected in the PPFM and on any other issue which the Board or Committee considers that with-profit policyholders might reasonably expect the Committee to be involved. – Provide independent judgement in the assessment of PPFM compliance and how any competing or conflicting rights and interests of policyholders and, if applicable, shareholders have been addressed. – Consider all major transactions involving the Company (for example Part VII transfers, reinsurances, outsourcing) to the extent to which they impact upon with-profit policyholders. – Consider at the request of the Board all proposals for the exercise of discretion in respect of non-profit policies and the conduct and overall approach to treating customers fairly.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.9 Model Governance Committee

B.1.9.1 Roles and responsibilities of the MGC

The role of MGC is to monitor the strategic direction and overall governance of the Internal Model. The Committee provides assurance to the relevant Boards on the ongoing appropriateness, performance and effectiveness of the Internal Model.

B.1.9.2 Composition and running of the MGC

The MGC is a committee of the Life Company Boards and also supports the PGH Board in discharging its Internal Model responsibilities. MGC membership comprises a Non-Executive Chairman, five Executive Directors (i.e Directors who are Group employees) and four independent NEDs.

The MGC meets at least four times a year at appropriate times in the reporting cycle or more frequently as circumstances require.

The Committee Chairman reports in writing to the respective Boards on proceedings after each meeting, on all matters within its duties and responsibilities. This ensures the Boards receive appropriate information to ensure the Internal Model is operating properly on a continuous basis. The Committee makes whatever recommendations to the Boards it deems appropriate on any area within its remit where action or improvement is needed.

B.1.9.3 Assignment of responsibilities

The MGC has delegated the tasks required under the regulations to the Actuarial, Finance and Risk departments in accordance with their current responsibilities under a 'Three Lines of Defence' model (further details are included in the governance section of section B.3.2). The RMF is underpinned by the operation of the Governance model with clearly defined roles and responsibilities of Boards and their committees, management oversight committees, Group Risk and Group Internal Audit.

In their role as first line of defence (where risk is delegated from the Board to the Group CEO, ExCo members and through to business managers), the Finance and Actuarial departments have delegated responsibility for:

- design, implementation, operation and use of the Internal Model set by the Group Risk function;
- operation of the validation framework in line with the requirements set by the Risk Management function;
- documenting the Internal Model process and any subsequent changes; and
- informing the Board about the performance of the Internal Model, its limitations, areas needing improvement, and the status of activity to address previously identified weaknesses.

In its role as second line of defence (where risk oversight is provided by the Group Risk function, the PGH Board Risk Committee and the relevant Life Company Risk committees), the Risk function has delegated responsibility for governance and oversight of the Internal Model, including but not limited to:

- sponsorship of the model governance policy;
- ownership of the Internal Model validation framework;
- independent validation of the design, implementation and operation of the Internal Model, including compliance with the model governance policy; and
- in relation to independent validation activity performed and summary reports produced, informing the administrative or management body about the performance of the Internal Model, suggesting areas needing improvement, and providing a review of the Finance and Actuarial departments' reporting in relation to weaknesses and limitations of the Internal Model, and the activity to improve previously identified weaknesses.

B.1.10 Key functions

Solvency II defines 'function' within a system of governance, as an internal capacity to undertake practical tasks and to operate a system of governance which includes the Risk Management function, the Compliance function, the Internal Audit function and the Actuarial function.

The functions which operate within the Group are as follows:

- Risk Management function (see section B.3 for further details);
- Compliance function (see section B.4 for further details);
- Internal Audit function (see section B.5 for further details); and
- Actuarial function (see section B.6 for further details).

Their duties and responsibilities are allocated, segregated and coordinated in line with Phoenix Group policies. This ensures that all the important duties are covered and that unnecessary overlaps are avoided.

Further details on how the key functions have the necessary authority, resources and operational independence to carry out their tasks together with how those functions report to and advise the Boards of the Group are provided in the sections which cover each function (see sections B.3. B.4, B.5 and B.6).

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.11 Remuneration policy

The Group has one consistent remuneration policy for all levels of employees which is made available to all staff. Therefore, the same remuneration policy principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors for different areas of the business.

The Group-wide remuneration policy is overseen by the Remuneration Committee of PGH ('RemCo'). Further details on this Committee can be found on page 62 of the PGH Annual Report and Accounts for the year ended 31 December 2017 and on the governance pages of the PGH website (http://www.thephoenixgroup.com/about-us/corporate-governance.aspx).

The policy focuses on ensuring sound and effective risk management and supports management in the operation of their business through the identification of minimum standards and key controls.

The key principles of the remuneration policy which applies across the Group are set out below.

a) **Attract, retain and motivate quality staff** – management keep remuneration practices under review to ensure that these support promotion of the long-term interests of the Group and its stakeholders, and adequately and fairly reward staff.

b) **Remuneration is positioned appropriately against external benchmarks** – remuneration is benchmarked against independent third party data at appropriate intervals.

c) **Remuneration is aligned to the long-term success of the Company** – performance related components of remuneration are aligned to measures which reflect achievement of the Group's long-term success and strategy.

d) **Proportion of variable pay is appropriate and balanced, and has due regard to any impact of risk** – the ratio of fixed to variable remuneration will differ depending on the specific incentive schemes in operation across the business. However, the Group seeks to ensure that an appropriate balance between fixed and variable remuneration is maintained for all employees, with the fixed proportion being sufficient to allow variable pay to operate on a fully-flexible basis, including the possibility of no payments of variable remuneration in a year. For Approved Persons (further details are included in section B.2) there is also an appropriate balance between annual and long-term incentives, with the deferral of annual incentives into shares and all incentives including provision for the application of malus and clawback where appropriate.

e) **Independence and strong governance in decision-making processes** – as the policy is overseen by RemCo this ensures an appropriate level of independent challenge given RemCo exclusively comprises independent NEDs. Certain roles within control functions (Risk, Compliance, Internal Audit and Actuarial) are also subject to different variable pay arrangements which exclude any linkage to financial performance for annual incentives.

B.1.11.1 Variable remuneration plans

Annual Incentive Plan

All permanent members of staff participate in an Annual Incentive Plan ('AIP').

For Group staff (with the exception of Sun Life and PAWL staff) this is subject to a mixture of Corporate (financial and strategic) and Personal (individual objectives) performance measures for all staff. This represents a balanced scorecard which includes customer metrics in addition to financial and personal measures.

The quantum of and the balance between Corporate and Personal performance measures varies between different levels of staff. The Corporate performance measures apply on a Group-wide basis to produce a 'corporate factor' in calculating AIP outcomes.

For 2017, the selected performance measures for the corporate element of the AIP were as follows:

Performance Metric	Weighting of Corporate measure %
Corporate measures for AIP in 2017	
Operating companies' cash generation	71
Customer experience	29

One-third of AIP outcomes for all senior management subject to the regulatory requirements were deferred for a period of three years under the Deferred Bonus Share Scheme; for ExCo this was 40%.

For 2017 all permanent members of staff (excluding Board members) of PAWL participated in a discrete AIP, modelled on the Group-wide AIP described above, but based on Personal (individual objectives) performance measures only. The quantum of incentive varies between different levels of staff. The Personal performance measures are determined by line managers in accordance with an established performance appraisal grading structure.

Additionally, all permanent members of SunLife participated in an AIP similar in structure to the Group one described above with a mixture of Corporate (financial and strategic) and Personal (individual objectives) performance measures for all staff. The corporate element will however be based on SunLife operating business.

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.11 Remuneration policy continued

B.1.11.1 Variable remuneration plans continued

Long-term Incentive Plan

The Group operates a Long-term Incentive Plan ('LTIP') for selected senior members of staff.

RemCo sets performance measures for each LTIP grant. Performance measures include an appropriate mix of measures based on growth in suitable performance conditions set at the time of grant. Performance measures are subject to additional 'underpin' requirements which permit RemCo to reduce or prevent vesting in appropriate circumstances.

The weightings of the LTIP performance measures for 2017 are summarised below. Each performance measure is assessed over the period of three financial years from 2017 to 2019.

Performance Metric	Weighting of Corporate measure %
Cumulative cash generation	50
Total Shareholder Return ('TSR')	50
Total	100

All 2017 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group. This 'underpin' also includes consideration of customer satisfaction and, in exceptional cases, personal performance.

The relative Total Shareholder Return ('TSR') measure is calculated against the constituents of the FTSE 250 (excluding Investment Trusts) with vesting commencing at median (25% of this part of the award) and full vesting at upper quintile levels, subject to an underpin regarding underlying financial performance.

B.1.11.2 Description of pension arrangements

All members of staff are invited to participate in the Group Personal Pension plan or other defined contribution pension arrangement that are open at that time. A legacy Abbey Life defined benefit pension scheme also remains open to a closed population of former ALAC employees. Where an individual is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance could be taken as a cash supplement (reduced for the impact of employers' National Insurance Contributions).

The Group does not operate any discretionary pension benefits. Death in Service benefits are provided to all staff.

B.1.11.3 Material transactions with shareholders and members of the Boards

There were no transactions with members of the PGH Board and insurance subsidiary Boards other than remuneration provided under the principles set out above.

Details of the actual remuneration of the members of the PGH Board are set out in the Directors' remuneration report of PGH in the PGH Annual Report and Accounts for the year ended 31 December 2017 (see pages 63 to 87).

Material transactions with shareholders reflect the payment of dividends, of which further details can be found in the Directors' Report included in the PGH Annual Report and Accounts for the year ended 31 December 2017 (see page 88).

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.2 FIT AND PROPER REQUIREMENTS

This section provides information on the specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or hold other key functions; and how they are assessed to be 'fit and proper'.

B.2.1 Senior insurance managers regime

The regulatory requirements of the Senior Insurance Managers Regime ('SIMR') apply to all staff within the Group who are employed within a Key Function, defined as one which is essential for the successful operation of the business. Whilst all employees (with the exception of those engaged in facilities and catering activity) are subject to elements of the regime, the most significant impact is upon Senior Management (in particular, ExCo and the Phoenix Management Board ('PMB')), Approved Persons and the NEDs. In total, this equates to 41 roles across the Group.

The Service Companies and Phoenix Unit Trust Managers ('PUTM') are not included within the regime. However, there are broadly similar requirements resulting from the FCA SIMR (previously the Approved Person regime).

The Group and its insurance subsidiaries ensure the associated requirements are met through the effective implementation of the Phoenix Approved Person Framework, and associated documentation, policies and processes. This framework covers the following:

- alignment of Controlled function (i.e. the activities performed by the Approved Persons) roles to the SIMR;
- authorisation process for pre-approved Controlled function, notified functions (for example a NED in a role not requiring pre-approval) and key function holders;
- demonstration and maintenance of fitness and propriety;
- application and demonstration of the applicable conduct standards across the business; and
- evidence and maintenance of competence via the Phoenix performance management process.

With regards to the specific requirements concerning skills, knowledge and expertise to the initial and ongoing skills analysis, all individuals complete a relevant induction programme at appointment. As part of the recruitment process, they also have a competency assessment and agree an appropriate development plan. Once in role, senior managers, with accountability, are subject to the Group's annual performance management process in addition to the annual fit and proper process, implemented for all Approved Persons, SIMR functions and key function holders.

B.2.2 Process for assessing fitness and propriety

The Group has a number of policies and processes established which apply to all regulated entities, and provide appropriate guidance and governance to ensure that those effectively running the Group have and maintain appropriate fit and proper status during their appointment. These policies and processes include the requirements to:

- identify and maintain accurate records of all Approved Persons, sufficient to meet the requirements of the FCA and PRA;
- ensure new appointments are appropriately authorised, including skills analysis and competence assessment;
- maintain a Group Approved Persons Framework to provide direction and guidance to the Group's Approved Persons ensuring they understand and can evidence how they meet their regulatory requirements;
- complete periodic assessments of Approved Persons to determine their ongoing competence, including consideration of performance development rating, Disclosure and Barring Service ('DBS') check and financial self-certification;
- maintain an effective performance management framework, ensuring that the performance of employees is effectively managed;
- motivate and retain the right employees through appropriate reward structures;
- deliver an appropriate organisational culture through embedding appropriate values and behaviours;
- identify, plan and implement effective learning and development activities; and
- provide guidance, information and advice regarding the requirements, expectations and obligations of an Approved Person role.

Evidence of adherence to these standards is monitored on a quarterly basis and recorded within the Group centralised risk management system.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

This section provides a description of the Group's risk management system including information on how the risk management functions are implemented and integrated into the organisational structure and decision-making processes of the Group.

The PGH Group Board is accountable for the Group's RMF which is implemented consistently across all Group subsidiaries. Ultimate accountability for compliance with the regulations rests with the PGH Board; however each insurance subsidiary Board has responsibility for its own entity complying with the regulations.

B.3.1 Risk management function

The Group Risk function is headed by the Chief Risk Officer ('CRO'), who reports directly to the Group CEO.

The Group Risk function has the primary responsibility for supporting the PGH and insurance subsidiaries Boards and the various committees (as detailed in section B.1) in meeting their risk management responsibilities.

The Group Risk function is split into four teams, covering the following areas:

Regulatory risk: This team is responsible for oversight of regulatory risk within the Group. This includes responsibility for all the Group's authorised undertakings and accountability for the successful implementation of all compliance activities. This responsibility extends across the business, including all Outsourced Service Providers ('OSPs').

Operational risk: This team is responsible for oversight of operational risk within the Group. This includes ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the operational risks it faces in achieving its strategic objectives. This responsibility extends across the business, including all OSPs.

Financial risk: This team is responsible for oversight of all financial risks within the Group. This includes ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the financial risks it faces in achieving its strategic objectives. This team also has responsibility for independently validating that the Group's Internal Model continues to meet the regulatory requirements under Solvency II, including documentation requirements.

PRA/FCA relationship: This team is responsible for managing the relationship with the regulators, including the co-ordination and tracking of the interactions with the PRA and FCA, and arranging preparation for Supervisory Risk Assessment visits.

B.3.2 Risk Management Framework

The Group's RMF embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes. The RMF is implemented consistently and is in operation throughout the Group.

During the year, adoption of the RMF by the Abbey Life business has strengthened oversight and management of the legacy issues and the ongoing FCA enforcement investigations.

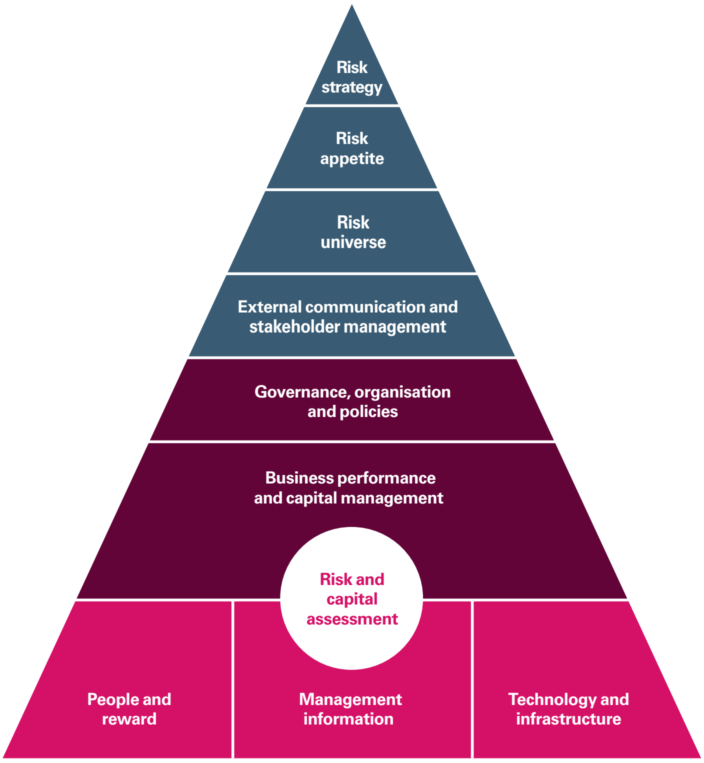
Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

The RMF comprises ten components as illustrated below.



The outputs of the RMF provide assurance that all risks are being appropriately identified and managed effectively and that an independent assessment of management's approach to risk management is being performed.

Group Risk conducts an annual assessment of the Group's adherence to the RMF that provides assurance to management and the Boards that the RMF has been implemented consistently and is operating effectively across the Group.

Further details of the ten components of the RMF are below.

Risk strategy

The Group's risk strategy provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation.

It assists the business in achieving its strategic objectives by supporting a more stable, well managed business with improved customer and shareholder outcomes.

This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its 'risk appetite') and by ensuring that the Group is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively, the Group is committed to:

- embedding a risk aware culture;
- maintaining a strong system of internal controls;
- enhancing and protecting customer and shareholder value by continuous and proactive risk management;
- maintaining an efficient capital structure; and
- ensuring that risk management is embedded into day-to-day management and decision-making processes.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Risk appetite

The Group's risk appetite is the level of risk the Group is willing to accept in pursuit of its strategic objectives. The statements below encapsulate the Group's risk appetite for policyholder security and conduct, earnings volatility, liquidity and the Group's control environment:

- **Capital** – the Group and each Life Company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.
- **Cash flow** – the Group will seek to ensure that it has sufficient cash flow to meet its financial obligations and will continue to do this in a volatile business environment.
- **Shareholder value** – the Group will take action to protect shareholder value.
- **Regulation** – the Group and each Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies and applicable laws and regulations, in a commercially effective manner.
- **Conduct** – the Group has zero appetite for deliberate acts of misconduct, including omissions that result in customer detriment, reputational damage and/or pose a risk to the FCA statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by limiting the volatility of key parameters under a range of adverse scenarios agreed with the Board. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against these limits is undertaken through extensive scenario and reverse stress testing ('RST').

Risk universe

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across the business.

There are three levels of risk universe categories. The highest risk universe category is Level 1 and includes:

- Strategic risk;
- Customer risk;
- Financial soundness risk;
- Market risk;
- Credit risk;
- Insurance risk; and
- Operational risk.

Embedded within these categories, and customer risk in particular, are the conduct risks faced by the Group and its customers. These risks are separately monitored and reported on across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The Group has developed a PGH Board approved risk appetite statement to manage conduct risk. The appetite statement is supported by the assessment of all conduct-related risks faced by the Group on a quarterly basis. This regular assessment and reporting enables the Group to be forward-looking and proactive in the management of conduct risk.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Risk universe continued

Section C of this SFCR contains a summary of the risk profile of the Group and its insurance subsidiaries. The summary in Section C is structured in accordance with the risk categories of the Solvency II Directive, which is different from the risk categories set out above. The following table provides a mapping between the different sets of risk categories in section B.3 and section C:

Section B – Phoenix Group risk universe	Section C – Risk Profile	Comment
Strategic risk	Other material risks	Exposure to strategic risk is considered in section C 'other material risks'
Customer risk	Other material risks	Exposure to customer risk is considered in section C 'other material risks'
Financial soundness risk	Liquidity risk	Liquidity risk is a sub-category of financial soundness risk. The other material components of financial soundness risk (capital management risk and tax risk) are considered in section C 'other material risks'
Market risk	Market risk	No difference
Credit risk	Credit risk	No difference
Insurance risk	Underwriting risk	Section C 'underwriting risk' includes all components of insurance risk (mortality risk, longevity risk, morbidity risk, expense risk, lapse risk and policyholder behaviour risk)
Operational risk	Operational risk	No difference
Not applicable	Other material risks	Section C 'other material risks' considers exposure to risk universe categories not already covered in parts of section C

External communication and stakeholder management

The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that the Group's stakeholders have appropriate, timely and accurate information to support them in forming the views of the Group.

The insurance subsidiaries and the Group are subject to the requirements of regulators and have obligations to customers in terms of their reasonable benefit expectations and maintaining the security of the assets backing those obligations.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

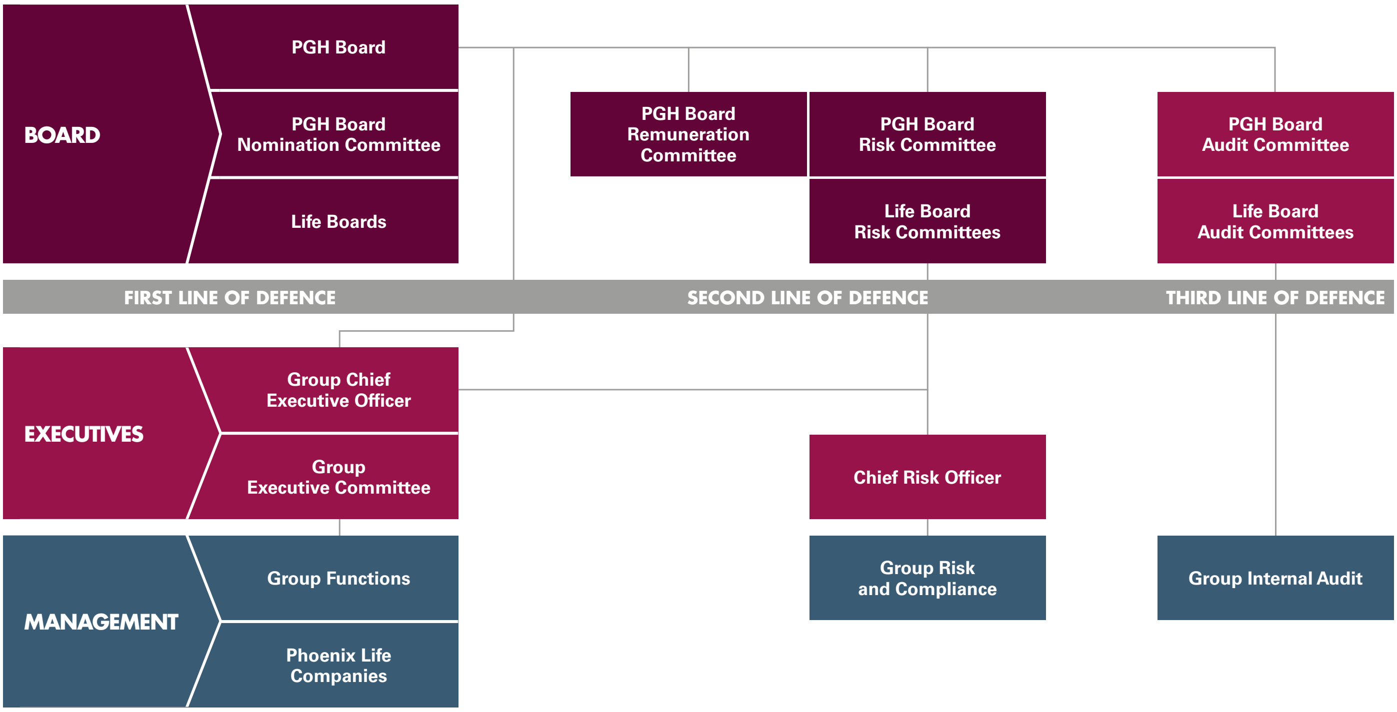
B.3.2 Risk Management Framework continued

Governance, organisation and policies

Governance

Overall responsibility for approving, establishing and embedding the RMF rests with the PGH Board. The PGH Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities, from the PGH Board to the insurance subsidiary Boards and the ExCo. Further details are included in section B.1.

The RMF is underpinned by the operation of a 'Three Lines of Defence' model with clearly defined roles and responsibilities for statutory Boards and their committees, management oversight committees, Group Risk and Group Internal Audit. This is illustrated by the diagram below:



Note
In the diagram above, Phoenix Life Companies refers to the management of the Phoenix Life Division, including the Service Companies and PUTM.

First line: Management – Management of risk is delegated from the Board to the Group CEO, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for implementation of the RMF and ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk oversight – Risk oversight is provided by the Group Risk function, the Group Board Risk Committee and the Phoenix Life Risk Committee.

Third line: Independent assurance – Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the Board Audit Committee.

Organisation

The Group CRO manages the Group Risk function and has responsibility for the implementation and oversight of the Group's RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The PRA/FCA relationship team manages the relationship and interactions with the Group's primary regulators and reports to the Group CRO.

Details on the Internal Model governance and organisation are included in section B.3.4.

Policies

The Group policy framework comprises a set of policies that support the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to the Group's business. The policy set is mapped to the Group risk universe and contains the Minimum Control Standards ('MCS') to which each business unit must adhere to and against which they report compliance.

The policies define:

– The individual risks the policy is intended to manage;
– The degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
– The minimum controls required in order to manage the risk to an acceptable level; and
– The frequency of the control's operation.

Each policy is the responsibility of a member of the ExCo who is charged with overseeing compliance throughout the Group.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Business performance and capital management

The Annual Operating Plan ('AOP') is assessed to ensure that the Group operates within our stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

The Group operates a capital management policy where capital is allocated across risks where capital is held as a mitigant and the amount of risk capital required is reviewed regularly.

Risk and capital assessment

The Group operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed and how much capital should be held in relation to those exposures. This framework is applicable across the Group and establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group in line with Solvency II requirements.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives.

Stress and scenario tests are used extensively to support the assessment of risks and provide analysis of their financial impact.

Independent reviews conducted by Group Risk provide further assurance to management and Board that individual risk exposures and changes to our risk profile are being effectively managed.

Qualitative information on material risks

The Group's top principal risks and uncertainties are detailed in the table below together with their potential impact and mitigating actions which are in place. As economic changes occur and the industry and regulatory environment evolves, the Group will continue to monitor their potential impact.

Risk	Impact	Mitigation
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or may suffer a loss in value.	The emerging cash flows of the Group and its insurance subsidiaries may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group and its insurance subsidiaries' capital position. Since the introduction of Solvency II and a swaps based discount rate, the Group is more sensitive to movements in swap yields.	The Group and its insurance subsidiaries undertake regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow and liquidity forecasting, and stress and scenario testing. In response to this, the Group and its insurance subsidiaries have implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes from certain market movements such as equities and interest rates. The Group also maintains cash buffers in its Holding Companies to reduce reliance on emerging cash flows. The Group and the insurance subsidiaries' excess capital positions continue to be closely monitored and managed, particularly in the low interest rate environment and any potential impact on financial markets as a result of Brexit.
Adverse changes in experience versus actuarial assumptions.	The Group and its insurance subsidiaries have liabilities under annuities and other policies that are sensitive to future longevity, mortality and persistency rates. For example, if our annuity policyholders live for longer than expected, then their benefits will be paid for longer. The amount of additional capital required to meet those additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow obligations.	The Group and its insurance subsidiaries undertake regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group and its insurance subsidiaries continue to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.
Significant counterparty failure.	The assets held to meet obligations to policyholders include debt securities. Phoenix Life is exposed to deterioration in the actual or perceived creditworthiness or default of issuers of these securities. This risk is reflected in the higher expected return, or spread, over less risky assets. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could adversely impact the value of the Group's assets. The Group and its insurance subsidiaries are also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements.	The Group and its insurance subsidiaries regularly monitor their counterparty exposures and have specific limits relating to individual exposures, counterparty credit rating, sector and geography. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised and guaranteed.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Qualitative information on material risks continued

Risk	Impact	Mitigation
Changes in the regulatory and legislative landscape.	The conduct-focused regulator has had a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where the Group and its insurance subsidiaries cannot demonstrate that they met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the implications of Brexit can also impact the Group's financial position.	The Group and its insurance subsidiaries put considerable effort into managing relationships with their regulators so that they are able to maintain a forward view regarding potential changes in the regulatory landscape. The Group and its insurance subsidiaries assess the risks of regulatory change and the impact on operations and lobbies where appropriate. Although not material in the context of the overall Group, we are exploring a range of options to ensure we can continue to service our Irish policyholders and manage the financial implications as part of Brexit contingency planning.
The Group fails to effectively to integrate or transition acquired businesses.	Completion of the proposed purchase of Standard Life Assurance, as announced on 23 February 2018, is subject to regulatory approval. On completion, the challenge of transitioning Standard Life Assurance into the Group could introduce structural or operational challenges that result in Phoenix failing to generate the expected outcomes for policyholders or value for shareholders.	The financial and operational risks of the target business were assessed as part of the acquisition phase. Transition plans are being developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations.
Greater than expected redress cost relating to creditor insurance.	High Court ruling that PA(GI), retained liability in relation to creditor insurance originally underwritten by PA(GI). Cost of redress for these complaints may be greater than provisions held, due to uncertainties with regard to the volumes of future complaints, the rates by which those complaints are upheld and the average redress value.	The Group has established efficient processes to review complaints received, and where appropriate, provide redress to the policyholder. The Group continues to monitor the level of complaints and emerging experience to ensure that the provisions remain appropriate. The Group has sought to recover incurred costs from third parties. **No longer considered a principal risk.**
Concentration in the policy administration outsource industry.	Previous consolidation of the industry has led to an increased exposure for the Group to a smaller number of suppliers, with few alternative supply options. Further market concentration creates challenges regarding Phoenix's ongoing relationships and in the development and viability of effective exit plans under stressed conditions.	The Group's outsource strategy regularly considers our target operating model in light of the changing marketplace for policy administration outsourcing; the term remaining on current contractual arrangements and evolving regulatory and customer demands. The outcome of these reviews and related recommendations are shared with the Life Companies and approval sought for funding to support initiatives to implement transition/transformation activity where appropriate.

The Group's senior management and Board also take emerging risks into account when considering potentially adverse outcomes and appropriate management actions prior to the risk crystallising. Some of the current emerging risks the Group considers are listed in the table below.

Risk title	Description	Risk universe category
Market Disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
Cyber Risk	The Group continues to see itself as a comparatively low target due to the closed book nature of its business.	Operational
Solvency II Changes	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial Soundness

People and reward

Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the RMF.

Management information

Overall monitoring and reporting against the risk universe takes place in business unit management committees and Boards. This is then reported to the PMB, Phoenix Life Companies Board, and the PGH Board via regular risk reporting.

The PGH Board Risk Committee and the Phoenix Life Risk Committee receive a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. Both committees are also provided with regular reports on the activities of the Group Risk function.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 Risk Management Framework continued

Technology and infrastructure

The Group employs market leading risk systems to support the assessment and reporting of the risks it faces. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

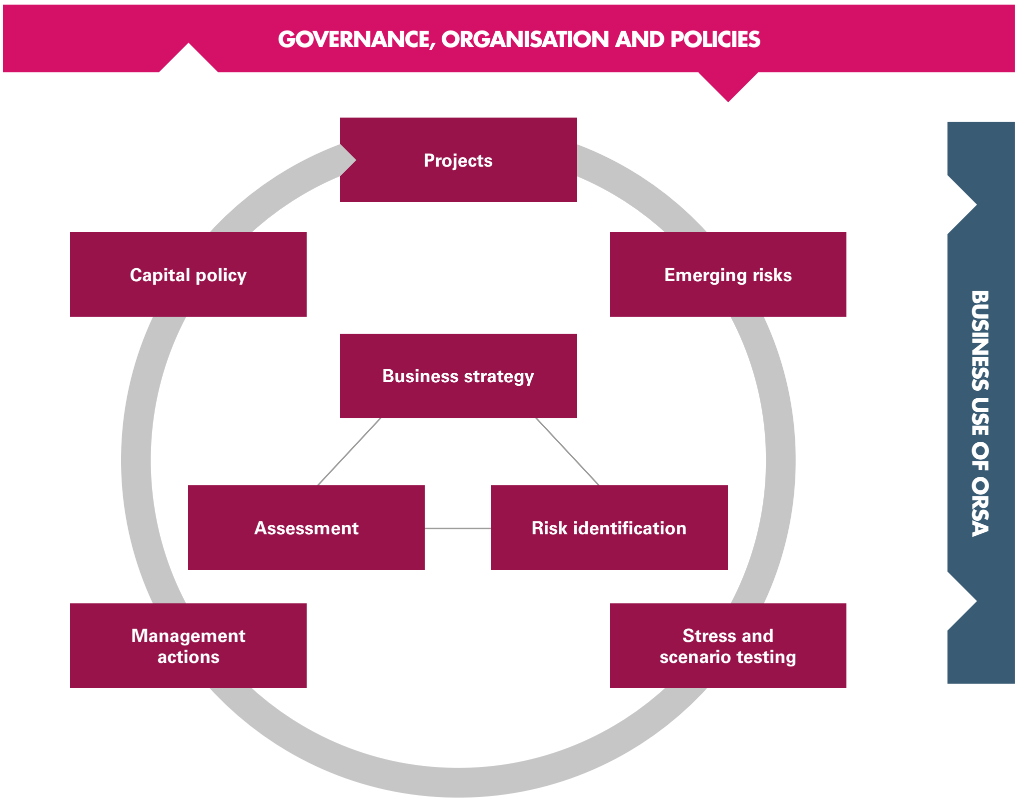
B.3.3 Own Risk and Solvency Assessment process

The Group and its insurance subsidiaries carry out an Own Risk and Solvency Assessment ('ORSA') process which assesses risk profile on an ongoing basis. The ORSA process is made up of a number of components which operate at regular frequencies, either within the Life Companies, at PGH Group level or both.

During 2017, each insurance subsidiary and the PGH Group produced ORSA reports. Each report was reviewed and approved by the Boards.

In January 2018, the Group received approval from the PRA for the preparation of a single Group ORSA. This will apply from 2018.

The process followed in undertaking the ORSA is illustrated below:



Business strategy is at the core of the ORSA process. The Group and its insurance subsidiaries' hold a strategy day at least once a year and this is informed by updated projections and an assessment of those projections against the Group's and its insurance subsidiaries external targets and KPIs.

The risk appetite is set for both policyholder and shareholder risks. This is typically on an annual basis and occurs at the beginning of each ORSA cycle. The Group sets its capital policy in alignment with its policyholder risk appetite. There is an ongoing evaluation of the risk profile, capital requirements and Own Funds. The risk profile evaluation is a process that operates throughout the business to report on changes to key risks in the context of the Group's risk appetite. Transactions and material projects are evaluated using return on capital metrics to ensure an efficient allocation of capital.

Financial projections are prepared at a base level, and subjected to stress and scenario testing as follows:

- sensitivity testing;
- risk appetite testing;
- quantitative scenario testing;
- qualitative scenario testing; and
- reverse stress testing.

The Group operates a series of management oversight committees which together provide governance over all steps in the ORSA process. The Boards are responsible for the ORSA reports, which document the outcome and results of the ORSA processes to support the Boards' decision-making.

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.3 Own Risk and Solvency Assessment process continued

The ORSA process is integrated into the management and decision-making processes by:

- engagement and reinforcement at management committees;
- regular review (at least quarterly) of ORSA management information;
- production of one ORSA report per year linked to strategy and the AOP process;
- continuous improvements to the order/cycle of connected processes and the approach to and timing of reporting to the Boards; and
- maintenance of the ORSA record (provides evidence for the performance of the ORSA processes as described by the Framework, documents Board or committee discussion and sign off, and records actions arising), which heightens awareness of the significance and role of each recorded process in the ORSA cycle.

The ORSA management information that is produced at least quarterly includes risk profile updates and solvency projections, together with sensitivities. This enables the Board to make decisions that take account of the risk and capital position of the Group.

B.3.4 Risk management system and Internal Model governance

The MGC is a Committee of the Life Companies' Boards and also supports the PGH Board in discharging its Internal Model responsibilities. The Committee supports the Boards in ensuring that they receive appropriate information and assurance to ensure that the Internal Model is operating properly on a continuous basis.

More details of the governance process of the Internal Model are set out in section B.1.5.

The performance and ongoing appropriateness of the Internal Model is monitored by way of ongoing validation of Internal Model methodology, risk calibrations and operational processes, in line with the system of governance set out in the Model Governance Policy, Standards and associated Framework documents.

The Life Finance, and Life and Group Actuarial departments produce Internal Model risk calibration recommendations and Internal Model results. These departments operate internal review and validation processes. The validation outcomes are summarised as part of each Internal Model valuation cycle in a self-certification report which assess compliance with Solvency II requirements and Internal Model assurance principles.

Senior Management and the relevant management committees review the risk calibration recommendations and the Internal Model results.

Group Risk independently validates all aspects of the Internal Model over a two-year rolling period, with particular emphasis on risk calibration recommendations and the underlying methodologies and operation of the Internal Model.

Risk Calibration reports, Internal Model results and self-certification reports are reviewed by the MGC on behalf of the Life Companies and Group Boards. The MGC also receives a quarterly opinion from Group Risk on the continued appropriateness, performance and effectiveness of the Internal Model together with regular independent assurance from Group Internal Audit that the Internal Model processes are operating as intended.

A summary of the MGC reviews are provided to the Life Companies' and Group Boards who approve risk calibration recommendations and Internal Model results.

SYSTEM OF GOVERNANCE CONTINUED

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal Control Framework

The Group's internal control system is outlined in the Internal Control Framework and is implemented consistently across the Group. The Internal Control Framework places reliance on the effective operation of the 'Three Lines of Defence' model described in section B.3.2 which is a recognised approach in supporting effective corporate governance and oversight.

There are five key elements to the effective operation of the Internal Control Framework to enable Lines 1, 2 and 3 to fully discharge their responsibilities:

- identification of the key controls within the business to effectively manage risks within risk appetite, which is undertaken as part of the annual Group Policy refresh process. This includes identification of the MCS required in order to manage risk within appetite;
- for each MCS defined, a clear articulation of the expected evidence to support the assertion that the MCS is operating effectively;
- self-assessment by designated control owners of the operating effectiveness of each MCS on a quarterly basis;
- implementation of a proportionate programme of controls assurance activity by Line 1 supported by further review and assurance activities by Lines 2 and 3; and
- reporting on MCS performance to provide assurance and management information to all stakeholders confirming that the controls are operating as expected or highlighting exceptions. This in turn enables the data to be incorporated and referenced with Line 1 and Line 2 risk reporting.

Each of these elements is an integral part of the RMF as outlined in section B.3, in particular risk appetite; governance, organisation and policies; management information; and technology and infrastructure.

B.4.2 The Compliance function

The Compliance function is undertaken by the Compliance Monitoring team which sits within the Operational and Regulatory Risk team under Group Risk. This is an independent function in the second line of defence and provides assurance to the Boards that the Group is operating within a compliant framework. Whilst compliance with regulation remains the responsibility of senior management assigned to specific roles, the Compliance function ensures that the appropriate mechanisms exist to support management in discharging their responsibilities to this end. In addition, the Compliance function provides assurance through its Line 2 Compliance Monitoring programme and is responsible for identifying and assessing the impacts of new regulations and disseminating these to the relevant parties.

An annual Compliance Monitoring plan is developed through a risk-based approach and approved by the relevant Board Risk Committee. This plan includes specific Solvency II requirements as determined through the regulations or internally, which is in addition to the independent validation in relation to the Internal Model.

The Regulatory Risk Policy and Guidance team monitor regulatory and industry developments which may impact the Group and its policyholders and ensure that these developments are identified in a timely manner, interpreted, cascaded appropriately, and that relevant actions are agreed and effectively implemented. The team, which supports both Group functions and Life Companies' functions, monitors the delivery of actions, providing challenge, oversight and senior management assurance around the effective management of regulatory risk in this regard.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION

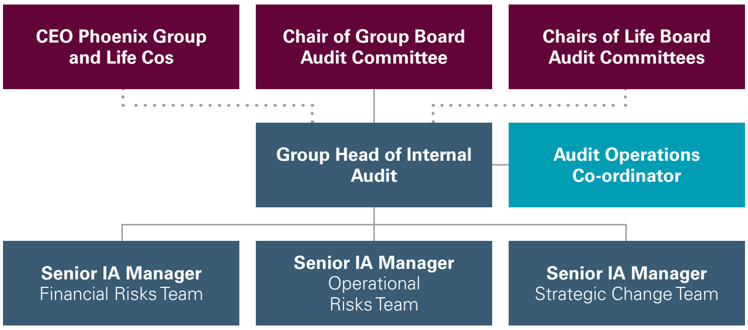
The primary role of the Phoenix Group Internal Audit ('PGIA') function is to support the Board and Executive Management in protecting the assets, reputation and sustainability of the organisation. This is achieved by assessing whether all significant risks are identified and appropriately reported, assessing whether they are adequately controlled and challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

PGIA operates in compliance with the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics and the Guidance on Effective Internal Audit in the Financial Services Sector.

The full Internal Audit Charter can be found on the governance pages of the Group's website (http://www.thephoenixgroup.com/about-us/corporate-governance/board-committees/audit-committee/group-internal-audit-charter.aspx).

B.5.1 Structure of Internal Audit

A summarised structure chart for the Internal Audit function is shown below:



B.5.2 Roles and responsibilities of Internal Audit

The Internal Audit scope is unrestricted and there are no aspects of the organisation which PGIA is prohibited from reviewing. Key business risk areas and industry themes identified both internally and externally, are prioritised to receive more extensive coverage, regular ongoing review and opinion formation.

The function has a number of responsibilities, including the following:

- Production of Internal Audit plans: PGIA plans, and material changes to plans, are approved by the Group Board Audit Commitee ('BAC') (further details on the Committee are included in Section B.1). They have the flexibility to deal with unplanned events to allow PGIA to prioritise emerging risks. Changes to the audit plan are considered through PGIA's ongoing assessment of risk.
- Oversight of Internal Audit functions: In the case of the Group's OSPs, PGIA operates a risk-based oversight model to ensure the activities of the outsourced Internal Audit functions meet PGIA standards (which are aligned to Chartered Institute of Internal Audit standards).

B.5.3 Reporting

PGIA attend, and issue reports to the PGH BAC and Phoenix Life BACs (see section B.1.6) and any other governing bodies and Board committees as appropriate.

PGIA's reporting to the PGH BAC includes significant control weaknesses, root-cause analysis, themes and a view on management's remediation plans. Bi-annually, PGIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework (and adherence to the risk appetite framework across the business).

B.5.4 Independence and objectivity of the Internal Audit function

In order to maintain its independence and objectivity from the activities it reviews, PGIA ensures the following:

- The Group Head of Internal Audit ('GHIA') reports to the Group BAC (through the Chair) and to the CEO on a day-to-day basis. Where the GHIA's tenure exceeds seven years, the Group BAC will explicitly assess independence and objectivity annually. The Group BAC Chair is the final approval point for recommendations made by the CEO regarding the performance objectives, appraisal, appointment or removal of the GHIA, as well as the overall compensation package of the GHIA which is further ratified by the RemCo.
- The remuneration of the GHIA and the Senior Internal Audit Managers is structured in a manner such that it avoids conflicts of interest, does not impair independence and objectivity and is not directly or exclusively linked to the short-term performance of the organisation.
- PGIA has the right to attend and observe all or part of executive management meetings and any other key management decision-making forums. It also has sufficient and timely access to all Board and Executive management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.
- Effective Risk Management, Compliance and other assurance functions are an essential part of the Group's corporate governance structure. PGIA is independent of these functions and is neither responsible for, nor part of, them. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances does PGIA rely exclusively on the work of these other assurance providers, and always examines for itself, an appropriate sample of the activities under review. To the extent that PGIA places reliance, this is only after a thorough evaluation of the effectiveness of those functions in relation to the area under review.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION

B.6.1 Organisational structure

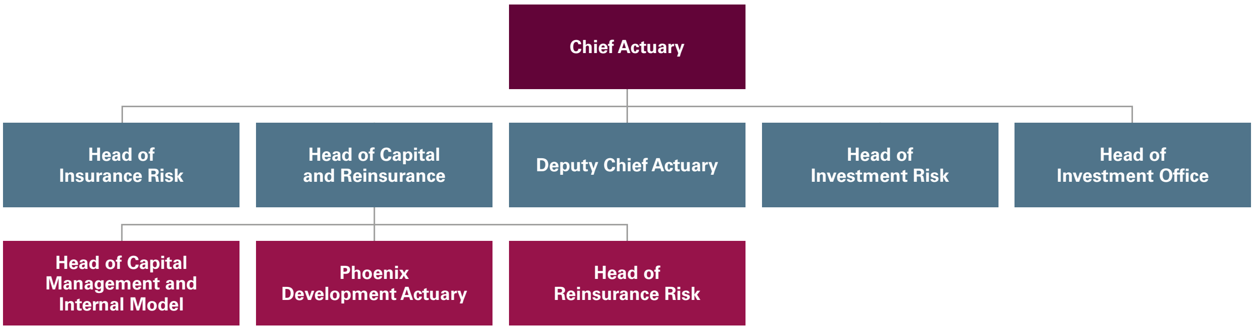
The Actuarial Function within the Group comprises:

- The Phoenix Life Actuarial department, headed by the Phoenix Life Chief Actuary;
- The Abbey Life Actuarial department (until quarter one 2018), headed by the Abbey Life Chief Actuary; and
- The Group Actuarial department, headed by the Group Chief Actuary.

The Actuarial Function provides a range of Actuarial services and advice to the Boards and management teams of the insurance subsidiaries and PGH.

B.6.2 Phoenix Life Actuarial department

A structure chart for the Phoenix Life Actuarial department[1] is provided below.



1 Head of Investment Office, reports directly to the Phoenix Life Chief Executive with effect from March 2018. Investment Office responsibilities are primarily related to investment strategy and management of assets and not directly actuarial in nature. Further discussions of this teams activities are therefore not considered in this section.

The Phoenix Life Chief Actuary is also the Chief Actuary of PLAL. The Phoenix Life Deputy Chief Actuary is Chief Actuary of PLL.

Throughout 2017, the ALAC Actuarial function was a stand-alone function. During quarter one of 2018 the ALAC Actuarial function transitioned to the Phoenix Life Actuarial department, led by the Phoenix Life Chief Actuary. The Phoenix Life Actuarial department detailed below therefore covers PLL, PLAL and PAWL, and incorporates ALAC following the completion of the transition during 2018. The ALAC Actuarial department which functioned prior to the transition is discussed in more detail in section B.6.3.

B.6.2.1 Key team roles within Phoenix Life Actuarial department

A summary of the role of each team within the Phoenix Life Actuarial department is outlined below.

Capital Management

The Capital Management team's role is to ensure that an appropriate amount of capital is held in each of the Group's insurance subsidiaries. The team oversees a capital policy which is designed to achieve the following objectives:

- to provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital; and
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors.

The capital policy framework comprises a suite of capital management policies that govern the allocation of capital throughout the Group to achieve these objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, dividend policy and regulatory capital requirements.

This team also review the results of the solvency monitoring process which estimates how the solvency of the companies has changed since the last full valuation. These results are reported weekly to senior management and monthly to management committees and Boards. The team also ensures processes are in place to escalate any breaches of the SCR and identify remedial actions.

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 Phoenix Life Actuarial department continued

B.6.2.1 Key team roles within Phoenix Life Actuarial department continued

Internal Model team

The Internal Model team works with other teams within the business to ensure that the Phoenix partial Internal Model remains in line with the PRA-approved model. This includes managing the regulatory approval process for any changes required to models, methodology and reporting processes in line with the latest regulatory and industry requirements.

In particular, the team recommends the methodology for calculating Solvency II regulatory capital and co-ordinates an opinion on the adequacy and reliability of the Technical Provisions.

This team is also responsible for the oversight of the Life Actuarial department's compliance with the risk reporting requirements of the RMF.

Investment Risk team

The primary role of the Investment Risk team is to ensure that the assets backing liabilities are appropriately matched. This work considers cash flow matching, hedging via use of derivatives, and review of asset mixes and investment strategy. Other key roles include providing support for shareholder and policyholder-related projects, management actions and managing the associated ALM implications.

Insurance Risk team

The Insurance Risk team is involved in all areas of managing longevity, mortality, persistency and morbidity risk. Longevity and persistency risk are key risks to which the Group is exposed and effective management of these is critical to meeting Phoenix's objectives.

The team ensures appropriate management of insurance risk by developing a risk management strategy, conducting experience investigations, setting best estimate and Solvency II stress assumptions and reporting and oversight of activities in other functions relating to insurance risk.

The team is also responsible for new business pricing which includes significant annuity and protection new business volumes.

Project Developments team

The Project Developments team lead and provide technical support for the planning and execution of a wide range of strategic projects to meet fund, entity and Group objectives. Projects include intra-group and external Part VII transfers (a court-sanctioned legal transfer of some or all of the policies of one company to another) and a variety of other projects (for example, developing new reassurance arrangements, and with-profit initiatives).

The Phoenix Life Actuarial department provides project support to all parts of the Group.

Reinsurance Risk team

The Reinsurance Risk team leads the relationship with all external reinsurance counterparties, maintains the Reinsurance strategy, seeking to leverage capital efficiencies from existing and potential new reinsurance agreements. The team also maintains oversight of key reinsurance risks to which the Group is exposed to through existing reinsurance arrangements.

B.6.2.2 Key responsibilities of the Phoenix Life Actuarial function under Solvency II

The key responsibilities of the Phoenix Life Actuarial function under Solvency II are to:

- inform stakeholders about the reliability and adequacy of the calculation of technical provisions;
- express an opinion on the adequacy of reinsurance arrangements;
- express an opinion on the overall underwriting policy; and
- contribute to the effective implementation of the risk-management system.

Reliability and adequacy of technical provisions

The Phoenix Life Actuarial department plays a critical role in determining the technical provisions across the following key areas:

- methodology;
- data;
- assumptions;
- calculations; and
- validation.

Ultimately, the Life Actuarial department is responsible for presenting the final technical provisions results to the Boards for approval.

SYSTEM OF GOVERNANCE CONTINUED
B.6 ACTUARIAL FUNCTION CONTINUED
B.6.2 Phoenix Life Actuarial department continued
B.6.2.2 Key responsibilities of the Phoenix Life Actuarial function under Solvency II continued
The Life Actuarial department is responsible for overseeing the calculation of technical provisions which are performed by the Life Finance department. The role of the Life Finance department and the interaction with Life Actuarial is summarised briefly below.

The Life Finance department are responsible for ensuring the technical provisions have been calculated in accordance with methodology specified by the Life Actuarial department. As part of this work the Life Finance department are responsible for:

- deriving best estimate demographic and expense assumptions from experience investigations;
- running the models and processes used to calculate the technical provisions;
- the accuracy and reliability of liability data and asset data required to calculate the technical provisions;
- initial review of the technical provision results, and understanding key drivers for changes since the previous valuation; and
- operation of validation controls, such as profit and loss attribution, and comparison of actual results with projected results from the solvency monitoring process.

The Life Actuarial department reviews and challenges the technical provisions produced by the Life Finance department and reports on the reliability and adequacy of these to the Boards. The appropriateness of the technical provisions for use in the balance sheet is assessed by carrying out a detailed review of the technical provisions, which may include studying the control reports and analysing the profit and loss attribution.

B.6.2.3 Reinsurance arrangements
The Life Actuarial department is responsible for forming an overall opinion on the adequacy of reinsurance arrangements. This is to ensure that existing arrangements operate effectively and provide the intended risk mitigation. It also includes the monitoring of the credit quality of reinsurance counterparties.

This opinion is largely guided by the oversight responsibilities and activities performed by the Group's Reinsurance Management Committee ('RMC'). The RMC conducts annual reviews of the reinsurance strategy with consideration given to risk limits, risk profile and effectiveness of risk transfer. The RMC may propose changes to reinsurance arrangements consistent with the risk appetite developed and adopted by the Group.

B.6.2.4 Underwriting policy
The Life Actuarial department is also responsible for forming an overall opinion on the underwriting policy. This is to ensure that the underwriting policy and practices in place are appropriate to the risk appetite of the Group and that the technical provisions are determined in a consistent manner.

This opinion is largely guided by the oversight responsibilities and activities performed by the New Business and Pricing Committee and the MCS imposed by the Group's insurance risk policy.

B.6.2.5 Contribution to the risk-management system
The Life Actuarial department contributes to the implementation of key parts of Phoenix's RMF, including:

- methodology to calculate the Internal Model SCR;
- on-going development of the Internal Model;
- review and challenge of the calculated SCR results, which are calculated by the Life Finance department;
- on-going management of risks faced by the insurance subsidiaries and Group by considering capital policy, asset/liability matching and investment strategy;
- managing and monitoring the insurance subsidiaries balance sheets; and
- developing, reviewing, and implementing management actions that may be called upon to improve the financial soundness of the Life Companies and the Group.

The Phoenix Life Chief Actuary, Deputy Chief Actuary and other senior members of the Actuarial department also sit on or chair a number of key internal governance committees.

This role within the governance process ensures the function is well placed to contribute to the development, monitoring and improvement of the Group's risk management system.

B.6.2.6 Reporting of Actuarial department activities to the Boards
The key tasks undertaken by the Phoenix Life Actuarial department are reported to the Boards and other key stakeholders annually in the 'Actuarial Function Report'.

This report describes the results and outcomes of the key tasks performed by the Actuarial department, along with any material deficiencies arising from them, and highlights where further details can be found regarding recommendations made to address any material deficiencies.

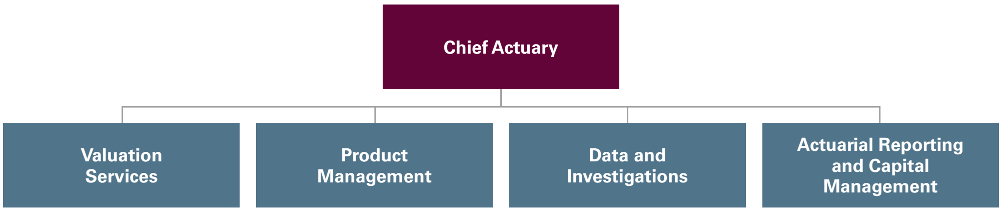
Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED
B.6 ACTUARIAL FUNCTION CONTINUED

B.6.3 Abbey Life Actuarial department

Throughout 2017, the Abbey Life Actuarial function provided a range of actuarial services and advice to the ALAC Board and management team. The Actuarial function was headed up by the Abbey Life Chief Actuary who was a member of the ALAC Board. During quarter one of 2018 the ALAC Actuarial function transitioned to the Phoenix Life Actuarial department, and moved under the same governance structure as the Phoenix Life Actuarial department. Further details on the Phoenix Life Actuarial department are set out in section B.6.2 above.

A structure chart for the Abbey Life Actuarial department is provided below.



B.6.3.1 Key team roles within Abbey Life Actuarial department

A summary of the role performed by each team within the Abbey Life Actuarial department during 2017 and until transition to the Phoenix Life Actuarial department in 2018 is outlined below.

Actuarial Reporting and Capital Management

The Actuarial Reporting and Capital Management team was responsible for determining the technical provisions. The team ran the models and processes used to calculate the technical provisions. They reviewed the results, understanding the key drivers of change since the previous valuation. They operated the validation controls including a comparison of the actual results with expected results from the solvency monitoring process.

The Chief Actuary reviewed and challenged the technical provisions produced by the Actuarial Reporting and Capital Management team, and reported on the reliability and accuracy of these to the Board. The appropriateness of the technical provisions for use in the balance sheet was assessed by carrying out a detailed review of the technical provisions, which may include studying the control reports and analysing the profit and loss attribution.

This team was also responsible for calculation of the Standard Formula capital requirements.

Data and Investigations

The Data and Investigations team played a critical role in determining the technical provisions in the following areas:

– data;
– assumptions; and
– validation of results.

The technical provisions rely on complete and accurate data being provided to the valuation system. The Data and Investigations team were responsible for the data used within this process and maintained a data dictionary with an assessment of all items of data for accuracy and completeness. The best estimate assumptions were derived from experience investigations conducted by this team, with the results presented to the Abbey Life Finance and Actuarial Technical Committee for review and challenge before being presented to the Board for approval.

The analysis of change and validation of the results were undertaken by this team in conjunction with the ALAC Chief Actuary. This included the study of control reports and analysing the profit and loss attribution. Ultimately the ALAC Chief Actuary was responsible for presenting the final results to the Board for approval.

SYSTEM OF GOVERNANCE CONTINUED
B.6 ACTUARIAL FUNCTION CONTINUED

B.6.3 Abbey Life Actuarial department continued

B.6.3.1 Key team roles within Abbey Life Actuarial department continued

Product Management

The Product Management team were responsible for annuity pricing and ensuring products were administered and operated in accordance with ALAC's risk appetite.

Valuation Services

The Valuation Services team performed a number of roles to support the Actuarial function. One key responsibility was ALM to ensure that assets that back liabilities were appropriately matched. This work considered cash flow matching and the review of asset mixes, but also ensured ongoing compliance with the requirements of the Matching Adjustment fund to ensure the various test statistics and other monitoring metrics were met.

B.6.3.2 Actuarial Function Report

The key tasks of the Abbey Life Actuarial Function are reported to the ALAC Board and other stakeholders annually in the Actuarial Function Report, which is prepared by the ALAC Chief Actuary.

B.6.4 Group Actuarial department

The Group Actuarial department supports the PGH and PA(GI) Boards in ensuring capital is managed efficiently, manages the Group's solvency position, contributes to the development of the Group's investment strategy and identifies and delivers opportunities to enhance shareholder value across the Group.

Group Actuarial relies on the controls, governance and oversight provided by the Phoenix Life Actuarial department and Abbey Life Actuarial department (until full transition to the Phoenix Life Actuarial department) in respect of actuarial activities that relate to the insurance subsidiaries, while maintaining oversight through membership on Governance committees.

Group Actuarial key activities are:

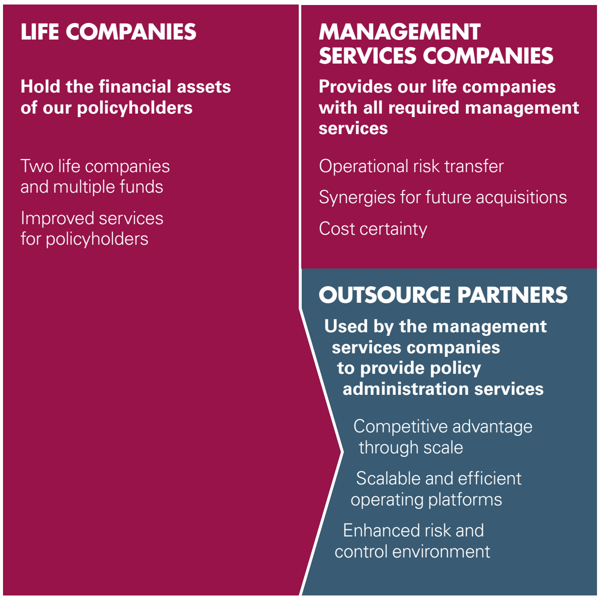
- managing and monitoring the Group balance sheet and capital management policies;
- management of the Group's pension schemes;
- maintaining and developing the Group partial Internal Model, particularly in relation to PA(GI) and the staff pension schemes;
- support on projects;
- pricing and assessment of potential acquisitions;
- pricing and assessment of bulk purchase annuity transactions; and
- development of the Group's investment strategy.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED

B.7 OUTSOURCING

This section provides information on the material outsourcing arrangements undertaken by the Group, and details the outsourcing policy. The diagram below presents the operating structure of the Group and the interaction with the outsource partners.



B.7.1 Service provider relationships

One of the Group's key strategic decisions is to outsource to providers who deliver a range of key services. All service providers are carefully selected following appropriate due diligence.

The Group operates a supplier oversight model, which is a defined MCS within the Sourcing and Procurement Policy detailed in section B.7.2 below. The sourcing model allows for all providers of service to be categorised based upon their risk and materiality to the business. The policy details the minimum standards which the Group are required to employ in establishing and overseeing suppliers, with particular focus on those suppliers who are deemed to be critical and strategically important. All critical and strategically important suppliers have been identified within a Supplier Management Model which defines the manner in which each supplier is overseen. The contracts for strategically important and critical suppliers fully define the requirements of them as a provider of services to the Group. These contracts make clear the obligations which are placed on each supplier.

A Contingency Framework is also in place and recognises that there are risks associated with OSP failure/default which the Group may be accountable for. This framework is reviewed on an annual basis and outputs of any reviews are shared with the FCA.

The outsource partners have scale and common processes, often across multiple clients, which provide several benefits for the Group, including reducing investment requirements, improving the technology used within our administrative capability, and reducing our operational risk.

Specialist roles such as Finance, Actuarial, Risk and Compliance and oversight of the outsource partners are retained in-house, ensuring the Services Companies and Life Companies retain full control over the core capabilities necessary to manage and integrate closed life funds.

SYSTEM OF GOVERNANCE CONTINUED
B.7 OUTSOURCING CONTINUED
B.7.1 Service provider relationships continued
The services provided across the Group's outsourcers are as follows:

B.7.1.1 Management Services Agreements ('MSAs') with Service Companies
The Service Companies are responsible for providing the Life Companies with all required management services.

The Services Companies manage relationships with the outsource partners. Without further acquisitions, the number of policies declines over time and the cost of our operations as a proportion of policies will increase. This risk is managed by paying a fixed price per policy to our outsource partners for policy administration services, which reduces this fixed cost element of our operations and converts it to a variable cost structure.

B.7.1.2 Policy administration
Full policy administration for our policyholders, including:

– call centre handling;
– policy servicing; and
– claims handling.

Policy administration services are principally UK based, and all fall under FCA jurisdiction with the exception of a small book of policyholders (less than 25,000) administered by Internal Financial Data Services ('IFDS') who are based in Dublin. The Group's key OSPs for policy administration are listed below.

Policy administration OSPs	PLL	PLAL	ALAC	PAWL
Diligenta Established in 2005, Diligenta are a UK-based subsidiary of Tata Consultancy Services ('TCS'), and a leading provider of business process services for the life and pensions industry. Specifically, Diligenta provide life and pensions business process services to our policyholders delivering contact centre, policy servicing and claims administration for 3.5 million live policyholders for PLL. In managing the Phoenix account, Diligenta operate out of three principal UK locations, Peterborough, Liverpool and Basingstoke, and are supported by overseas locations in India.	✓	✓	–	✓
Capita Life and Pensions A major supplier of business process services to the UK life and pensions industry. Specifically, Capita Life and Pensions provide life and pensions business process services to our policyholders delivering contact centre, policy servicing and claims administration for 1.9 million live policyholders. In managing the Phoenix account, Capita operate out of three principal UK locations, Glasgow, Craigforth and Bournemouth, and are supported by overseas locations in India.	✓	–	✓	✓
HCL (formerly Liberata) A smaller, but critical, UK regulated business process service relationship exists with HCL (132k live policyholders) who operate out of Romford, supported by overseas locations in India.	✓	–	–	–
DST (formerly Internal Financial Data Services (IFDS)) A smaller, but critical, UK regulated business process service relationships (17k live policyholders) who operate out of Dublin.	✓	–	–	–

B.7.1.3 Fund accounting and investment management
Service providers are used which provide the Life Companies with:

– Fund accounting and custody services; and
– Investment management of assets owned by the Life Companies under agreed Investment Management Agreements and associated mandates.

Section B
System of governance continued

SYSTEM OF GOVERNANCE CONTINUED
B.7 OUTSOURCING CONTINUED
B.7.1 Service provider relationships continued
B.7.1.3 Fund accounting and Investment Management continued
Investment, fund accounting and custody services are all operated by service providers who are UK based. The Group's key providers of these services are listed below.

Fund accounting and investment management OSP	PLL	PLAL	ALAC	PAWL
HSBC Provide end-to-end securities services incorporating fund accounting and custody services.	✓	✓	–	–
Standard Life Aberdeen A leading investment management group.	✓	✓	✓	–
Henderson Global Investors A global investment company, providing investment management services.	✓	✓	–	–
Architas Part of the AXA Group, providing specialist investment management services.	–	–	–	✓
Deutsche Asset Management (DAM) Investment Manager managing a portfolio of non-linked and shareholder assets on a non-discretionary basis,	–	–	✓	–
State Street Undertaking custodian, collateral and investment administration services.	–	–	✓	–

B.7.1.4 Other relationships
PA(GI) has contracted KPMG based in the UK to provide complaints handling services with regards to its past mis-selling claims.

B.7.2 Sourcing and procurement policy
Sourcing is the structuring of the supply base, including the evaluation, selection and appointment of suppliers to support the operating model of the organisation and key functions. Procurement is the acquisition of goods or services to meet specific business needs and the creation of commercial and legal agreements to fulfil specific requirements.

The Group has a sourcing and procurement policy in place which seeks to manage sourcing and procurement risk (the risk of reductions in earnings and/or value through financial or reputational loss associated with procuring services and managing service providers).

The policy covers the Group's MCS which are to be adhered to when evaluating, selecting, implementing and managing suppliers in order to ensure risk is managed appropriately. The policy also contains the key risks associated with sourcing and procurement and the MCS in place to mitigate those risks to within an acceptable risk appetite. This aligns with the Risk and Control Framework operated across the Group to manage risk. Further details on the Risk and Control Framework can be found in section B.3.

B.7.3 Board oversight
Management oversight committees are in place to oversee OSPs. A material outsourcer report is produced monthly, and presented to the Operations Committee on a quarterly basis.

Risk and control reporting, including the outsourcer view is maintained through the completion of a Line 1 risk report (an outcome report, aligned to the Phoenix risk universe and RMF). This report is reviewed and approved by the relevant Management Board on a monthly basis and is submitted to the relevant Life Risk Committee on a quarterly basis.

SYSTEM OF GOVERNANCE CONTINUED

B.8 ANY OTHER INFORMATION

B.8.1 System of governance – assessment of adequacy

Overall, it has been deemed that the system of governance in place within the Group is adequate to meet the requirements of the Solvency II Directive, demonstrated by the framework described herein.

There is no further material information to be disclosed regarding the system of governance.

Section C
Risk profile

IN THIS SECTION

RISK PROFILE

Section C
Risk profile continued

RISK PROFILE

Section B.3 sets out the risk management system including information on how the Risk Management Framework is implemented and integrated into the organisational structure and decision-making processes of the Group and its insurance subsidiaries. Information is also provided on the extent to which the risk management system is embedded across the Group following the acquisition of the AXA Wealth and Abbey Life books of business.

This section provides information on the risk profile of the Group and its insurance subsidiaries, including for each category of risk, a description of the risks, a description of the measures used to assess these risks, material risk exposures, concentrations and risk mitigation techniques. Sensitivity analysis for each category of risk is also provided.

The chart below shows the composition of the actual PGH Group undiversified SCR, calculated in accordance with the PRA approved partial Internal Model, as the ALAC business remained on a Standard Formula basis as at 31 December 2017. Therefore, the Solvency II position of the Group at that date is based partially on the Group's Internal Model and partially on Standard Formula.

A	**37%**	Underwriting risk
B	**25%**	Market risk
C	**25%**	Credit risk
D	**0%**	Liquidity
E	**12%**	Operational risks
F	**1%**	Other risks

The undiversified SCR of the underlying insurance subsidiaries is presented below. PAWL is not included in the table below due to the Part VII transfer to PLL detailed in section A.1.4.2 and its subsequent deauthorisation with effect from 9 March 2018.

Risk profile of insurance subsidiaries	Section reference	PLL %	PLAL %	ALAC %	PA(GI) %	PGH Group %
Underwriting risk	C.1	36	42	–	–	37
Market risk	C.2	23	21	12	–	25
Credit risk	C.3	25	29	74	–	25
Liquidity risk	C.4	–	–	–	–	–
Operational risk	C.5	15	8	14	100	12
Other risks	C.6	1	–	–	–	1
Total		**100**	**100**	**100**	**100**	**100**

The Group and its insurance subsidiaries are generally exposed to similar risks although the extent of exposures varies depending on the LoB underwritten by the insurance undertaking and the asset portfolios held.

Sections C.1 to C.6 set out, for each of the risks, a description of the material risks that the Group and the insurance subsidiaries are exposed to, the risk measurement techniques used to assess these risks, risk concentrations, and a description of risk mitigation techniques used for mitigating these risks. Section C.7 set out the results of stress testing and sensitivity analysis for material risks.

The Group and its insurance subsidiaries do not hold SCR for liquidity risk, as explained further in Section C.4.1.

More details regarding the SCR are set out in section E.2.

Section C
Risk profile continued

RISK PROFILE CONTINUED
C.1 UNDERWRITING RISK
C.1.1 Risk exposure

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. Contracts underwritten by the insurance subsidiaries within the Group include the following sources of underwriting risk:

Risk source	Description
Mortality risk (including catastrophe risk)	Higher than expected number of death claims on assurance products and occurrence of one or more significant claims.
Longevity risk	Lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality.
Morbidity risk	Higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies.
Expense risk	Unexpected timing or value of expenses incurred.
Lapse risk (including persistency risk)	Adverse movement in either surrender rates or persistency rates on policies, leading to losses. This includes the risk of greater than expected policyholder option exercise rates giving rise to increased claims costs.
New Business pricing risk	Inadequate or inappropriate pricing of new business.

The table below shows the split of the undiversified SCR in respect of underwriting risk.

Components of underwriting risk	PLL %	PLAL %	PGH Group %
Longevity risk	20	23	21
Lapse risk (including persistency risk)	12	17	13
Other life underwriting risk	4	2	3
Total underwriting risk	36	42	37

Neither PA(GI) or PAWL are exposed to underwriting risk, as they no longer underwrite any insurance business.

In addition to exposure arising from contracts underwritten by the insurance subsidiaries, the Group is also exposed to longevity risk arising from the Pearl Group Scheme, the PGL Scheme and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme').

During the year ended 31 December 2017, the key changes to the Group and its insurance subsidiaries' exposure to underwriting risk include:

- establishment of reinsurance agreements between ALAC and PLL which has transferred the material insurance risk exposures of ALAC to PLL (further details are included in section A.1.4.1);
- a weakening of longevity assumptions and a strengthening of mortality assumptions (as a result of a greater number of deaths than expected);
- strengthening of best estimate late retirement assumptions within PLAL;
- introduction of late retirement stress assumptions that increased the capital requirements for PLL and PLAL; and
- replacement of existing reinsurance agreements PLL have on blocks of underwritten annuities with Hannover Re. with a longevity swap providing increased cover.

C.1.2 Risk measurement

The Group and its insurance subsidiaries use several methods to assess and monitor underwriting risk exposures both for individual types of risks insured and the overall risks. These methods include the PRA approved partial Internal Model, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for underwriting risk is assessed using the Group's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2017, underwriting risk represented 37% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

Section C
Risk profile continued

RISK PROFILE CONTINUED

C.1 UNDERWRITING RISK CONTINUED

C.1.3 Risk concentration

The Group and its insurance subsidiaries are not exposed to any material concentration of underwriting risk. For all underwriting risks described above, the Group's exposure is spread across a diversified portfolio of products with approximately 5.6 million individual policyholders. No individual policyholder contract size is large enough to represent a material concentration as a proportion of the Group's total risk exposure.

C.1.4 Risk mitigation

The Group and its insurance subsidiaries seek to manage exposure to underwriting risk by establishing MCS and supporting practices that align with its agreed principles. Risk appetite statements have been established for underwriting risks and the risk exposures are monitored against agreed limits.

The ongoing effectiveness of insurance risk mitigation is monitored on a regular basis by the Finance and Capital Committee ('FCC').

The hedging of underwriting risk through reinsurance and other forms of risk transfer is used to manage the overall level of exposure to underwriting risk.

As at 31 December 2017, the Life Companies and the Group held the following reinsurance recoverable balances.

	Reinsurance recoverables £m	Largest counterparty
PLL	8,178	Legal & General Assurance (Pensions Management) Limited
PLAL	2,869	PLL
ALAC	1,618	PLL
Other[1]	(3,823)	–
PGH Group	**8,842**	Reinsurance Group of America

1 Other includes consolidation items in respect of intra-group reinsurance arrangements.

The majority of the underwriting risk that has been ceded relates to annuitant longevity risk, which has been transferred by a mixture of conventional reinsurance treaties and longevity swaps.

The ongoing effectiveness of the reinsurance ceded externally by the Life Companies is monitored on an ongoing basis by the Reinsurance Management Committee ('RMC').

C.1.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a number of underwriting risk scenarios on the SCR is monitored. The results of such stress testing on the Group's and each insurance subsidiary's SCR are provided below.

	PLL		PLAL		PGH Group	
SCR £m (or %)	SCR £m	SCR Ratio %	SCR £m	SCR Ratio %	SCR £m	SCR Ratio %
Base: 1 January 2018[1]	**2,897**	**127**	**1,590**	**123**	**4,822**	**138**
Following a 6% decrease in annuitant mortality rates[2]	2,887	121	1,581	118	4,825	132
Following a 10% increase in assurance mortality rates	2,895	124	1,592	123	4,818	136
Following a 10% change in lapse rates[3]	2,866	125	1,598	113	4,795	136

1 Assumes stress occurs on 1 January 2018.
2 Equivalent of six month increase in longevity applied to the annuity portfolio.
3 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

As can be seen from the results, the Group and its insurance subsidiaries are reasonably resilient to such scenarios.

RISK PROFILE CONTINUED

C.2 MARKET RISK

C.2.1 Risk exposure

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. The Group and its insurance subsidiaries are exposed to the following sources of market risk:

Risk source	Description
Interest rate risk	The risk that the fair value of future cash flows of a financial instrument will fluctuate relative to the respective liability due to the impact of changes in market interest rates and the associated guarantees on certain insurance contracts.
Equity risk	The risk of reduction in earnings and/or value, from unfavourable movements in equity asset values and/or equity volatility. In this context, equity assets should be taken to include shares, equity derivatives and equity collectives (OEICs, unit trusts, investment trusts).
Property risk	The risk of reduction in earnings and/or value, from unfavourable movements in property asset values and/or property volatility. In this context, property assets should be taken to include direct property investment, shares in property companies, property collectives (OEICs, unit trusts, investment trusts) and structured property assets.
Gilt swap spread risk	The risk of reduction in earnings and/or value, from unfavourable movements in the spread between government bond yields and swap rates used to discount insurance liabilities.
Inflation risk	The risk of reduction in earnings and/or value, due to inflation, e.g. price inflation or wage inflation, leading to an unanticipated change in insurance cost.
Currency risk	The risk of reduction in earnings and/or asset and liability values, arising solely as a consequence of changes to currency exchange rates. This risk category also covers the risk of a change in swap rates in one currency, relative to the swap rate in another currency.
Alternative assets risk	The risk of reduction in earnings and/or value, from unfavourable movements in the value and/or volatility of investments in alternative asset classes. In this context, alternative asset classes should be taken to include hedge funds and private equity vehicles.

Investment markets showed positive returns in 2017, driven by an expectation of stronger global macro-economic growth. UK equity markets rose, with the FTSE All Share Index closing approximately 9% ahead of the 31 December 2016 position. Phoenix seeks to hedge the majority of shareholder exposure from declines in equity markets through the use of derivatives. The increase in equity markets over the period led to a decline in value of these put options which has been recognised in the IFRS results, with the solvency position broadly unchanged as expected. Swap yields were unchanged over the period. Credit spreads narrowed across ratings and implied future inflation rates increased during the year.

The table below shows the split of the undiversified SCR in respect of market risk for each of the insurance subsidiaries and the Group.

Components of market risk	PLL %	PLAL %	ALAC %	PGH Group %
Interest rate risk	8	8	5	8
Gilt swap spread risk	5	8	–	6
Other market risks	10	5	7	11
Total market risk	**23**	**21**	**12**	**25**

C.2.2 Risk measurement

The Group and the insurance subsidiaries use several methods to assess and monitor market risk exposures both for individual market risk categories and for the aggregate exposure to all market risks. These methods include monitoring of asset portfolio composition, interest rate mismatch risk metrics, strategic asset allocation, and hedge effectiveness. In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for market risk is assessed using the Group's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2017, market risk represented 25% of the Group's total undiversified SCR as shown in the chart at the beginning of section C and above.

RISK PROFILE CONTINUED
C.2 MARKET RISK CONTINUED

C.2.3 Risk concentration

The asset concentrations are managed through the Group's strategic asset allocation process, with the allocation to each asset class being agreed by the insurance subsidiary Boards.

The operation of agreed market risk concentration limits at fund level ensures that the Group and the insurance subsidiaries are not overly exposed to any single country, sector or individual counterparty.

C.2.4 Risk mitigation

Interest rate risk

With-profit business and non-participating business within the with-profit funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include fixed interest securities and derivatives. For with-profit business, the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits dependent on the existence of policyholder guarantees. The contribution of these funds to the Group result is determined primarily by either the shareholders' share of the declared annual bonus or by the shareholders' interest of any change in the value of the capital advanced to the insurance subsidiaries' with-profit funds ('supported'). The capital is exposed to all economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'.

Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the health and other life insurance funds including Matching Adjustment annuity funds. For participating business, increased exposure to interest rate risk is permitted where it is consistent with the principles of treating customers fairly. The with-profit funds of the Group provide capital to allow such mismatching to be effected. In practice, the insurance subsidiaries within the Group maintain an appropriate mix of fixed and variable rate instruments (including cash and derivatives) according to the underlying policyholder liabilities and a review is performed at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

In the non-participating funds and particularly Matching Adjustment annuity funds, policy liabilities' sensitivity to interest rates are matched primarily with fixed and variable rate income securities and derivatives, with the result that sensitivity to changes in interest rates is low.

The Group's pension schemes exposure to interest rates is largely hedged through the use of long dated gilts and interest rate swaps, within the schemes.

Equity and property risk

The Group's objective in holding equity and property assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's equity holdings are diversified across industries and concentrations in any one company or industry are limited. The Group's exposure to property risk is increased through the planned increase in investment in illiquid credit assets such as ERM, Commercial Real Estate ('CRE') and infrastructure debt.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for each of the Group's life funds in respect of maintaining adequate regulatory capital and treating customers fairly. This is largely achieved through asset class diversification and within the Group's ALM framework through the holding of derivatives or physical positions in relevant assets to hedge equity risk where appropriate.

The Group's pension schemes also retain a material exposure to equity and property risk. Risk exposures are managed via each scheme's investment strategy, as agreed with the trustees.

Inflation risk

The Group is exposed to inflation risk through annuity policies and the Group's pension schemes, which may provide for future benefits to be paid taking account of changes in the level of experienced and implied inflation, and also through the Group's cost base. The Group seeks to manage inflation risk through the holding of derivatives, such as inflation swaps, or physical positions in relevant assets, such as index-linked gilts, where appropriate.

Gilt swap spread risk

The insurance subsidiaries accept some residual exposure to gilt-swap spread risk. This exposure arises where UK Gilts are held as assets but policyholder liabilities are discounted using the EIOPA risk-free reference rate, which is based on the swap curve. For the Group's pension schemes, where liabilities are valued using a gilts-based curve, gilt-swap spread exposure exists where swaps are held to hedge the liabilities. The exposure to gilt-swap spread risk is managed to stay within the overall risk appetite of the Group.

Section C
Risk profile continued

RISK PROFILE CONTINUED
C.2 MARKET RISK CONTINUED
C.2.4 Risk mitigation continued

Currency risk

The Group and its insurance subsidiaries' financial assets are primarily denominated in the same currencies as its policyholder liabilities. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which policyholder liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

The Group and its insurance subsidiaries have some exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the investment committees of the Boards of each insurance subsidiary. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks.

Following the issue of a US$500 million Tier 2 bond in July 2017, the Group entered into a cross-currency swap in order to fix the GBP value of the coupon and principal payments on the bond. The Group holds risk capital against the risk of adverse changes in foreign exchange rates and foreign currency swap margins, which may reduce the value of the swap. In the assessment of currency risk, adverse movements in the value of the swap are not offset by movements in the Tier 2 bond, as the bond qualifies as Solvency II eligible capital, which exactly offsets the fair value of the debt instrument under all scenarios.

Alternative assets risk

PLL and PLAL hold alternative assets as part of their wider diversified portfolios. The risks are managed in accordance with the ALM framework, taking into account the ALM targets and risk appetite of the funds in question.

The Matching Adjustment portfolios include exposure to ERM. The interest rate risk in respect of these illiquid assets is matched to liabilities in order to leave a low residual interest rate risk exposure. The potential adverse loss in respect of these illiquid assets is modelled using bespoke in-house models reflecting the specificities of these asset classes.

The Group's pension schemes also retain a material exposure to alternative assets risk.

The ongoing effectiveness of market risk mitigation is monitored on a regular basis by the Investment Management Committee ('IMC') .

C.2.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a number of market risk scenarios on the SCR is monitored. The results of that stress testing on the Group's and each insurance subsidiary's SCR are provided below.

	PLL		PLAL		PGH Group	
SCR £m (or %)	**SCR £m**	**SCR Ratio %**	**SCR £m**	**SCR Ratio %**	**SCR £m**	**SCR Ratio %**
Base: 1 January 2018[1]	**2,897**	**127**	**1,590**	**123**	**4,822**	**138**
Following a 20% fall in equity markets	2,902	127	1,591	123	4,829	138
Following a 15% fall in property values	2,899	126	1,592	123	4,830	137
Following a 55bps interest rates rise[2]	2,739	129	1,466	130	4,526	143
Following a 80bps interest rates fall[2]	3,148	125	1,783	117	5,299	133

1 Assumes stress occurs on 1 January 2018.
2 Assumes recalculation of transitionals (subject to PRA approval).

As can be seen from the results, the Group and its insurance subsidiaries are reasonably resilient to such scenarios.

RISK PROFILE CONTINUED

C.3 CREDIT RISK

C.3.1 Risk exposure

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The Group and the insurance subsidiaries are exposed to the following sources of credit risk:

Risk source	Description
Spread risk	The risk of reduction in earnings and/or value, arising from changes in the spread between corporate bond yields and gilt yields or corporate bond yields and the swap curve. In this context, spread risk also includes changes in the spreads on ERM, infrastructure loans, commercial mortgage loans, local authority loans and infrastructure investments.
Illiquid credit risk	The risk of reduction in earnings and/or value, from unfavourable movements in the value and/or volatility of investments in illiquid credit asset classes. In this content, illiquid credit assets include ERM, commercial real estate debt and infrastructure debt.
Investment counterparty risk	The risk of reduction in earnings and/or value, arising from counterparty defaults on investments such as bonds, derivatives and cash deposits. This also includes the residual risk of credit risk mitigation techniques being less effective than expected. For example 'gap risk' where derivative or reinsurance collateral fails to move in line with liabilities following a default event.
Reinsurance counterparty risk	The risk of reduction in earnings and/or value, arising from the failure of a reinsurance counterparty to meet its contractual obligations by way of default or delayed claim settlements.
Outsourcer default risk	The risk of reduction in earnings and/or value, arising from default by firms providing outsourced services such as administration and investment management.
Stock-lending risk	The risk of reduction in earnings and/or value, arising as a result of borrowers defaulting on their obligation to return the original stock and the risk arising from the investment of the collateral received in lieu of the borrowed stock.

During the year ended 31 December 2017, the following are the key changes to the Group and its insurance subsidiaries exposure to credit risk:

- replacement of the reinsurance agreement between PAWL and PLL with a Part VII transfer of business;
- establishment of reinsurance agreements between ALAC and PLL;
- increased investment in ERM assets through both acquisition of a further back book and ongoing funding of new loans;
- new investment in CRE loans; and
- increased investment in local authority loans.

C.3.2 Risk measurement

Several methods are used to assess and monitor credit exposures. These methods include monitoring of asset portfolio composition, single name counterparty monitoring, Value-at-Risk ('VaR') and Potential Future Maximum Exposure modelling. In addition, risk is measured using the PRA approved partial Internal Model, sensitivity analyses, scenario analyses and stress testing.

The risk capital requirement for credit risk is assessed using the Group's PRA approved partial Internal Model, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period.

As at 31 December 2017, credit risk represented 25% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

RISK PROFILE CONTINUED
C.3 CREDIT RISK CONTINUED

C.3.3 Risk concentration

Concentration of credit risk exists where the Group or its insurance subsidiaries has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. Counterparty credit risk is monitored by the counterparty limits contained within the investment guidelines and investment management agreements. Counterparty risk in respect of over-the-counter ('OTC') derivative counterparties is monitored using a Potential Future Maximum Exposure metric.

An indication of the exposure to credit risk is the quality of assets. The table below provides information regarding the aggregate credit exposure split by credit rating, for direct holdings in government and corporate bonds included in investments (other than assets held for index-linked and unit-linked contracts).

	PLL		PLAL		ALAC		PGH Group	
Rating	Market value £m	Percentage of total %	Market value £m	Percentage of total %	Market value £m	Percentage of total %	Market value £m	Percentage of total %
AAA	1,039	8	235	5	38	13	1,312	8
AA	7,250	58	2,916	67	180	64	10,346	60
A	2,431	19	731	17	19	7	3,181	19
BBB	1,278	10	312	7	31	11	1,621	9
BB	50	1	–	–	–	–	50	–
B and below	118	1	11	1	2	1	131	1
Non-rated	375	3	150	3	12	4	537	3
Total	**12,541**	**100**	**4,355**	**100**	**282**	**100**	**17,178**	**100**

As at 31 December 2017, the largest credit counterparty exposures to a single name counterparty in the Group's asset portfolio were:

Top 10 single name credit exposures (£m)	PGH Group
UK Government	9,507
European Investment Bank	630
HSBC Holdings PLC	271
French Republic	181
Santander	178
Federal Republic of Germany	173
Bank of America Corporation	143
Barclays PLC	139
Cooperative Rabobank UA	137
FGP Topco LTD	128

The insurance subsidiaries and the Group are exposed to concentration risk in respect of reinsurance ceded to external counterparties, although this is largely mitigated by collateral arrangements with the reinsurers and concentration limits in respect of individual reinsurance counterparties.

RISK PROFILE CONTINUED
C.3 CREDIT RISK CONTINUED

C.3.4 Risk mitigation

The insurance subsidiaries and the Group are also exposed to concentration risk with outsource partners. This is due to the nature of the outsourced services market. The Group operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and measured though the PRA approved partial Internal Model, stress and scenario testing. Further details on the Group's outsourcing arrangements can be found in section B.7.

Credit risk is managed by monitoring aggregate Group exposures to individual counterparties, through appropriate credit risk diversification and via the investment mandates. The Group manages the level of credit risk it accepts through credit risk tolerances. In certain cases, protection against exposure to particular credit risk types may be achieved through the use of derivatives. The credit risk borne by the shareholder on with-profit policies is dependent on the extent to which the underlying insurance fund is reliant on shareholder support.

The ongoing effectiveness of credit risk mitigation described above is monitored on an ongoing basis by the IMC and the RMC.

Further specific mitigation techniques are set out below.

Matching Adjustment portfolio

PLL and, PLAL have Matching Adjustment approval in respect of blocks of non-participating immediate annuity business. Credit risk and Matching Adjustment is managed via the investment mandates and with investment in Matching Adjustment eligible assets.

Reinsurers

The Group cedes insurance risk in the normal course of business. The Group has policies and procedures in place for the management of reinsurance counterparty default risk, including the design of new treaties and the regular monitoring of reinsurance counterparties by the RMC in the case of PLL and PLAL and in the case of ALAC, by the FATC.

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of derivative contracts, reinsurance arrangements and securities lending in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on the terms agreed with the counterparty, which are subject to an assessment of credit risk.

Outsourcers

The Group receives services from different suppliers in relation to policy administration, asset management and fund accounting services. As a result of receiving services from suppliers, the Group is exposed to the risk of default. Risk capital is assessed under a 'Multiple Policy Administration Outsourcer failure and default' scenario.

The selected scenario considers a situation where a number of policy administration suppliers default on contractual obligations and become insolvent. Risk capital is assessed using expert judgement, based on an established methodology and is reviewed and agreed by management oversight committees and the MGC.

The risk capital assessment takes account of the supplier's operating model, control factors and other forms of protection (such as parental letters of credit used to mitigate the risk for certain outsourcers).

C.3.5 Sensitivity analysis

As part of the Group's internal risk management processes, the impact of a credit risk scenario on the SCR is monitored. The results of that stress testing on the Group's and each insurance subsidiary's SCR are provided below and demonstrate the resilience of the Group.

	PLL		PLAL		PGH Group	
SCR £m (or %)	SCR £m	SCR Ratio %	SCR £m	SCR Ratio %	SCR £m	SCR Ratio %
Base: 1 January 2018[1]	**2,897**	**127**	**1,590**	**123**	**4,822**	**138**
Following credit spread widening[2]	2,824	125	1,549	121	4,672	136

1 Assumes stress occurs on 1 January 2018.

2 Credit stress equivalent to an average 150bps spread widening across ratings. 10% of which is due to defaults/downgrades.

RISK PROFILE CONTINUED

C.4 LIQUIDITY RISK

C.4.1 Risk exposure

Liquidity risk is defined as the failure of the Group to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of the insurance subsidiaries. The Group's insurance subsidiaries have exposure to liquidity risk as a result or normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. In addition, liquidity risk arises as a result of the funding requirements of the Group pension schemes.

The Group and insurance subsidiaries do not hold risk capital against liquidity risk. Liquidity risk is managed by holding an appropriate proportion of the assets in liquid form, with the proportion determined based on cash flow projections and stress testing.

During 2017 the Group has taken steps to strengthen its capital position at the PGH level. This has involved the issuance of £450 million Tier 3 bonds in two tranches of £300 million and £150 million in January and May 2017 respectively, and a further US$500 million Tier 2 bonds issued in July 2017. The proceeds have been used to repay senior bank debt and redeem senior bonds that do not count as regulatory capital in the PGH Solvency II capital calculation, so the net impact on the cash position was minimal. As a result the Group Revolving Credit Facility ('RCF') was repaid and remains undrawn as a liquidity buffer. The maturity date of the Group's RCF was extended in March 2017 to 30 June 2021. In July 2017, Fitch upgraded the Group credit ratings by one notch, which is positive for the Group's access to debt capital markets.

C.4.2 Risk measurement

Regular monitoring of liquidity takes place in order to establish that all liquidity management activities have processed appropriately, and to ascertain available liquidity.

The Group and insurance subsidiaries carry out a monthly forecast of liquidity resources and restrictions for the next 12 month period, and over the five-year planning horizon. Monitoring activities include a review of appropriate liquidity risk measures (for example VaR), as agreed by the PGH Board and insurance subsidiaries' Boards.

In addition to the monthly monitoring described above, the insurance subsidiaries determine working capital accounts for each fund based on liquidity stress testing and maintain a forecast of liquid resources against two years policyholder claims.

C.4.3 Risk concentration

Uncertainty of cash outflows for the insurance subsidiaries arises primarily as a result of mass lapse risk and catastrophe risk. However, the insurance subsidiaries are not exposed to material concentrations of liquidity risk due to holding sufficient liquidity to cover fluctuations in cash outflows.

PLL and PLAL are also exposed to potential collateral calls for derivative assets held, which may arise from large movements in yields, foreign exchange or equity indices, and in the case of PLL, the longevity swap with RGA.

Similarly, PGH is exposed to potential collateral calls in respect of the cross-currency swap held by PeLHL to hedge the currency risk associated with the Tier 2 US$ debt.

C.4.4 Risk mitigation

The insurance subsidiaries' Boards have defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

- liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and PPFM;
- cash flows are appropriately managed and the reputation of the Group is safeguarded; and
- appropriate information on liquidity risk is available to those making decisions.

The insurance subsidiaries' policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared monthly to predict the required liquidity levels over both the short and medium-term, allowing management to respond appropriately to changes in circumstances.

The vast majority of the insurance subsidiaries' derivative contracts are traded OTC and have a two-day collateral settlement period. As the existing swaps expire, they will be replaced with centrally cleared contracts. The insurance subsidiaries' derivative contracts are monitored daily, via an end-of-day valuation process, to assess the need for additional funds to cover margin or collateral calls.

RISK PROFILE CONTINUED
C.4 LIQUIDITY RISK CONTINUED
C.4.4 Risk mitigation continued
Liquid assets are held in appropriate accounts to cover internally set buffers to meet collateral calls on derivative assets. This is monitored on a monthly basis.

Some of the insurance subsidiaries' commercial property investments and cash and cash equivalents are held through collective investment schemes. The collective investment schemes have the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. To date, the collective investment schemes have continued to process both investments and realisations in a normal manner and have not imposed any restrictions or delays.

A significant proportion of the insurance subsidiaries' financial assets are held in gilts, cash, supranationals and investment grade securities which the Companies consider sufficient to meet the liabilities as they fall due. The vast majority of these investments are readily realisable since most of them are quoted in an active market.

For unit-linked contracts the insurance subsidiaries match all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest rate, price, currency or credit risk for the Company on these contracts. In extreme circumstances, the Insurance subsidiaries could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Company considers its risk to be low since there are steps that can be taken first within the funds themselves (e.g. restrictions on withdrawals) both to ensure the fair treatment of all investors in those funds and to protect the Company's own risk exposure.

The ongoing effectiveness of liquidity risk mitigation described above is monitored on an ongoing basis by the IMC and the FCC.

C.4.5 Stress testing
Liquidity stress testing is carried out on a monthly basis on the insurance subsidiaries. As at 31 December 2017, the stress testing demonstrated that the insurance subsidiaries held sufficient liquid assets to cover internally agreed liquidity buffers to meet collateral calls under a market risk stress scenario with 1-in-10 probability, which is within the insurance subsidiaries' risk appetite.

C.4.6 Expected profits in future premiums ('EPIFP')
Own Funds are used to cover the SCR (see more details in Section E.1). The value of liabilities, included within Own Funds, takes into account expected future premium payments even if the policyholder is not contractually committed to making the payments. This methodology for valuing liabilities therefore implicitly allows for any Expected Profits In Future Premiums ('EPIFP') which reduces the liability value and increases Own Funds.

The contribution of EPIFP to Own Funds is important from a liquidity perspective as the extent of future premiums assumed in the liability valuation may not emerge in practice (for example due to higher than assumed policyholder lapse rates), thus potentially lowering the available Own Funds to cover the SCR.

As at 31 December 2017, the insurance subsidiaries and the Group's EPIFP included as a component of the reconciliation reserve is shown below. This comprised mainly of future profits arising on protection and unit-linked business.

	PLL £m	PLAL £m	ALAC £m	PGH Group £m
EPIFP	317	18	–	335

ALAC's EPIFP is £nil, as the profits emerge through the reinsurance agreements with PLL.

PA(GI) does not hold any insurance liabilities, and hence has £nil EPIFP.

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK

C.5.1 Risk exposure

Operational risk is defined as the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people-related or external events.

The main sources of operational risk are customer treatment risk and model risk.

During the year ended 31 December 2017, the key changes to the Group's exposure to operational risk include:

- A short-term increase across a range of operational risk categories following acquisition of the AXA Wealth and Abbey businesses in late 2016. Specifically, Customer Treatment and Regulatory Compliance within Abbey Life, given the ongoing uncertainty around the outcomes of the ongoing FCA investigations into ALAC on the thematic review of the fair treatment of long-standing customers and the annuity sales practices review. The Group holds an indemnity from Deutsche Bank to cover exposures, were they to arise on completion of the thematic review findings, in respect of all regulatory fines, and 80% to 90% of the costs of customer remediation. The maximum amount that can be claimed under the indemnity is £175 million;
- In respect of the AXA Wealth acquisition, coverage of new business; sales and distribution and some unit linked activity (which in the case of PLL and PLAL was outsourced) have resulted in new risk exposures;
- As key transitional and transformation activity linked to the acquisitions approach live implementation in Q4 2017 and Q1 2018, risk exposure in respect of people, processes and systems will increase in the short term, but are expected to reduce reasonably quickly thereafter;
- Outside of the acquired businesses, the Group's exposure to operational risk has remained fairly stable. Progress continues on reducing exposures within our OSPs in relation to IT, information security and financial crime. However no single risk exposure is considered to have materially deteriorated;
- Uncertainty regarding customer treatment and regulatory compliance risk pending the publication of regulatory reviews/announcements and ongoing marketplace developments such as charge caps continues; and
- The business has begun to implement its Digital Strategy, with the related control framework being subjected to reviews by Line 2 with external expert support to ensure our risk exposure was being effectively managed as our online customer servicing proposition expands.

C.5.2 Risk measurement

The risk capital requirement for operational risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is primarily based on a frequency-severity approach which has been rolled out during 2017 to more accurately quantify the risks and reduce the reliance on expert judgement. A minority of operational risks continue to be assessed using a scenario-based approach, involving experts across the business.

From a qualitative perspective, the operational risks are regularly reported to management oversight committees.

As at 31 December 2017, operational risk represented 12% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.5.3 Risk concentration

Across the universe of operational risks, the Group's largest operational risk concentrations are customer treatment risk and model risk.

The Group also has concentrations of operational risk that are driven by its business model to outsource to specialist providers of key services covering customer services administration, investment management, certain finance middle office activities and asset custody.

Concentration risk in this respect is defined and managed in line with the Group's Sourcing Strategy which is refreshed on an annual basis.

From a geographical perspective, the Group is not exposed to any material concentration of operational risk, as the OSPs operate from multiple locations within the UK and offshore. This ensures that within individual OSPs effective business continuity solutions which meet the requirements of the Group can be maintained.

C.5.4 Risk mitigation

The Group and its insurance subsidiaries seeks to manage its exposure to operational risk by establishing MCS (and supporting practices where appropriate) for each risk category. These MCS are defined within individual PGH Group risk policies covering each of the risk categories and are designed to ensure that the Group operates within the low level qualitative risk appetite statements that are defined within those policies. Periodic reporting by risk owners monitors risk exposure against these agreed limits.

The Group risk policies and the MCS outlined within them are key mitigants used to manage the Group's operational risk exposure. In addition, the Group also places reliance upon:

- the transfer of operational risk to our OSPs as part of the outsourcing of non-core activities, with the obligations/liabilities for each outsource arrangement outlined in the relevant contract; and
- the Group's corporate insurance policy which provides cover in respect of a variety of operational risks including product mis-selling and premises.

All the key elements of operational risk mitigation are taken account of on a prudent basis against those operational risk SCR scenarios in which subject matter experts assess that a valid claim could be made. The approach to insurance in the capital model is conservative, with haircuts made for mismatches, willingness of insurer to pay out and residual term of policy from date of a risk event occurring.

The ongoing effectiveness of operational risk mitigation described above is monitored on an ongoing basis by the Operations Committee.

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

Other material risks which should be highlighted are summarised below. As at 31 December 2017, other material risks represented 1% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.6.1 Tax risk

C.6.1.1 Risk exposure

Tax risk is defined as the risk of: financial failure, reputational damage, loss of earnings/value arising from a lack of liquidity, funding or capital, due to:

- an unforeseen tax cost;
- inappropriate recording, reporting or understanding of tax legislation; and
- inappropriate disclosure of financial and regulatory information in relation to taxation.

Tax risk includes the following specific risks:

- the risk of a reduction in earnings/value, through financial or reputational damage, resulting from the Group making a material error in its tax reporting;
- incurring a material tax cost in excess of the expected/provided tax number;
- failure to implement the optimum financial arrangements to underpin a commercial transaction;
- incurring reputation damage in respect of tax matters; and
- incorrect operation of policyholder tax requirements.

C.6.1.2 Risk measurement

The risk capital requirement for tax risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology also considers operational tax risk scenarios assessed by experts within the business.

From a qualitative perspective, the tax risks for the Group and its subsidiaries are regularly reported to management oversight committees.

C.6.1.3 Risk concentration

Sources of tax risk that could give rise to concentrations are:

- Political: a drive by UK Government to increase tax revenues and to create a social environment in which tax 'avoidance' is considered contrary to the spirit of the law;
- Regulatory: changes to tax law that impact the Group's tax position;
- Structuring: opportunities to maximise financial or economic value and protect the value of tax assets;
- Operational: tax legislation is complex and the potential for operational errors to occur is significant, both by the Group and the OSP in calculating and accounting for direct and indirect taxes; and
- Tax penalties: the Tax Authorities have strengthened the penalty regime to levy penalties for non-compliance.

C.6.1.4 Risk mitigation

Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. The Group has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

C.6.2 Customer risk

C.6.2.1 Risk exposure

Customer risk is defined as the risk of reduction in expected earnings and/or value to the Group or its customers, through financial, reputational or operational losses as a result of:

- failure to have in place an appropriate culture, structures, governance and frameworks across the Group to drive ethical and responsible behaviours, attitudes and decision-making focused on customer interests and outcomes;
- failure to understand the customers' experience, behaviours and needs and act in their interests ensuring they are treated fairly, in line with our strategic objectives, and supported in making good financial decisions; and
- inappropriate conduct or poor customer treatment or experience (including poor advice).

Section C
Risk profile continued

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS CONTINUED

C.6.2 Customer risk continued

C.6.2.2 Risk measurement

The risk capital requirement for customer risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business.

From a qualitative perspective, the customer risks for the Group and its subsidiaries are regularly reported to management oversight committees.

C.6.2.3 Risk concentration

The FCA has had a greater focus on customer outcomes, in recent times. This may continue to challenge existing approaches and/or may result in remediation exercises where the Group cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the Pension Freedoms and taxation can also impact the Group's financial position.

C.6.2.4 Risk mitigation

The Group puts considerable effort into managing relationships with its regulators so that it is able to maintain a forward view regarding potential changes in the regulatory landscape. The Group assesses the risks of regulatory and legislative change and the impact on our operations and lobbies where appropriate.

Customer risk is managed by maintaining an appropriately-staffed Customer Oversight team who have the qualifications and experience to make judgements on customer matters and direct and oversee the activity undertaken by our outsource service partners. The Group has a formal customer risk policy, which sets out its risk appetite in relation to specific aspects of customer risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

C.6.3 Strategic risk

C.6.3.1 Risk exposure

Strategic risk is defined as the risk of reduction in earnings and/or value arising from a suboptimal business strategy, or the suboptimal implementation of the plan as agreed by the Board. In assessing strategic risk, consideration is given to both external and internal factors.

C.6.3.2 Risk measurement

The risk capital requirement for strategic risk is assessed using the Group's PRA approved partial Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business.

C.6.3.3 Risk concentration

Strategic risk in its broadest sense can be defined as a possible source of loss that might arise from the pursuit of an unsuccessful business plan. For example, strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

C.6.3.4 Risk mitigation

The Group has a formal strategic risk policy, which sets out its risk appetite in relation to specific aspects of strategic risk, and which details the controls the Group has in place to manage those risks. These controls are subject to a regular review process.

RISK PROFILE CONTINUED

C.7 ANY OTHER INFORMATION

C.7.1 Prudent Person Principle requirements

The Prudent Person Principle in the Solvency II regulations sets out the principles that should apply in making investment decisions. In particular, this requires that the Group and its insurance subsidiaries should only invest in assets and instruments whose risks they can properly identify measure, monitor, manage, control and report, and appropriately take into account when assessing Solvency needs.

The Prudent Person Principle is implemented through the RMF as part of the Group policy framework of which MCS have been designed to ensure compliance. Compliance with the relevant policies is monitored on an ongoing basis. Examples of the MCS in place include:

- responsibility for agreeing the strategic asset allocation rests with the Life Companies' Boards, as advised by the Phoenix Life Investment Committee, Investment Management Committee ('IMC') and the Actuarial function;
- investments for unit-linked and index-linked contracts are governed by the relevant investment mandates which meet the overarching requirements of Group policies, as well as close-matching rules and policy-specific requirements; and
- derivatives are used in many of the Life Companies' funds, within policy guidelines agreed by the relevant Boards. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management.

More details on how the Group achieves compliance with the requirements (in particular, having the appropriate risk management capability for the invested assets, investments appropriate for the nature and term of the liabilities, use of derivatives for risk mitigation, diversification and concentration risk) are described in section C.2.5.

C.7.2 Sensitivity analysis

As part of the Group's RMF, stress and scenario tests are used extensively to support the assessment of risks and provide an analysis of their financial impact.

The most significant market risk sensitivities arise from interest rate risk, equity and property risks. Sensitivity to credit risk arises from spread risk.

The most significant underwriting risk sensitivities arise from longevity, mortality and lapse risk as insurance and pension scheme liabilities are sensitive to the assumptions which have been applied in their calculation. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in the assumed asset mix or future bonus rates.

In relation to the proposed acquisition of Standard Life Assurance, the Group has undertaken additional hedging activity in 2018 to protect the economic value of the acquired business from adverse equity and currency movements. Upon completion, the Group's hedging strategy will be applied to the business acquired. The sensitivities below have not been amended to reflect exposure to that additional hedging programme in the period prior to completion of the transaction. The sensitivities for the PGH Group represent the stand-alone position for the Group based on hedging in place as at 31 December 2017.

Section C
Risk profile continued

RISK PROFILE CONTINUED
C.7 ANY OTHER INFORMATION CONTINUED
C.7.2 Sensitivity analysis continued

The table below shows the effect of a change on key assumptions, with all other variables held constant, on PLL, PLAL and the Group's Solvency II surplus. Given the reinsurance of the majority of ALAC's business to PLL, sensitivity analysis has not been included for ALAC.

Following the Part VII transfer of PAWL's business to PLL, there is no ongoing sensitivity of PAWL's financial information to mortality, longevity and lapse rate assumptions.

Solvency II Surplus £m	PLL	PLAL	PGH Group
Base: 1 January 2018[1]	**788**	**366**	**1,850**
Following a 20% fall in equity markets	797	363	1,851
Following a 15% fall in property values	744	362	1,801
Following a 60bps interest rates rise[2]	796	441	1,958
Following a 80bps interest rates fall[2]	778	303	1,752
Following credit spread widening[3]	702	324	1,676
Following a 6% decrease in annuitant mortality rates[4]	601	282	1,536
Following a 10% increase in assurance mortality rates	684	367	1,739
Following a 10% change in lapse rates[5]	724	297	1,713

1 Assumes stress occurs on 1 January 2018.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings,10% of which is due to defaults/downgrades.
4 Equivalent of six month increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

For operational risk, stress testing at the 99.5th percentile confidence level is used to determine the operational risk capital requirements, using the PRA approved partial Internal Model.

In addition, as part of the Group's monitoring of the risk appetite position, the impact on the surplus capital position of a 1-in-10 event is stress tested. As of 31 December 2017, the Group and the insurance subsidiaries were able to cover their capital requirements following a 1-in-10 event.

Section D
Valuation for solvency purposes

IN THIS SECTION

VALUATION FOR SOLVENCY PURPOSES

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES

This section covers the valuation of assets (section D.1), technical provisions (section D.2) and other liabilities (section D.3) on the Solvency II balance sheet for the PGH Group and its insurance subsidiaries. Their valuation is determined in line with the regulations, and is consistent across the Group. The Balance Sheet QRT S.02.01.02 is included at Appendix 1.1 for the PGH Group, Appendix 2.1 for PLL, Appendix 3.1 for PLAL, Appendix 4.1 for ALAC, Appendix 5.1 (unaudited) for PAWL and Appendix 6.1 for PA(GI).

Section D.1.2 provides separately for each material class of assets and liabilities (excluding technical provisions which are covered in section D.2), a description of the bases, methods and main assumptions used in their valuation for solvency purposes. An explanation of differences to the IFRS financial statements is also provided. All classes of assets and liabilities presented are consistent to the S.02.01.02 Balance Sheet QRT. The Solvency II value of the assets and liabilities are set out together with a 'Statutory accounts value' column.

The recognition and valuation methods used for the completion of the 'Statutory accounts value' column are as used by groups in their statutory financial statements in accordance with IFRS. Reclassification of line items has taken place, to align disclosures with the Solvency II presentation format and for ease of comparison between the two sets of numbers. This means that the 'Statutory accounts value' column may not directly agree to line items on the financial statements of the PGH Group and each insurance subsidiary.

Some of the Group's assets (mainly financial instruments) and liabilities are determined using alternative valuation methods which use non-observable market inputs and follow accepted market practice. Further details are included in section D.4.1.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

D.1.1 Introduction

This section covers the valuation of assets and liabilities on the Solvency II balance sheet.

The tables below set out the Solvency II balance sheets and the 'Statutory accounts value columns' for the Group and each insurance subsidiary.

D.1.1.1 Balance sheet – PGH Group

Balance sheet as at 31 December 2017	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Goodwill	1	–	57	(57)
Deferred acquisition costs	2	–	6	(6)
Intangible assets	3	–	1,499	(1,499)
Deferred tax assets	4	151	147	4
Pension benefit surplus	5	322	322	–
Property, plant and equipment held for own use	6	24	26	(2)
Investments (other than assets held for index-linked and unit-linked contracts)	7	**43,582**	**43,595**	**(13)**
Property (other than for own use)		384	384	–
Holdings in related undertakings, including participations		20,739	20,752	(13)
Equities		173	173	–
Bonds		17,205	17,205	–
Collective Investment Undertakings		2,451	2,451	–
Derivatives		2,562	2,562	–
Deposits other than cash equivalents		68	68	–
Assets held for index-linked and unit-linked contracts	8	23,871	23,871	–
Loans and mortgages	9	1,345	1,345	–
Reinsurance recoverables	10	8,842	9,257	(415)
Insurance and intermediaries receivables	11	7	7	–
Reinsurance receivables	11	33	33	–
Receivables (trade, not insurance)	12	683	691	(8)
Own shares (held directly)	13	2	–	2
Cash and cash equivalents	14	710	710	–
Total assets		**79,572**	**81,566**	**(1,994)**
Technical provisions (BEL plus risk margin)	15	66,751	70,914	(4,163)
Other technical provisions	16	–	925	(925)
Provisions other than technical provisions	17	133	133	–
Pension benefit obligations	18	70	70	–
Deposits from reinsurers	19	368	368	–
Deferred tax liabilities	4	439	503	(64)
Derivatives	20	1,100	1,100	–
Debts owed to credit institutions	21	2,219	2,212	7
Financial liabilities other than debts owed to credit institutions	22	1	1	–
Insurance and intermediaries payables	23	523	523	–
Reinsurance payables	23	23	23	–
Payables (trade, not insurance)	24	373	221	152
Subordinated liabilities (in Basic Own Funds)	25	1,479	1,418	61
Total liabilities		**73,479**	**78,411**	**(4,932)**
Excess of assets over liabilities		**6,093**	**3,155**	**2,938**

PGH Group

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.2 Balance sheet – PLL

Balance sheet as at 31 December 2017	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Deferred acquisition costs	2	–	17	(17)
Intangible assets	3	–	150	(150)
Deferred tax assets	4	15	16	(1)
Investments (other than assets held for index-linked and unit-linked contracts)	7	**28,942**	**28,942**	**–**
Property (other than for own use)		338	338	–
Holdings in related undertakings, including participations		12,761	12,761	–
Equities		144	144	–
Bonds		13,777	13,777	–
Collective Investment Undertakings		196	196	–
Derivatives		1,677	1,677	–
Deposits other than cash equivalents		49	49	–
Assets held for index-linked and unit-linked contracts	8	16,072	16,072	–
Loans and mortgages	9	1,526	1,526	–
Reinsurance recoverables	10	8,178	8,275	(97)
Insurance and intermediaries receivables	11	6	6	–
Reinsurance receivables	11	30	30	–
Receivables (trade, not insurance)	12	488	561	(73)
Cash and cash equivalents	14	287	287	–
Total assets		**55,544**	**55,882**	**(338)**
Technical provisions (BEL plus risk margin)	15	47,652	50,443	(2,791)
Other technical provisions	16	–	599	(599)
Provisions other than technical provisions	17	2	2	–
Deposits from reinsurers	19	368	368	–
Deferred tax liabilities	4	315	98	217
Derivatives	20	505	505	–
Debts owed to credit institutions	21	1,213	1,213	–
Financial liabilities other than debts owed to credit institutions	22	1,111	1,111	–
Insurance and intermediaries payables	23	331	331	–
Reinsurance payables	23	12	12	–
Payables (trade, not insurance)	24	203	217	(14)
Subordinated liabilities (not in Basic Own Funds)	25	–	200	(200)
Subordinated liabilities (in Basic Own Funds)	25	225	–	225
Total liabilities		**51,937**	**55,099**	**(3,162)**
Excess of assets over liabilities		**3,607**	**783**	**2,824**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.3 Balance sheet – PLAL

Phoenix Life Assurance Limited

Balance sheet as at 31 December 2017	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Intangible assets	3	–	11	(11)
Deferred tax assets	4	18	18	–
Investments (other than assets held for index-linked and unit-linked contracts)	7	**14,936**	**14,936**	**–**
Property (other than for own use)		45	45	–
Holdings in related undertakings, including participations		5,062	5,062	–
Equities		141	141	–
Bonds		4,384	4,384	–
Collective Investment Undertakings		4,400	4,400	–
Derivatives		885	885	–
Deposits other than cash equivalents		19	19	–
Assets held for index-linked and unit-linked contracts	8	341	341	–
Loans and mortgages	9	207	207	–
Reinsurance recoverables	10	2,869	2,911	(42)
Insurance and intermediaries receivables	11	1	1	–
Receivables (trade, not insurance)	12	140	185	(45)
Cash and cash equivalents	14	101	101	–
Total assets		**18,613**	**18,711**	**(98)**
Technical provisions (BEL plus risk margin)	15	15,028	16,187	(1,159)
Other technical provisions	16	–	320	(320)
Provisions other than technical provisions	17	2	2	–
Deferred tax liabilities	4	86	19	67
Derivatives	20	542	542	–
Debts owed to credit institutions	21	605	595	10
Insurance and intermediaries payables	23	74	74	–
Reinsurance payables	23	9	9	–
Payables (trade, not insurance)	24	43	43	–
Subordinated liabilities (not in Basic Own Funds)	25	–	250	(250)
Subordinated liabilities (in Basic Own Funds)	25	250	–	250
Total liabilities		**16,639**	**18,041**	**(1,402)**
Excess of assets over liabilities		**1,974**	**670**	**1,304**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.4 Balance sheet – ALAC

Abbey Life Assurance Company Limited

Balance sheet as at 31 December 2017	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Deferred tax assets	4	14	14	–
Investments (other than assets held for index-linked and unit-linked contracts)	7	**647**	**647**	**–**
Property (other than for own use)		7	7	–
Holdings in related undertakings, including participations		1	1	–
Bonds		120	120	–
Collective Investment Undertakings		519	519	–
Assets held for index-linked and unit-linked contracts	8	7,457	7,457	–
Reinsurance recoverables	10	1,618	2,143	(525)
Insurance and intermediaries receivables	11	1	1	–
Reinsurance receivables	11	2	2	–
Receivables (trade, not insurance)	12	108	110	(2)
Cash and cash equivalents	14	7	7	–
Total assets		**9,854**	**10,381**	**(527)**
Technical provisions (BEL plus risk margin)	15	8,959	9,442	(483)
Other technical provisions	16	–	6	(6)
Provisions other than technical provisions	17	39	39	–
Deferred tax liabilities	4	38	39	(1)
Derivatives	20	21	21	–
Insurance and intermediaries payables	23	118	118	–
Reinsurance payables	23	1	1	–
Payables (trade, not insurance)	24	186	186	–
Total liabilities		**9,362**	**9,852**	**(490)**
Excess of assets over liabilities		**492**	**529**	**(37)**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.1 Introduction continued
D.1.1.5 Balance sheet – PAWL (Unaudited)
The only item on the PAWL balance sheet at 31 December 2017 is £4 million of cash and cash equivalents.

D.1.1.6 Balance sheet – PA(GI)

PA (GI) Limited

Balance sheet as at 31 December 2017	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Investments (other than assets held for index-linked and unit-linked contracts)	7	**74**	**74**	**–**
Collective Investment Undertakings		74	74	–
Receivables (trade, not insurance)	12	32	32	–
Total assets		**106**	**106**	**–**
Provisions other than technical provisions	17	40	40	–
Payables (trade, not insurance)	24	2	2	–
Total liabilities		**42**	**42**	**–**
Excess of assets over liabilities		**64**	**64**	**–**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 Asset and liability valuation bases, methods and main assumptions

The Group's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset and liability class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory accounts value column) the valuation methods for IFRS are consistent with the valuation methods of the regulations. Further details on the IFRS valuation principles are set out in the Notes to the IFRS consolidated financial statements in the PGH Annual Report and Accounts for the year ended 31 December 2017. There have been no significant changes to the valuation principles set out below during the year.

Note	Balance sheet item	Valuation principles
1	**Goodwill**	For Solvency II goodwill is valued at zero. Under IFRS, goodwill is carried on the balance sheet at initially recognised amounts less accumulated impairment.
2	**Deferred acquisition costs**	For Solvency II deferred acquisition costs are valued at zero unless they can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the deferred acquisition costs in the Group have been assessed as meeting this criteria.
3	**Intangible assets (other than goodwill)**	For Solvency II intangible assets are valued at zero unless the intangible assets can be sold separately and it can be demonstrated that there is value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets). None of the Group's intangible assets have been assessed as meeting this criteria and therefore these are valued at zero. Furthermore, any related deferred tax is disregarded. For IFRS, intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. The exception is the intangible asset of PLAL, PVFP (Present Value of Future Profits), which in Solvency II, forms part of the Best Estimate Liabilities, and hence this intangible is valued at zero.
4	**Deferred tax assets/liabilities**	Deferred tax is determined on temporary differences between the fair value of assets and liabilities on the Solvency II balance sheet and their tax base at the valuation date. The tax base is the value as determined under IFRS. This means deferred tax should be provided on temporary differences between the IFRS and the Solvency II balance sheet. All valuation differences between the IFRS and Solvency II balance sheets are identified and deferred tax is calculated, where appropriate, on these differences. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Further details on the origin of the deferred tax assets are provided in section D.1.3.
5	**Pension benefit surplus**	PGH has three material defined benefit staff pension schemes, being the Pearl Group Staff Pension Scheme ('Pearl Group Scheme'), the PGL Pension Scheme ('PGL Scheme') and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme'). All are valued in accordance with the regulations consistently with IFRS (i.e. IAS19 valuation basis). The Pearl Group Scheme and the PGL Scheme pension scheme obligations are valued within their respective Holding Companies, PGH2 and PGH1. Effective from 30 June 2017 the Abbey Life Scheme pension obligations are valued in the PeLHL holding company, following the transfer of the Scheme from ALAC. Further details on the IAS19 valuation basis can be found on pages 155 to 165 of the PGH Annual Report and Accounts for the year ended 2017. It should be noted that because PGH1 (the principal employer of the PGL Scheme) is not classified as an insurance holding company under the regulations, it is not subject to a full line by line consolidation in the PGH Group balance sheet. Instead it (and therefore the PGL Scheme surplus amount) is presented as a single line item in 'holdings in related undertakings including participations' at the value of the Group's share of the excess of assets over liabilities. The value included in the 'pension benefit surplus' line for PGH Group reflects surplus arising from the PGH2 Pearl Group Scheme only. The value of the Abbey Life Scheme is included in 'pension benefit obligations'. Further details on all pension schemes can also be found in section D.3.3.
6	**Property, plant and equipment (held for own use)**	Owner-occupied properties are valued at fair value by an accredited independent valuer. Specifically, the Wythall Green site owned by PGMS is ascribed a value equal to the most recent external valuation, which is considered a suitable proxy to the Solvency II fair value. Under IFRS, owner-occupied property is stated at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
7	**Investments (other than assets held for index-linked and unit-linked contracts)**	In line with IFRS, the value of investments (other than assets held for index-linked and unit-linked contracts) is determined using a fair value methodology as follows: – For financial instruments traded in active markets (such as exchange traded securities and derivatives), fair value is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument; – Where quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value; – Where either of the above are not possible, alternative valuation methods are used to determine fair value. Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows using current market conditions and market-calibrated discount rates and interest rate assumptions for similar instruments; and – Certain financial instruments are determined by valuation techniques using non-observable market inputs based on a combination of independent third party evidence and internally developed models. Further details are included in section D.4.1. Further details on each item within investments are outlined below. Property (other than for own use) Commercial investment properties are measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ('RICS') guidelines with expected income and capitalisation rate. Further details are included in section D.4.1. The residential property reversions, an interest in customers' properties that the Group will realise upon their death, are valued using a DCF model based on the Company's proportion of the current open market value of the property, and discounted for the expected lifetime of the policyholder. Further details are included in section D.4.1. The Group and insurance subsidiaries have no material balance sheet leasing arrangements. Further details are set out in section A.4.2. Holdings in related undertakings, including participations Holdings in related undertakings, including participations comprise of Collective Investment Undertakings where the Group or individual insurance subsidiary holds a greater than 20% interest (where the interest is less than 20% it is included within 'Collective Investment Undertakings' line) and entities in the Group or owned by the insurance subsidiaries which are valued using the adjusted equity method, which is further explained below. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as 'assets held for index-linked and unit-linked contracts'. Within the PGH Group there are a number of non insurance entities (including PGH1 the principal employer of the PGL Scheme) which are treated as other residual related undertakings ('ORRUs'). Quoted market prices are not available for these entities and therefore the option to value using the adjusted equity method is applied. The adjusted equity method requires participations to be valued based on the Group's share of the excess of assets over liabilities of the related undertaking. The excess of assets over liabilities for such participations are valued in accordance with the valuation principles applied by the Group. No alternative valuation methods are used for valuing the ORRUs. The Group's UCITS management company and non-regulated undertakings carrying out financial activities are valued on a local sectoral basis or notional sectoral basis respectively. Equities Equity instruments listed on a recognised stock exchange are valued using quoted market prices. In relation to hedge fund and private equity investments, non-observable third party evidence in the form of net asset valuation statements are usually used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of underlying investments in the fund, indicates this is required. Further details on mark to model techniques are included in section D.4.1.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
7	**Investments (other than assets held for index-linked and unit-linked contracts)** continued	Bonds Government bonds are valued using quoted market prices provided by recognised pricing sources. For corporate bonds listed on a recognised stock exchange, quoted market prices are used. For other corporate bonds, these instruments are valued using pricing data received from external pricing providers or in some cases using broker quotes where observable market data is unavailable. For a small number of investment vehicles and debt securities, standard valuation models (based on a discounted cash flow approach) are used, as by their nature and complexity, they have no external market. Inputs into such models are based on observable market data where applicable. For collateralised securities listed on a recognised stock exchange, quoted market prices are used. For other collateralised securities, these instruments are valued using pricing data received from external pricing providers or in some cases broker quotes where observable market data is unavailable. The majority of the investments are valued using alternative valuation methods and further details are included in section D.4.1. Collective Investment Undertakings The Group and insurance subsidiaries receive valuations from investment managers of the underlying funds, based on quoted market prices. Where quoted prices are not available they are estimated using pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market-related data at the period end. Where the Group or its insurance subsidiaries holds a greater than 20% interest in an investment fund this interest is recognised within 'holdings in related undertakings, including participations'. Where the interest is less than 20% it is included within 'Collective Investment Undertakings'. Any investments in Collective Investment Undertakings related to unit-linked contracts are included as 'assets held for index-linked and unit-linked contracts'. Derivative assets The fair value of OTC assets is estimated using pricing models, with inputs based on market related data at the period end. The fair value of exchange traded securities is based on quoted market prices at the period end provided by recognised pricing services. Deposits other than cash and cash equivalents Deposits other than cash and cash equivalents comprise short-term deposits that cannot be used to make payments before a specific maturity date or without any penalty or restriction.
8	**Assets held for index-linked and unit-linked contracts**	Assets held for unit-linked funds are measured based on the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds. Under IFRS, assets and liabilities of unit-linked contracts are separately reported on a 'line-by-line' basis. Under Solvency II, all assets and liabilities backing unit-linked contracts are reported on a single line in 'assets held for index-linked and unit-linked contracts'.
9	**Loan and mortgages**	Loans and mortgages are valued at fair value. This includes accrued interest reclassified from 'receivables (trade not insurance)' in both columns.
10	**Reinsurance recoverables**	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. To the extent that the Solvency II valuation of the related technical provisions differs to the valuation under IFRS, the valuation of the related reinsurance recoverable will also be impacted. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.8.
11	**Insurance and intermediaries receivables** **Reinsurance receivables**	Given their short-term nature, the carrying amount per the IFRS financial statements is considered to represent the fair value for these assets under Solvency II.
12	**Receivables (trade, not insurance)**	The receivables (trade, not insurance) are valued at fair value. Accrued income and interest in respect of investment assets and liabilities is reclassified accordingly in both columns. No value is ascribed for certain prepayments under Solvency II, where they cannot be sold separately to a third party. In contrast under IFRS, prepayments are recognised as an asset at amount paid less expenses incurred.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
13	**Own shares (held directly)**	Own shares reflect shares held by Phoenix Group Employee Benefit Trust ('EBT') and are valued at fair value which is based on the quoted price of PGH shares at each reporting date. Own shares are a deduction to basic Own Funds and therefore do not contribute to Solvency II surplus. Further details are included in section E.1. In contrast under IFRS where the EBT acquires shares in the Company or obtains rights to purchase its shares, the consideration paid is shown as a deduction from owners' equity.
14	**Cash and cash equivalents**	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.
15	**Technical provisions**	Details regarding the valuation of technical provisions are covered in section D.2.
16	**Other technical provisions**	For IFRS, unallocated surplus, which comprises the excess of assets over the policyholder liabilities of the with-profit funds, is included here. This represents amounts which have yet to be allocated to shareholders since the unallocated surplus attributable to policyholders has been included within technical provisions. Unallocated surplus is classed as an accounting liability on the balance sheet. For Solvency II, no liability is held for this, and the shareholder share of future bonuses forms part of Own Funds.
17	**Provisions (other than technical provisions)**	A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.
18	**Pension benefit obligations**	The pension scheme obligations are valued in accordance with the regulations which is consistent with the IFRS treatment (i.e. IAS19 Employee Benefits). See section D.3.3 for further information.
19	**Deposits from reinsurers**	It is the Group's practice to obtain collateral to cover certain reinsurance transactions, usually in the form of cash or marketable securities. Where such cash collateral is available to the Group for investment purposes, it is recognised as a 'financial asset' and the collateral repayable is recognised as 'deposits received from reinsurers'. These are valued in line with IFRS, using a discounted cash flow methodology.
20	**Derivatives**	The fair values of OTC derivative liabilities are estimated using pricing models, with inputs based on market-related data at the period end. The fair value of exchange-traded securities is based on quoted market prices at the period end provided by recognised pricing services.
21	**Debts owed to credit institutions**	Debts owed to credit institutions include obligations for repayment of collateral received, limited recourse bonds and refinancing loans. Obligations for repayment of collateral received are valued at fair value. It is the Group's practice to obtain collateral to mitigate the counterparty risk related to OTC derivatives and certain reinsurance transactions, usually in the form of cash or marketable financial instruments. Where the Group or insurance subsidiaries receive collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised on the balance sheet. Limited recourse bonds are securitised on the future surplus emerging from an explicit block of policies. The Solvency II valuation is calculated using a discounted cash flow methodology, using cash flows derived from a model projecting this future surplus, then applying a suitable discount rate to adjust for Own Credit Standing ('OCS'). When valuing liabilities, for Solvency II no adjustment is made to take account of any changes in the OCS since inception. Financial liabilities are therefore valued at initial recognition in accordance with IFRS, but a subsequent adjustment for changes in OCS is not applicable. This creates a difference between subsequent measurements of financial liabilities for Solvency II compared to the measurement according to IFRS. Refinancing loans, related to property reversions held in 'property other than own use' are held at fair value for both Solvency II and IFRS on the basis that they incorporate an embedded derivative.
22	**Financial liabilities other than debts owed to credit institutions**	Financial liabilities other than debts owed to credit institutions are valued consistently with IFRS, at fair value. No adjustment to remove change in OCS is required as it is immaterial.
23	**Insurance and intermediaries payables**	These are short-term in nature and are valued at fair value, i.e. amounts payable on the balance sheet date.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 Asset and liability valuation bases, methods and main assumptions continued

Note	Balance sheet item	Valuation principles
24	**Payables (trade not insurance)**	Deferred income reserves are valued at zero under Solvency II. The difference arising at the Group between IFRS and Solvency II reflects a deferred income liability recognised by the Service Companies in respect of payments received from the Life Companies to transfer risks associated with the costs of future regulatory change. Under IFRS this liability is eliminated against a corresponding prepayment in the Life Companies, however a related technical provision is recognised by the Life Companies and the Group in respect of these risks. As detailed in section D.2.2, the prepayment and technical provision are derecognised under Solvency II. To ensure the risks are appropriately recognised on the consolidated Solvency II balance sheet, the deferred income liability is recognised at its economic value of nil.
25	**Subordinated liabilities (not in Basic Own Funds)** **Subordinated liabilities (in Basic Own Funds)**	Under IFRS subordinated debt is valued on an amortised cost basis. Under Solvency II, subordinated debt is valued at fair value, excluding changes in OCS. PGH Group The subordinated liabilities for the PGH Group are set out in the table below, along with the difference between Solvency II and IFRS. Further details on these instruments are provided in section E.1.

Instrument	Solvency II value £m	Statutory accounts value £m	Difference £m	Explanation
Tier 2 subordinated debt	439	426	13	Reflects revaluation from amortised cost to fair value, excluding changes in OCS.
US$ Tier 2 bonds	366	368	(2)	
Tier 3 notes	449	447	(2)	
PLL subordinated loan notes	225	177	48	This difference is comprised of £25 million in respect of OCS adjustment and £23 million for fair value adjustments recognised upon the Group's acquisition of PLL in 2009. These subordinated loan notes were initially recognised at their fair value and subsequently recognised at amortised cost on an IFRS basis. The difference between the initial fair value and the principal is amortised over the life of the instrument. Under Solvency II, the liability is recognised at its current fair value, excluding the impact of change in OCS.
	1,479	**1,418**	**61**	

PLL
Further details regarding the £225 million subordinated loans notes are set out in the table above.

PLAL
Subordinated loans classified as liabilities or equity on the IFRS balance sheet, and which satisfy the relevant Solvency II Own Funds classification criteria, are included as a contribution to the Solvency II Own Funds even though they are included as liabilities on the Solvency II balance sheet.

The subordinated liabilities comprise of a £250 million Tier 2 instrument with PLHL. Interest is payable at LIBOR + 350 bps semi-annually. Solvency II fair value equates to par, as the use of a constant credit spread (+350bp) means no adjustment to remove changes in the Company's OCS is required, giving a discounted cash-flow valuation of par.

All instruments outlined above are added back as subordinated liabilities to the Basic Own Funds, and further details can be found in section E.1.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.3 Analysis of deferred tax

Deferred tax assets on the Solvency II balance sheet are recognised by reference to expected future taxable profits and valued based on the differences between the carrying value of the asset in the balance sheet and its tax base. They are comprised as shown in the table below. Deferred tax assets are treated as Tier 3 capital in Basic Own Funds for the PGH Group and its insurance subsidiaries. Further details are set out in section E.1.

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

D.1.3.1 Analysis of deferred tax

The table below summarises the Solvency II deferred tax assets and liabilities compared to the statutory accounts column. for the year ended 31 December 2017. There are no deferred tax assets and liabilities for PA(GI) and PAWL.

Deferred tax assets

Item	PLL £m	PLAL £m	ALAC £m	Other Group entities £m	PGH Group £m
Committed future pension contributions	–	–	–	24	24
Trade losses carried forward	–	17	–	31	48
Deferred interest payments	–	–	–	16	16
Expense and deferred acquisition costs carried forward	12	–	12	–	24
Accelerated capital allowances	2	1	–	7	10
Other timing differences	1	–	2	26	29
Total Solvency II deferred tax assets	**15**	**18**	**14**	**104**	**151**
Valuation adjustments	–	–	–	(3)	(3)
Other timing differences	1	–	–	(2)	(1)
Total statutory accounts column deferred tax assets	**16**	**18**	**14**	**99**	**147**

Deferred tax liabilities

Item	PLL £m	PLAL £m	ALAC £m	Other Group entities £m	PGH Group £m
Technical provisions	(191)	(38)	–	–	(229)
Shareholder future bonus transfers	(55)	(29)	–	–	(84)
IFRS transitional adjustments	(21)	(19)	–	–	(40)
Unrealised gains on investments	(43)	–	(38)	–	(81)
Other	(5)	–	–	–	(5)
Total Solvency II deferred tax liabilities	**(315)**	**(86)**	**(38)**	**–**	**(439)**
Technical provisions	191	38	(1)	–	228
Shareholder future bonus transfers	55	29	–	–	84
Acquired on in-force business	(29)	–	–	(312)	(341)
Intangible assets	–	–	–	(33)	(33)
Other temporary differences	–	–	–	(2)	(2)
Total statutory accounts column deferred tax liabilities	**(98)**	**(19)**	**(39)**	**(347)**	**(503)**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.3 Analysis of deferred tax continued
The PGH Group had excess tax losses in 2017 of £198 million on which a deferred tax asset of £20 million (included as part of 'trade losses carried forward' in the above table) is recognised in both IFRS and Solvency II.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

PGH Group deferred tax assets have not been recognised in respect of:	PLL £m	PLAL £m	ALAC £m	Other Group entities £m	2017 £m
Tax losses carried forward	–	–	–	37	37
Deferred tax assets not recognised on capital losses	–	14	–	2	16

There are no unrecognised deferred tax liabilities at 31 December 2017 for the PGH Group and its insurance subsidiaries.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

This section provides separately for each LoB the value of technical provisions, including the amount of the Best Estimate Liability ('BEL') and the risk margin, as well as a description of the bases, methods and main assumptions used in the valuation of technical provisions.

As outlined in section A.1.3 the LoBs relevant to each insurance subsidiary are set out in the table below. The table below excludes PAWL and PA(GI) as they did not have any technical provisions as at 31 December 2017.

	PLL	PLAL	ALAC
Insurance with-profit participation	✓	✓	✓
Index-linked and unit-linked insurance	✓	✓	✓
Health insurance	✓	–	✓
Other life insurance	✓	✓	✓

This section also includes a quantitative and qualitative explanation of material differences between the bases, methods and main assumptions used by the Group for the valuation of technical provisions for solvency purposes and those used for their valuation in IFRS.

D.2.1 Introduction

The Group has PRA approval to apply a Matching Adjustment to all liabilities in the PLL and PLAL Matching Adjustment portfolios. The liabilities in the PLL Matching Adjustment portfolio include those eligible liabilities reinsured from ALAC. ALAC's Matching Adjustment approval has been withdrawn at ALAC's request following the reinsurance of the corresponding business to PLL. The Group also has approval to apply the TMTP to liabilities in PLL and PLAL entities. The technical provisions detailed in this section are inclusive of the Matching Adjustment and TMTP.

The TMTP allows firms to apply a transitional deduction to their technical provisions. Transitional measures are aimed at providing a smooth transition between the technical provisions under the previous Solvency I regulatory regime and the technical provisions under the Solvency II regulatory regime in order to enhance stability in the insurance sector. Solvency I technical provisions are determined using the more onerous ICA basis. The initial calculation was as at 1 January 2016, but recalculation is expected every two years or where material changes in the risk profile of the business have occurred. An application to recalculate has been approved by the PRA and a recalculation of the TMTPs performed as at 31 December 2017. Further detail on the TMTP including the recalculation performed at 31 December 2017 can be found in section D.2.7.2.

The Matching Adjustment is applied to the risk-free curve used for discounting liabilities in the Matching Adjustment portfolio's only and has the effect of reducing technical provisions. Further details on the application of the Matching Adjustment can be found in section D.2.7.1.

For all business, no allowance is currently made for the Volatility Adjustment or transitional measure on interest rates.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical provisions by Line of Business

This section provides technical provisions split by Solvency II LoB. PA(GI) and PAWL held no technical provisions as at 31 December 2017.

The tables below summarise the Group and insurance subsidiary technical provisions at 31 December 2017 by Solvency II LoB, including the amount of BEL and risk margin. The TMTP recalculated as at 31 December 2017 (see section D.2.7.2) is also shown separately where applicable.

Table D.2.2.1a Technical provisions by Line of Business – PGH Group

31 December 2017 **Technical provisions by Line of Business**	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Health insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	23,423	29,299	142	14,707	159	**67,730**
Risk margin	564	71	8	756	160	**1,559**
Gross technical provisions pre TMTP	**23,987**	**29,370**	**150**	**15,463**	**319**	**69,289**
TMTP adjustment	(1,121)	(61)	(8)	(1,136)	(212)	**(2,538)**
Gross technical provisions post TMTP	**22,866**	**29,309**	**142**	**14,327**	**107**	**66,751**

The risk margin and TMTP adjustment within 'insurance with profit participation' above includes £254 million and £582 million respectively in relation to unsupported with-profit funds.

Table D.2.2.2a Technical provisions by Line of Business – PLL

31 December 2017 **Technical provisions by Line of Business**	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Health insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	13,117	19,944	126	11,171	3,968	**48,326**
Risk margin	245	20	8	635	159	**1,067**
Gross technical provisions pre TMTP	**13,362**	**19,964**	**134**	**11,806**	**4,127**	**49,393**
TMTP adjustment	(484)	(58)	(8)	(984)	(207)	**(1,741)**
Gross technical provisions post TMTP	**12,878**	**19,906**	**126**	**10,822**	**3,920**	**47,652**

The risk margin and TMTP adjustment within 'insurance with profit participation' above includes £202 million and £406 million respectively in relation to unsupported with-profit funds.

Table D.2.2.3a Technical provisions by Line of Business – PLAL

31 December 2017 **Technical provisions by Line of Business**	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	10,268	2,030	2,927	157	**15,382**
Risk margin	319	2	121	1	**443**
Gross technical provisions pre TMTP	**10,587**	**2,032**	**3,048**	**158**	**15,825**
TMTP adjustment	(637)	(3)	(152)	(5)	**(797)**
Gross technical provisions post TMTP	**9,950**	**2,029**	**2,896**	**153**	**15,028**

The risk margin and TMTP adjustment within 'insurance with profit participation' above includes £52 million and £176 million respectively in relation to unsupported with-profit funds.

Table D.2.2.4a Technical provisions by Line of Business – ALAC

31 December 2017 **Technical provisions by Line of Business**	**Insurance with-profit participation £m**	**Index-linked and unit-linked insurance £m**	**Health insurance £m**	**Other life insurance £m**	**Accepted reinsurance £m**	**Total technical provisions £m**
Best Estimate Liabilities	38	7,325	14	1,645	(112)	**8,910**
Risk margin	–	49	–	–	–	**49**
Gross technical provisions	**38**	**7,374**	**14**	**1,645**	**(112)**	**8,959**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical provisions by Line of Business continued

Table D.2.2.1b Material differences between IFRS and Solvency II technical provisions – PGH Group

The table below outlines separately for each LoB, the material differences between the bases, methods and main assumptions used for Solvency II and those used for IFRS.

PGH Group

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
Statutory accounts value technical provisions – gross[1]		**25,074**	**30,044**	**139**	**15,318**	**339**	**70,914**
Statutory accounts value reinsurance[2]		(7)	(5,788)	(76)	(3,569)	183	(9,257)
Statutory accounts value technical provisions – net		**25,067**	**24,256**	**63**	**11,749**	**522**	**61,657**
Change to discount curve	1	301	1	1	96	–	399
Change in restriction for negative sterling reserves	2	(58)	(456)	–	–	(279)	(793)
Matching Adjustment on non-Matching Adjustment funds	3	–	–	–	12	5	17
Demographic margin	4	–	–	–	(394)	(149)	(543)
Annuity profit margin	5	128	–	–	25	–	153
Policyholders' share of estate	6	(1,886)	–	–	0	–	(1,886)
Prepayments	7	(100)	–	–	(16)	–	(116)
Other	8	(36)	(401)	–	186	251	–
Solvency II Best Estimate Liabilities – net		**23,416**	**23,400**	**64**	**11,658**	**350**	**58,888**
Add risk margin		564	71	8	756	160	1,559
Deduct transitional adjustments		(1,121)	(61)	(8)	(1,136)	(212)	(2,538)
Solvency II technical provisions – net		**22,859**	**23,410**	**64**	**11,278**	**298**	**57,909**
Solvency II reinsurance		7	5,899	78	3,049	(191)	8,842
Solvency II technical provisions – gross		**22,866**	**29,309**	**142**	**14,327**	**107**	**66,751**

1 The statutory accounts value of gross technical provisions of £70,914 million is different to the IFRS value of £71,168 million reported in the PGH Annual Report and Accounts for the year ended 31 December 2017, due to presentational differences in respect of longevity arrangements which ALAC has in place with corporate pension schemes. These arrangements are recognised as derivative financial instruments under IFRS whereas under Solvency II, they are recognised within technical provisions, and therefore the IFRS balances have been presented within technical provisions in the statutory accounts value column. ALAC has also entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of insurance risk. Again, this is classified as a financial instrument under IFRS but recognised within technical provisions on a Solvency II basis. These arrangements have also been reclassified. The difference of £254 million is as a result of the reclassification of derivative assets of £143 million and £112 million for loan held at fair value being the amount due from the cedant.

2 The statutory accounts value of reinsurance recoverables of £9,257 million is also different to the IFRS value of £9,405 million reported in the PGH Annual Report and Accounts for the year ended 31 December 2017, as a result of the ALAC transactions detailed in note 1. The difference of £148 million is as a result of the reclassification of derivative liabilities of £97 million and debt held at fair value of £51 million being the amount due to the retrosessionaire.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical provisions by Line of Business continued

Table D.2.2.2b Material differences between IFRS and Solvency II technical provisions – PLL

Phoenix Life Limited

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
Statutory accounts value/IFRS technical provisions – gross		**14,122**	**20,340**	**125**	**11,471**	**4,385**	**50,443**
Statutory accounts value/IFRS reinsurance		(133)	(5,896)	(73)	(2,285)	112	(8,275)
Statutory accounts value/IFRS technical provisions – net		**13,989**	**14,444**	**52**	**9,186**	**4,497**	**42,168**
Change to discount curve	1	130	1	–	90	(1)	220
Change in restriction for negative sterling reserves	2	(58)	(412)	–	–	(279)	(749)
Matching Adjustment on non-Matching Adjustment funds	3	–	–	–	5	5	10
Demographic margin	4	–	–	–	(340)	(135)	(475)
Annuity profit margin	5	91	–	–	24	–	115
Policyholders' share of estate	6	(1,094)	–	–	–	–	(1,094)
Prepayments	7	(54)	–	–	(16)	–	(70)
Other	8	(19)	15	–	27	–	23
Solvency II Best Estimate Liabilities – net		**12,985**	**14,048**	**52**	**8,976**	**4,087**	**40,148**
Add risk margin		245	20	8	635	159	1,067
Deduct transitional adjustments		(484)	(58)	(8)	(984)	(207)	(1,741)
Solvency II technical provisions – net		**12,746**	**14,010**	**52**	**8,627**	**4,039**	**39,474**
Solvency II reinsurance		132	5,896	74	2,195	(119)	8,178
Solvency II technical provisions – gross		**12,878**	**19,906**	**126**	**10,822**	**3,920**	**47,652**

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical provisions by Line of Business continued

Table D.2.2.3b Material differences between IFRS and Solvency II technical provisions – PLAL

Phoenix Life Assurance Limited

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
Statutory accounts value/IFRS technical provisions – gross		**10,919**	**2,060**	**3,051**	**157**	**16,187**
Statutory accounts value/IFRS reinsurance		–	(1,702)	(1,209)	–	(2,911)
Statutory accounts value/IFRS technical provisions – net		**10,919**	**358**	**1,842**	**157**	**13,276**
Change to discount curve	1	165	–	5	–	170
Change in restriction for negative sterling reserves	2	–	(44)	–	–	(44)
Matching Adjustment on non-Matching Adjustment funds	3	–	–	7	–	7
Demographic margin	4	–	–	(86)	–	(86)
Annuity profit margin	5	37	–	–	–	37
Policyholders' share of estate	6	(792)	–	–	–	(792)
Prepayments	7	(45)	–	–	–	(45)
Other	8	(16)	16	(10)	–	(10)
Solvency II Best Estimate Liabilities – net		**10,268**	**330**	**1,758**	**157**	**12,513**
Add risk margin		319	2	121	1	443
Deduct transitional adjustments		(637)	(3)	(152)	(5)	(797)
Solvency II technical provisions – net		**9,950**	**329**	**1,727**	**153**	**12,159**
Solvency II reinsurance		–	1,700	1,169	–	2,869
Solvency II technical provisions – gross		**9,950**	**2,029**	**2,896**	**153**	**15,028**

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 Technical provisions by Line of Business continued

Table D.2.2.4b Material differences between IFRS and Solvency II technical provisions – ALAC

Abbey Life Assurance Company Limited

Technical provisions – IFRS to Solvency II reconciliation	Note	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Life reinsurance £m	Total technical provisions £m
Statutory accounts value technical provisions – gross[3]		**32**	**7,644**	**14**	**1,864**	**(112)**	**9,442**
Statutory accounts value reinsurance[4]		(3)	(344)	(11)	(1,897)	112	(2,143)
Statutory accounts value technical provisions – net		**29**	**7,300**	**3**	**(33)**	**–**	**7,299**
Change to discount curve	1	6	–	–	–	–	6
Other	8	–	(13)	–	–	–	(13)
Solvency II Best Estimate Liabilities – net		**35**	**7,287**	**3**	**(33)**	**–**	**7,292**
Add risk margin		–	49	–	–	–	49
Solvency II technical provisions – net		**35**	**7,336**	**3**	**(33)**	**–**	**7,341**
Solvency II reinsurance		3	38	11	1,678	(112)	1,618
Solvency II technical provisions – gross		**38**	**7,374**	**14**	**1,645**	**(112)**	**8,959**

3 The statutory accounts value of gross technical provisions of £9,442 million is different to the IFRS value of £9,697 million reported in the ALAC statutory accounts for the year ended 31 December 2017, due to presentational differences in respect of longevity arrangements which ALAC has in place with corporate pension schemes. These arrangements are recognised as derivative financial instruments under IFRS whereas under Solvency II, they are recognised within technical provisions, and therefore the IFRS balances have been presented within technical provisions in the statutory accounts value column. ALAC has also entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of insurance risk. Again, this is classified as a financial instrument under IFRS but recognised within technical provisions on a Solvency II basis. These arrangements have also been reclassified. The difference of £255 million is as a result of the reclassification of derivative assets of £143 million and £112 million for loan held at fair value being the amount due from the cedant.

4 The statutory accounts value of reinsurance recoverables of £2,143 million is also different to the IFRS value of £2,291 million reported in the ALAC statutory accounts for year ended 31 December 2017, as a result of the ALAC transactions detailed in note 1. The difference of £148 million is as a result of the reclassification of derivative liabilities of £97 million and debt held at fair value of £51 million being the amount due to the retrosessionaire.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 Technical provisions by Line of Business continued

An explanation of the material changes between the IFRS valuation for technical provisions and that used for Solvency II is included below:

Note	Balance sheet item	Valuation principles
1	**Change to discount curve**	Liabilities are valued using a discount rate derived from the EIOPA swap curve with a credit risk adjustment of 10bps under Solvency II. For IFRS they are valued using a discount rate from the EIOPA swap curve plus an illiquidity adjustment of 10bps.
2	**Change in restriction for negative sterling reserves**	The term 'sterling reserves' represents reserves set aside to cover future cash flow obligations on unit-linked policies, over and above the value of units held. For Solvency II, negative sterling reserves are allowed as a reduction to technical provisions. For IFRS, negative sterling reserves are disallowed and set to zero.
3	**Matching Adjustment on non-Matching Adjustment funds**	In addition to the adjustment in the Matching Adjustment portfolio, an adjustment is made to the IFRS technical provisions in the non-Matching Adjustment portfolio (non-profit business only) for liabilities backed by Solvency II Matching Adjustment eligible assets, representing an estimate of the allowance for illiquidity expected to be earned on such assets. This adjustment is not made under Solvency II.
4	**Demographic margin**	A margin for demographic risk is included within the IFRS technical provisions. This item is based on a percentage of undiversified demographic risk capital, relating to mortality, longevity and persistency. Solvency II does not require this margin to be held over and above best estimate.
5	**Annuity profit margin**	Annuity profit margin includes future profits expected to be recognised when deferred annuities vest from the with-profit funds into the Matching Adjustment portfolio. Under Solvency II, there is no allowance for the reserving of the profit margin. For IFRS this profit margin is included within unallocated surplus.
6	**Policyholders' share of estate**	The proportion of the with-profit estate which is expected ultimately to be distributed to policyholders is included within technical provisions on the IFRS basis. For Solvency II, it is recognised as surplus funds (being accumulated profits which have not been made available for distribution to policyholders or other beneficiaries) and is not recognised within technical provisions but instead as an item of Own Funds. Further details are included in section E.1.
7	**Prepayments**	Under IFRS, the Life Companies recognise a prepayment relating to payment for transfer of certain risks to Service Companies. An offsetting amount is also held within technical provisions to recognise the future charge that will be incurred as the prepayment is released. For Solvency II, the prepayment cannot be recognised, as it is considered to not have any economic value, and therefore the liability held within technical provisions is released.
8	**Other**	The 'other' line includes the impact of reallocation of reserves in the with-profit funds between the two bases.

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 Bases, methodology and main assumptions used for Best Estimate Liability

Technical provisions represent the value of policyholder obligations, if these were to be transferred to a third party at the valuation date. The Group's approach to valuing all actuarial liabilities for its insurance subsidiaries is to use BEL plus risk margin. The alternative 'Technical Provisions as a whole' approach to valuing these liabilities is not used.

Sections D.2.3 to D.2.10 sets out in detail the bases, methodology and main assumptions used to derive the BEL. Risk margin methodology is covered in section D.2.11.

All data used to calculate technical provisions is assessed for appropriateness, completeness and accuracy. Where there are any material weaknesses, limitations or errors associated with data, these are identified in control and validation reports together with any remedial adjustments made.

D.2.3.1 Best Estimate Liability

BEL is calculated gross, without deduction for amounts recoverable on reinsurance contracts. Reinsurance recoverable are valued separately, recognised as a reinsurance asset and calculated in the same manner as the BEL (see section D.2.8 for further details).

All assumptions are updated to reflect current economic conditions and demographic experience. Material changes in the relevant assumptions made in the calculation of technical provisions are covered in section D.2.5.

For the majority of policies which have rider contracts (an additional provision attached to an insurance policy), the rider is separated from the main contract for valuation purposes. For example, a term assurance rider contract attached to a unit-linked pension policy is treated as a separate stand-alone term assurance contract. This ensures appropriate assumptions are used to value the rider contract.

The following section details the methodology and key assumptions used to calculate the BEL.

D.2.3.2 Overview of Methodology

A cash flow projection model is used to calculate BEL. This projects cash inflows and outflows required to meet the Group's obligations to policyholders over the lifetime of the policy, taking into account the undertaking's regulatory duty to treat its customers fairly.

The projection of future cash flows is performed using realistic assumptions regarding future experience. The relevant assumptions include, expected future trends in mortality, longevity, lapse rates and option take-up rates. An allowance is also made for future expenses.

The model takes account of the time value of money through discounting at an appropriate risk-free rate (see section D.2.3.3 below). The assessment of the expected cash flows underlying the BEL takes into account any taxation payments which are charged to policyholders, or which would be required to be made to settle the insurance obligations.

In certain specific circumstances, the best estimate may be negative (e.g. for some protection business where the value of future premiums exceeds the value of future claims and expenses). A negative BEL is permitted under the regulations.

D.2.3.3 Discount rates

For the purpose of calculating the Solvency II technical provisions, nominal discount rates, based on swap rates, prescribed by EIOPA are used. These rates vary by currency of liabilities. The vast majority of the Group's insurance obligations are denominated in sterling. The Group's main non-sterling currency exposure relates to euro denominated liabilities.

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. At 31 December 2017, the sterling credit risk adjustment was minus 10bps, and for euros minus 10bps at each duration. The discount rates used to value liabilities in the Matching portfolios are higher as they also include allowance for the Matching Adjustment (see section D.2.7.1).

D.2.3.4 Tax assumptions

Tax assumptions have been updated as a result of the 2016 Finance Bill reducing tax rates from 1 April 2017.

From 1 April 2017 the mainstream tax rate dropped to 19% and from 1 April 2020 it will drop to 17%.

D.2.3.5 Contract boundaries

Under the regulations the liability cash flows that need to be considered within the BEL are those that fall within the 'contract boundary'. Depending on the features of the contract type, the contract boundary can vary (e.g. the contract boundary may be the original maturity date, the next policy anniversary or the valuation date).

For substantially all products, the contract boundary used in the calculation of BEL is the original contractual maturity term. The boundary used is based on a product level assessment which has been performed against the regulations.

D.2.3.6 Grouping of liability data

PLL and PLAL policies are grouped into model points to improve computational efficiency. Groups are selected so that the model points appropriately allow for the risk characteristics of the individual policies and do not distort the valuation of BEL.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED

D.2.4 Calculation

The following sub-sections outline how each type of BEL are valued.

D.2.4.1 Insurance with-profit participation

The BEL is typically calculated as the sum of:

- asset shares – the value (as at the valuation date) of the underlying policy cash flows accumulated at the investment returns earned historically on assets backing those policies;
- the market-consistent cost of guarantees and smoothing as these may give rise to claim payments greater than the asset shares; and
- other with-profit future policyholder related liabilities, which includes future discretionary benefits and any remaining options and guarantees.

Cost of option and guarantees

A range of options and guarantees exist. As the cost of an option or guarantee will vary depending on future economic conditions, stochastic methods are used to value the majority of them (see section D.2.6 for further details) and these are included in the BEL.

Investment mix of asset shares

As the value of options and guarantees can depend on the projected asset share, the stochastic model requires assumptions about the current and future mix of investments held within the asset shares. These assumptions reflect the asset share pools as described in each with-profit fund's Principles and Practices of Financial Management ('PPFM').

The change to the asset mix of these asset share pools varies over time as described in the PPFM; certain funds will retain a static mix based on the assets backing asset shares at the valuation date, others will vary from an initial mix to a long-term strategic mix.

D.2.4.2 Other life insurance (including health)

The BEL for the annuity business is the present value of future annuity payments and associated policy administration expenses less any future premiums payable. For non-pension annuities, the annuity payments may include policyholder tax on the income element of any payments.

For other business, BEL represents a realistic assessment of the present value of projected claims payments, plus expenses less premium income.

D.2.4.3 Index-linked and unit-linked business

The BEL for unit-linked business is based on a realistic assessment of the present value of projected claim payments plus expenses, less the present value of future premiums paid.

D.2.5 Demographic and expense assumptions

All demographic and expense assumptions are determined on a best estimate basis (i.e. they include no allowance for prudence). Any changes to external factors are also taken into account when determining the best estimate assumptions.

Assumptions are set in accordance with the regulations. In particular, they:

- are applicable to homogenous risk groups and LoBs within each insurance subsidiary;
- are based on knowledge of the business and practices for managing the business; and
- ensure appropriate allowance for anticipated trends or future changes in the Group and its insurance subsidiaries and portfolio specific factors as well as legal, technological, social, economic or environmental factors.

Typically assumptions are reviewed annually; however for less material assumptions the updates may be less frequent.

The assumption setting process involves analysing experience data from the last three to five years. This ensures data is detailed enough to allow credible statistical analysis to be performed and emerging trends to be identified.

For example, in order to set a particular assumption for a particular group of policies, the annual percentage of policies subject to the relevant decrement (for example, lapses, death) over the last five years is typically considered. The actual rates observed over the last five years are then compared to the best estimate assumption being used to value the BEL. Where the best estimate assumption is materially out of line with actual experience, changes to the best estimate assumption are considered.

Validations are performed to ensure the experience data is accurate, relevant and credible. Other industry data (e.g. industry trend data) may also be used to supplement the Group's experience data, where relevant and credible.

Expert judgement is applied to assess the impact on the proposed assumption of one-off events and likely future policyholder behaviour. It is also used where there is insufficient credible experience/other data to set the assumption.

Key best estimate demographic assumptions are:

1) Mortality rates (using base table and future improvement rates);
2) Lapse rates;
3) Early and late retirement rates; and
4) Option take-up rates (e.g. early retirement options, Guaranteed Annuity Options ('GAO').

Other less material best estimate assumptions include morbidity and conversion from premium paying to paid-up status.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.5 Demographic and expense assumptions continued
D.2.5.1 Mortality
Base annuitant mortality
The base table mortality assumption review for annuitants is based on individual insurance subsidiary mortality experience primarily over a five year period.

Criteria used to subdivide fund level data into homogenous risk groups are gender and ex-entity (i.e. the original company that sold the policy to the policyholder). However for impaired life annuities, underwriting class is also used.

The mortality tables currently in use are PCXA00 and RXV00 as these tables are most representative of the underlying company's experience. A base mortality multiplier is then applied to the assumption so that the assumptions align to the underlying experience.

PCXA00 and RXV00 are examples of standard mortality tables used by Life Companies to value technical provisions. Adjustments are made to these tables to reflect mortality improvements from the date they were published to the current valuation date.

A separate allowance is made for future mortality improvements applicable after the valuation date, which are detailed below.

Pre-vesting mortality
Pre-vesting mortality assumptions apply to products such as term assurances and endowments.

The assumption review is based on mortality experience primarily over a five-year period. Criteria used to subdivide fund level data are gender, product group, smoker status and ex-entity.

A base mortality multiplier that varies by gender is applied to a standard mortality table. Adjustments may be made to the mortality table to take account of changes in mortality improvements since the table was published.

Base multiplier and mortality assumptions are selected that are in line with the underlying experience data. In some cases, age specific percentages are used where they better match experience.

The main standard mortality tables currently in use are A1967 70, AX80, AX92, TX92, AXC00 and PCXA00.

Additionally, company specific tables are used to value term policies and certain individual policies which include total and permanent disability benefits.

Future improvement in mortality rates
For immediate annuities, deferred annuities or products with GAO's/Guaranteed Minimum Pension ('GMP') guarantees and for certain whole of life and term assurance business, a separate allowance for future improvements in mortality rates is made when calculating technical provisions.

For annuity business, the future improvement assumption is a material assumption and it is set using an industry model which firstly fits a model to England and Wales historic population data. Expert judgement is then used to make assumptions regarding an appropriate long-term rate of improvement assumption and the rate of convergence from the recent historic rates to this long term rate. The published projection model currently in use is the CMI 2016 version which was published in March 2017 and uses historic data up to 2016.

The published projection model used at year-end 2016 was based on the CMI 2014 mortality projections model with some allowance for the lower level of future improvements suggested by the CMI 2015 model.

For whole of life and term assurance business, the future improvement assumption is less material and a single rate of future improvement assumption is used.

D.2.5.2 Lapse rates
The assumption review is based on lapse experience primarily over a five-year period. Criteria used to subdivide fund level data are product type and premium payment status (i.e. regular premium or single premium/paid up). Where experience data is insufficient to perform a credible analysis, the experience from similar products may be aggregated. The analysis is carried out by splitting policies into homogeneous risk groups and identifying an assumption for the group as a whole.

D.2.5.3 Early and late retirement rates
The assumption review for early and late retirement rates is based on experience primarily over a five-year period. The criteria used to subdivide fund level data are product type and ex-entity. Late retirement rates are only modelled for those products where the assumption has a material impact on BEL.

In setting the assumptions, allowance is made for known or anticipated trends (e.g. changes in early and late retirement rates as a result of low interest rate environment or changes in pension's legislation from the Pensions' Freedoms Act).

During 2017, a late retirement assumption was introduced for PLL and PLAL.

D.2.5.4 Option take-up rates
The current best estimate assumptions for GAO take-up rates are based on experience data, with added weight given to the most recent experience particularly since the 2014 Budget announcement where the requirement to take policy benefits in the form of an annuity was removed in the Pensions Freedoms Act. Given the significance of this change, it will take some time for sufficient experience to build-up to produce a stable take-up rate assumption.

GAO liabilities are valued using a stochastic model. The take-up rate varies depending on the projected interest rate at policy maturity date in each stochastic scenario. An upper and lower bound apply to the take-up rate based on the degree to which the guarantee is in the money (i.e. by how much the guaranteed annuity rate exceeds the current market annuity rate).

The assumed GAO take-up rates across the different funds currently lie between 50% and 80%.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 Demographic and expense assumptions continued

D.2.5.5 Expense assumptions

Future expense assumptions are set on a going concern basis, which assumes that new vesting annuity business and Sun Life protection business will be written in future, but that other product lines are closed to new business.

The future expense assumptions include:

- **MSA fees payable to the Group's Service Companies** – These MSAs typically specify a charge for each policy type/fund together with associated increase rates (e.g. RPI + 1%);
- **Direct and Project costs** – Within the expense assumptions, allowance is made for direct costs (i.e. costs directly attributed to the business) and some project costs. Any project costs not allowed for in expense assumptions are held as an actuarial provision within the overall calculation of BEL;
- **Investment management expenses** – These fees may be explicit inputs to the valuation models, or in some cases they are applied via reductions to the investment returns used to calculate BEL. For with-profit funds investment expenses are set by considering the underlying asset mix of the asset shares and those assets backing other liabilities and Own Funds;
- **Acquisition expenses** – e.g. commission relating to future premium payments; and
- **Overhead expenses** – these are allocated in a realistic and objective manner and on a consistent basis over time to the parts of the best estimate to which they relate.

D.2.6 Stochastic model

D.2.6.1 Economic Scenario Generators

An Economic Scenario Generator ('ESG') developed by a third party supplier has been used to support the stochastic valuation of all material options and guarantees in the with-profit funds. A stochastic methodology is required for options and guarantees due to their potential volatility and asymmetric behaviour under different sets of future economic scenarios. The stochastic methodology involves valuing the options and guarantees under 1,000 different future economic scenarios and then averaging over all scenarios. The central scenario in the ESG is equal to the single deterministic scenario used to value all non-profit and unit-linked business.

The ESG generates projected asset returns consistent with asset prices observed in financial markets and assumes no arbitrage opportunities exist. The calibration of the parameters and scenarios is consistent with the relevant risk-free interest rate term structure used to calculate the BEL provided by EIOPA. Where possible the ESG has been calibrated to assets from deep, liquid and transparent markets which are appropriate to the nature of the funds' options and guarantees.

D.2.6.2 Management actions

The methods and techniques for the estimation of future cash flows take account of potential future actions taken by management. The management actions allowed for are determined and justified in accordance with the regulations.

Management actions in this context are mainly relevant to with-profit liabilities and, in the calculation of technical provisions, primarily relate to discretion over the amount of annual and final bonuses. In each ESG scenario, the level of annual future reversionary bonus applied to benefits is determined dynamically, and is set at a level such that the final bonus is targeted at a specified percentage of the guaranteed benefit.

Some reversionary bonuses are guaranteed at a specified minimum. Where this is the case the model uses the dynamic methodology as above, but applies a floor of the guaranteed minimum.

The final bonus rates are typically assumed to be adjusted in each scenario so as to correspond to the rate that can be covered by the difference between the asset share and the guaranteed benefit, including any reversionary bonuses. The overall final bonus is subject to a minimum of zero.

D.2.6.3 Policyholder actions

The impact of policyholder actions is considered primarily in relation to GAO take-up rates, as these take-up rates are expected to be correlated with the financial benefit gained from the option, which is in turn highly correlated with the level of interest rates.

The central GAO take-up rate assumptions in the stochastic models are supported by the analysis of historical data. This analysis takes into account the following:

- how beneficial exercise of the option was and will be to policyholders under circumstances at the time of exercising the option;
- the influence of past and future economic conditions;
- the impact of past and future management actions; and
- any other circumstances that are likely to have influenced the decisions on whether to exercise the option (e.g. changes in legislation such as Pension Freedom legislation introduced in April 2015).

SECTION A BUSINESS AND PERFORMANCE
SECTION B SYSTEM OF GOVERNANCE
SECTION C RISK PROFILE
SECTION D VALUATION FOR SOLVENCY PURPOSES
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VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II long-term guarantee and transitional measures (Unaudited)

Regulatory approval has been received from the PRA for the application of:

- Matching Adjustment to liabilities in the Matching Adjustment portfolios within PLL and PLAL; and
- the TMTP which is applied to all liabilities within PLL and PLAL.

D.2.7.1 Matching Adjustment

The application of the Matching Adjustment allows insurers to use a (typically) higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR. The assets and liabilities in each of the Matching Adjustment portfolios meet the Matching Adjustment eligibility criteria as set out in the regulations.

The Matching Adjustment is based on the expected yield from eligible assets held to back eligible liabilities, less a margin for defaults and downgrades. It is applied as a flat increase to the Solvency II basic risk-free curve used to discount liabilities.

The calculation of the Matching Adjustment requires EIOPA specified assumptions for the basic risk free curve and fundamental spreads. These assumptions are combined with asset and liability cash flows to generate the Matching Adjustment for each currency of liabilities.

The liabilities in the PLL Matching Adjustment portfolio consist of sterling denominated non-profit immediate and deferred annuities. There is also a relatively small block of non-profit euro denominated immediate annuities. The immediate and deferred annuities provide policyholders with a mixture of level, fixed escalation and inflation linked benefits.

A key change since the previous SFCR produced for 31 December 2016, is the increase in level and fixed escalation immediate annuity liabilities within the portfolio as a result of the reinsurance agreement with ALAC.

Liabilities in the PLAL Matching Adjustment portfolio consist of sterling denominated non-profit immediate annuities from which policyholders receive a mixture of level, fixed escalation and inflation linked benefits.

At the current valuation date, the following asset types are held to back liabilities in the Matching Adjustment portfolios: fixed and index-linked government bonds, supranational bonds, corporate bonds, interest rate swaps, gilt total return swaps and cash. For PLL Matching Portfolio ERM notes issued by ERM Special Purpose Vehicles are also held to back liabilities.

ALAC no longer has a Matching Adjustment fund as the eligible liabilities have been reinsured to PLL.

The impact of reducing the Matching Adjustment to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.22 in Appendix 1.5 for PGH Group, QRT S.22.01.21 in Appendix 2.5 for PLL, and QRT S.22.01.21 in Appendix 3.5 for PLAL.

Phoenix Group Holdings	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	66,751	67,481	730
Basic Own Funds	6,637	5,975	(662)
Eligible Own Funds to meet SCR	6,672	6,010	(662)
SCR	4,822	5,743	921

PLL	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	47,652	48,292	640
Basic Own Funds	3,685	3,112	(573)
Eligible Own Funds to meet SCR	3,685	3,112	(573)
SCR	2,897	3,714	817

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 Solvency II long term guarantee and transitional measures (Unaudited) continued

D.2.7.1 Matching Adjustment continued

PLAL	Including Matching Adjustment £m (A)	Excluding Matching Adjustment £m (B)	Impact of removing Matching Adjustment £m (B) – (A)
Technical provisions	15,028	15,117	89
Basic Own Funds	1,955	1,866	(89)
Eligible Own Funds to meet SCR	1,955	1,866	(89)
SCR	1,590	1,694	104

D.2.7.2 Transitional Measures for Technical Provisions

Transitional measures allow insurers to recognise the impact of increased technical provisions calculated under the Solvency II regime compared to the previous Solvency I regime (using the Pillar 2 Individual Capital Assessment ('ICA') basis) on a gradually reducing basis over 16 years. The Group's technical provisions calculated under Solvency II exceed those calculated under the Solvency I regime for two main reasons. Firstly, the regulations require inclusion of a risk margin within technical provisions which was not required under Solvency I. Secondly, the regulations require the use of a swap-based risk-free curve to discount liabilities whereas under Solvency I, the Group used a higher gilts-based risk-free curve to determine the discount rate.

The TMTP is a deduction from the amount of Solvency II technical provisions and is included as part of Tier 1 Basic Own Funds. In summary, the initial deduction is calculated as the difference between Solvency II technical provisions and Solvency I technical provisions as at 1 January 2016. The deduction runs off linearly to zero over the course of the 16-year transitional period unless a faster pace of run-off is required due to the actual run-off of the business being higher than 1/16 per annum. As the Life Companies within the Group are largely closed to new business, the run-off of the risk margin and technical provisions are expected to predominately offset the impact of the run-off of the TMTP.

The regulations require all firms to recalculate their transitionals every two years after 1 January 2016 or more frequently under circumstances where the risk profile of the business changes materially and to reflect this recalculation in the reported transitionals amount. As per the two-year recalculation cycle, for both PLL and PLAL, a recalculation of the TMTP has been conducted as at 31 December 2017. Following recalculation, the TMTP has reduced for both PLL and PLAL.

The TMTP reported in this valuation allows for two years run-off (for example, 14/16 of the figure before run-off) although the requirement to apply the second year's run-off did not strictly apply until 1 January 2018.

For PLL the TMTP has reduced from £2,268 million at the previous valuation on 1 January 2016 to £1,740 million for the current valuation. This reduction is primarily driven by:

- a reduction in the risk margin as a result of the implementation of a longevity swap and a relatively higher swap-based risk free curve;
- business run-off; and
- Internal Model approval for PAWL business resulting in reduction in the risk margin.

Some of the reduction caused by the above factors has been offset due to the inwards reinsurance agreement with ALAC.

For PLAL the TMTP has reduced from £945 million at the previous valuation on 1 January 2016 to £797 million for the current valuation. This reduction is primarily driven by:

- business run-off; and
- a fall in the risk margin due to a relatively higher swap-based risk-free curve and certain model and methodology changes.

There is a requirement that the TMTP should not result in the financial resources (technical provisions plus other liabilities plus capital requirements) held under Solvency II to be less than those that would have been held under the Solvency I regime. The assessment on both bases as at 31 December 2017 demonstrated that no such restriction was required.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.7 Solvency II long term guarantee and transitional measures (Unaudited) continued
D.2.7.2 Transitional Measures for Technical Provisions continued

The impact of reducing the TMTP to zero on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is summarised below and shown in QRT S.22.01.22 in Appendix 1.3 for Group, in QRT S.22.01.21 in Appendix 2.4 for PLL and QRT S.22.01.21 in Appendix 3.4 for PLAL.

Phoenix Group Holdings	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	66,751	69,289	2,538
Basic Own Funds	6,637	4,586	(2,051)
Eligible Own Funds to meet SCR	6,672	4,621	(2,051)
SCR	4,822	4,657	(165)

PLL	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	47,652	49,393	1,741
Basic Own Funds	3,685	2,216	(1,469)
Eligible Own Funds to meet SCR	3,685	2,216	(1,469)
SCR	2,897	2,693	(204)

PLAL	Including transitionals £m (A)	Excluding transitionals £m (B)	Impact of removing transitionals £m (B) – (A)
Technical provisions	15,028	15,825	797
Basic Own Funds	1,955	1,374	(581)
Eligible Own Funds to meet SCR	1,955	1,374	(581)
SCR	1,590	1,629	39

In addition to impacting the technical provisions, any change in TMTP also affects the SCR. This is due to the impact of the change in TMTP on both the Loss Absorbing Capacity of Deferred Tax ('LACDT') and the additional management actions applied in the SCR calculation, which can be used to reduce losses under stressed conditions.

D.2.8 Recoverables on reinsurance contracts

The amounts recoverable on reinsurance contracts are recognised as a reinsurance asset on the Solvency II balance sheet and calculated in the same manner as the BEL. The amounts recoverable are adjusted to take account of expected losses due to default of the counterparty which is described below.

D.2.8.1 Assessment of reinsurers' default risk (counterparty default adjustment)

The regulations require that an adjustment is made to the value of the reinsurance asset to reflect the risk that a reinsurer may default on its obligations. This adjustment is known as the counterparty default adjustment.

A simplified method is used to calculate the counterparty default adjustment. The simplified calculation applies a best estimate probability of reinsurer default to the difference between the reinsured BEL and any collateral held under the arrangement. Further adjustments are then made to reflect the recovery rate from the reinsurer in excess of the collateral and the average duration of liabilities transferred. For internal reinsurance the probability of default has been set to zero, reflecting the enhanced ability to monitor and control the strength of the reinsurer.

There is no reinsurance with Solvency II SPVs.

D.2.9 Simplifications

Where it is proportionate, the Group adopts various simplifications in the calculation of BEL. These simplifications may exist within the calculation methodology, or within the valuation models themselves.

The most material areas where such simplifications are adopted are listed below.

D.2.9.1 Methodology simplifications

This section describes the significant simplifications within the Group's methodology for calculating the Solvency II BEL. However, neither is considered to have a material impact on BEL.

Dynamic policyholder behaviour

How valuable guarantees are to policyholders will vary with economic conditions. In the stochastic model, dynamic policyholder behaviour is modelled in respect of the GAO take-up rates, where the take-up rate varies depending on the level of projected interest rates at the policyholder's retirement date.

Variation in economic conditions would also affect the lapse and surrender rates. However, due to a lack of relevant experience data and modelling complexity, dynamic lapse and surrender rates are not currently modelled.

Counterparty default adjustment

The methodology set out in section D.2.8.1 above is a simplification permitted by the regulations.

D.2.9.2 Modelling simplifications

Substantially all of the Group's BEL is calculated using probability weighted averages of future cash flows. However, simplified valuation techniques have been used in certain circumstances. These simplifications are typically used where material uncertainty exists around the size, incidence or timing of liability cash flows or, where further model development is required for a more robust assessment. Examples include provisions set aside to cover items such as additional service fees, data issues, project implementation costs, impacts of system changes, impacts of regulation changes, unknown claims and litigation costs.

The Group uses the skills, knowledge and experience of actuaries, accountants and other subject matter experts to perform these assessments, which are carried out in accordance with the Group's internal framework on application of expert judgement.

The proportion of gross BEL calculated using simplified methods was 2%.

D.2.10 Uncertainty associated with the value of technical provisions

The sources and level of uncertainty associated with the risk margin component are described in section D.2.11.3.

The key sources and level of uncertainty associated with the BEL component of technical provisions are:

- uncertainty of demographic and economic assumptions;
- uncertainty in the timing and frequency of insured events;
- uncertainty in claim amounts, including uncertainty caused by path dependency (i.e. where the cash flows depend not only on circumstances such as economic conditions on the cash flow date, but also on those circumstances at previous dates);
- uncertainty in claims inflation;
- uncertainty in the amount of expenses and expense inflation;
- uncertainty in the actions that are assumed to be taken by management in response to changes in market conditions;
- uncertainty in expected future developments; and
- uncertainty in policyholder behaviour.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED

D.2.10 Uncertainty associated with the value of technical provisions continued

Some of this uncertainty is addressed by using a stochastic model. In particular, use of a stochastic model enables both the intrinsic and time value associated with options and guarantees to be determined with greater certainty. Use of a stochastic model also enables key dynamic policyholder behaviour and key management actions to be modelled.

Uncertainty may also emanate from the use of best estimate assumptions that did not accurately reflect the risk profile of the business being modelled. For example, demographic best estimate assumptions are typically based on an analysis of past experience with adjustments to allow for expected future trends and developments. However, these assumptions may not be borne out in practice for a number of reasons, including:

- lack of credible historical data upon which to base the assumption. This may require experience data from different homogenous risk groups being grouped, the use of relevant and credible industry data, or the assumption being set by expert judgement;
- allowance for future trends being different from expected; and
- random variation.

Any simplifications and approximations made when setting non-economic assumptions takes into account the sensitivity and materiality of the assumption.

An indication of the level of uncertainty associated with a particular assumption can be achieved by testing the sensitivity of BEL to that assumption. The table below (unaudited) shows the increase in net of reinsurance BEL that would result from a strengthening of each key demographic assumption at the 1-in-10 probability level (i.e. the probability of the best estimate assumption being outside of this level is 10% respectively). These impacts allow for the current risk mitigation techniques (e.g. reinsurance) in place.

Given the reinsurance of the in-force and new business to of ALAC to PLL, the sensitivity of ALAC is not significant.

	Increase In Best Estimate Liability		
	1-in-10 probability level £m		
Assumption	**PLL**	**PLAL**	**PGH Group**
Longevity (base table)	258	122	380
Longevity (future improvements)	563	286	849
Mortality	108	3	111
Lapses	356	237	593
Expenses	46	26	72

No uncertainty is assumed to result from the basic risk-free curve used in the calculation of BEL, as this is specified by the regulations.

D.2.11 Risk margin

The risk margin calculation represents the additional amount above the BEL that is required to be held under the Solvency II regulations. It is calculated at a value to proxy for the amount of compensation above BEL that a third party (i.e. the reference undertaking) would require to take over those liabilities.

The Group uses a simplified methodology to calculate the risk margin, as described in section D.2.11.1 below.

D.2.11.1 Methodology overview

The calculation of the risk margin for the undertaking is based on a 6% per annum cost of capital applied to the projected reference undertaking SCR. The reference undertaking SCR is based on non-hedgeable risks only. The definition of non-hedgeable risks for the reference undertaking SCR includes:

- underwriting risk with respect to the existing business;
- credit risk with respect to reinsurance contracts counterparties, policyholders and any other material exposures related to existing business; and
- operational risk, including tax and regulatory risk.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.11 Risk margin continued

D.2.11.2 Validation of simplified approach and level of uncertainty

A 'full' calculation of the risk margin would involve:

- a 'full' calculation of the reference undertaking SCR over all future time periods; and
- calculating the risk margin at entity level and allocating this to each LoB.

However, in practice, for the vast majority of business, the Group uses a simplified bottom up approach such that the risk margin is initially calculated at fund LoB level by:

- Allocating the time zero reference undertaking SCR to each fund and further by LoB. For each LoB this allocation makes allowance for the expected contribution from individual risks, management actions, diversification benefits and also non-linearity. Non-modelled risks are allocated in a simplified way using LoB weightings based on modelled BEL.
- Applying a 6% cost of capital charge to the 'projected' fund level LoB reference undertaking SCRs and discounting. For this purpose the fund level LoB reference undertaking SCR is typically projected using an annuity factor that is based on the run-off profile of the BEL for each LoB.

The insurance subsidiary risk margins are then the sum of the LoB risk margins across all funds. The Group risk margin is the sum of the insurance subsidiary's risk margins.

In order to understand the impact of the simplification used to allocate the SCR to LoB, alternative methods of allocating the SCR to LoB have been investigated (e.g. the impact of allocating non-modelled risks to LoB using policy counts instead of the BEL). This demonstrated that the risk margin results were relatively insensitive to the alternative allocation methods that were tested.

In order to understand the impact of the simplification used to represent the projection of the SCR, alternative run-off approaches were also assessed. In particular:

- Realistic run-off patterns for key non-market risks. Simplified models were used to produce run-off patterns for key risks and are validated by comparing them to BEL run-off profiles. This showed that the current approach was likely to be prudent for the key risks.
- Alternative proxies to run-off the SCR were used (e.g. sum assured) and the sensitivity of the risk margin calculation was assessed. This showed that the risk margin results were relatively insensitive to the alternative run-off patterns tested.
- For certain product lines, where the general approach described in section D.2.11.1 is not appropriate, more granular techniques are employed to ensure appropriate projection of the reference undertaking SCR.

D.2.11.3 Uncertainty associated with the risk margin

Uncertainty attached to the risk margin calculation primarily stems from its unduly high sensitivity to interest rate movements. Sensitivity to interest rates arises because there is a double impact from interest rate movements on the longevity risk SCR and because risk-free rates are used to discount the projected reference undertaking SCRs. This is a general industry-wide concern of which the UK regulator and EIOPA have been made aware. However, a material change in interest rates may trigger a recalculation of the TMTP (see section D.2.7.2), subject to regulatory approval, which would currently act to offset much of the volatility in the risk margin calculation.

Some uncertainty also relates to the simplifications used by the Group to calculate the risk margin. However, based on the results of the validation investigations described above, the level of this uncertainty is currently deemed immaterial.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES

D.3.1 introduction

The valuation of other liabilities on the Solvency II balance sheet is covered in section D.1. The valuation of technical provisions is covered in section D.2. Some of the Group's liabilities (mainly financial instruments) are determined using alternative valuation methods which use non-observable market inputs. Further details are included in section D.4.1.

D.3.2 Deferred tax liabilities

Further details regarding deferred tax liabilities are set out in section D.1.3.

D.3.3 Pension schemes

As detailed in section D.1.2, PGH has three material defined benefit staff pension schemes. In accordance with the regulations, all schemes are valued consistently with IFRS (i.e. IAS19 valuation basis). This section gives further detail on the Group's three main pension schemes for its employees.

At 31 December 2017, the value of the Pearl Group Scheme is £322 million and is shown as 'pension benefit surplus' on the Solvency II balance sheet.

At 31 December 2017, the value of the PGL Scheme in PGH1 is £353 million including the value of its reimbursement rights arising from bulk annuity contracts entered into with PLL. As detailed in section D.1.2, this value is not included in the 'pension benefit obligations' line of the balance sheet as it is recognised in an entity which is not subject to line by line consolidation. As PGH1 is treated as a 'participation' for Solvency II, the value of the PGL Scheme is included within 'holdings in related undertakings, including participations'. Transactions between the Group's pension schemes and Life Companies are fully eliminated on consolidation. Accordingly, certain financial assets which under collateral agreements support the pension scheme obligations are included on a line by line basis, as the risks and rewards are held by PLL. The full pension scheme obligation, calculated in accordance with IAS19 is recognised in 'holdings in related undertakings including participations'.

At 31 December 2017, the value of the Abbey Life Scheme is £(70) million and shown in 'pension benefit obligations' on the Solvency II balance sheet. Effective from 30 June 2017 the Abbey Life Scheme pension obligations are valued in the PeLHL holding company, following the transfer of the Scheme from ALAC.

Further details regarding the Group's pension schemes, including the principal assumptions used in their valuation are set out in note G6 of the PGH Annual Report and Accounts for the year ended 31 December 2017 which can be found on the Group's website.

D.3.3.1 Scheme assets

The distribution of the scheme assets for each pension scheme as at 31 December 2017 were as follows:

	Pearl Scheme		PGL Scheme		Abbey Life Scheme	
Pension scheme assets	**Asset value £m**	**% of total scheme assets**	**Asset value £m**	**% of total scheme assets**	**Asset value £m**	**% of total scheme assets**
Hedging portfolio[1]	1,823	67	–	–	–	–
Index-linked bonds	–	–	866	72	–	–
Swaps	–	–	7	1	–	–
Government bonds	–	–	–	–	105	42
Equities	165	6	–	–	28	11
Fixed interest gilts	88	3	357	30	–	–
Other debt securities	1,090	40	–	–	–	–
Properties	270	10	111	9	–	–
Private equities	35	1	–	–	–	–
Hedge funds	18	1	90	7	–	–
Corporate bonds	–	–	17	1	149	59
Cash and other	120	4	12	1	9	4
Derivatives	–	–	–	–	(40)	(16)
Obligations for repayment of stock lending collateral received	(887)	(33)	(254)	(21)	–	–
Reported scheme assets	**2,722**	**100**	**1,206**	**100**	**251**	**100**
Add back:						
Insurance policies eliminated on consolidation with PLL	–		916		–	
Economic value of assets	**2,722**		**2,122**		**251**	

1 Net of obligations for repayment of stock lending collateral received.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION

This section provides information on alternative valuation methods used by the Group. Sections D.1.2 and D.3.2 identified the assets and liabilities valued using this approach. Further information is provided below on the justification for the use of alternative valuation methods and the assumptions underlying this approach. An assessment of the valuation uncertainty is performed by management on a bi-annual basis and the results of such analysis shared via governance.

There have been no significant changes in the recognition, measurement or valuation base used for financial assets and liabilities during the reporting period.

D.4.1 Alternative valuation methods – Assets

Some of the Group and insurance subsidiaries financial instruments are valued using alternative valuation methods, which utilise a combination of observable and non-observable market inputs. All of the alternative valuation methods described below follow accepted market practice.

For PA(GI) and PAWL there are no items valued using alternative methods as at 31 December 2017.

	Solvency II value £m						
Asset	**PLL**	**PLAL**	**ALAC**	**Other Group entities and Group adjustments**	**PGH Group**	**Alternative valuation method**	**Assumption**
Assets held for index-linked and unit-linked contracts	458	–	195	–	653	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques are consistent with the market approach (for example, levels of fair value hierarchy).	Various assumptions depend on class of asset.
Property, plant and equipment held for own use	–	–	–	24	24	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	Further details are set out on page 168 of the PGH Annual Report and Accounts for the year ended 31 December 2017.
Property (other than for own use)	338	45	7	(5)	384	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	As per RICS valuation manual and based on professional judgement of independent valuers; for the property reversionary loans, mortality rates, discount rate, future growth in house prices are key assumptions. Page 169 of the PGH Annual Report and Accounts for the year ended 31 December 2017 shows the valuation techniques used in measuring the fair value of the investment properties (included in property (other than for own use), the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties.
Holdings in related undertakings including participations	664	195	–	15	874	Non-observable market input, primarily net asset value statements.	Relevant assumptions and valuation principles as detailed in section D.1.2 applied to the calculation of the net asset value of related undertakings.
Corporate bonds	413	86	21	–	520	Price available from a recognised pricing source, but with high bid-offer spread, or low depth of quote.	Spread.
Government bonds	503	88	4	–	595	Combination of observable and non-observable market inputs including modelling.	Spread. Comparable gilt, and spread applied.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED
D.4.1 Alternative valuation methods – Assets continued

	Solvency II value £m						
Asset	**PLL**	**PLAL**	**ALAC**	**Other Group entities and Group adjustments**	**PGH Group**	**Alternative valuation method**	**Assumption**
Collective Investment Undertakings	1	330	–	(14)	317	Non-observable market input, primarily net asset value statements.	Relevant assumptions and valuation principles as detailed in section D.1.2 applied to the calculation of the net asset value of related undertakings.
Other[1]	35	51	13	41	140	Quoted price, but low spread or depth of quote; broker quote; financial statements.	Depth and spread.
Derivatives	1,669	882	–	–	2,551	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing. All observable market inputs.	Various assumptions used depending on derivative, including interest rate curve, discount curve and implied volatility.
Loans and mortgages	1,336	8	–	–	1,344	ERM: Internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible. Intra-group loans: Discounted cash flow model, with the discount rates based on market observable rates. Other loans: Income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value reflects current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method.	ERM: swap curve, house price index, and loan repayments. Intra-group loans: discount rate. Other loans: Various assumptions depending on loan type.

1 Other includes unlisted equities, structured notes and collateralised securities.

In relation to investments in hedge funds and private equity investments (which are included within the table above as holdings in related undertakings including participations, collective investment undertakings and other (equities – unlisted)), non-observable third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Other valuation methods include broker statements, and an illiquidity discount applied to a proxy quoted price. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required.

Securities that are valued using broker quotes, which cannot be corroborated across a sufficient range of quotes, are considered to be valued using non-observable market data.

For a small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on observable market data, where applicable.

Derivative positions are valued using standard valuation models, combining observable and non-observable market inputs. They are subject to price verification against independent sources and are not subject to sensitivity analysis.

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.2 Financial Instrument Sensitivities

Further details regarding the impact of reasonably possible changes in valuation inputs, including a sensitivity analysis showing how these changes affect the assets, are set out in note E.2.3 and G9 (investment properties) of the PGH Group Annual Report and Accounts for the year ended 31 December 2017. Sensitivity analysis for the insurance subsidiaries is shown in the financial instrument and risk managements notes of the PLL, PLAL and ALAC financial statements for the year ended 31 December 2017. All figures quoted reflect the impact to both the assets valuation and the Basic Own Funds of the sensitivity being applied.

D.4.3 Alternative valuation techniques – Liabilities

As outlined in section D.4.2 the Group uses alternative valuation techniques using non-observable market inputs for certain financial liabilities. These are used to value refinancing loans, which are based on a combination of independent third party evidence and internally developed models. All of the alternative valuation methods described below follow accepted market practice.

	Solvency II value £m						
Liabilities	**PLL**	**PLAL**	**ALAC**	**Other Group entities and Group adjustments**	**PGH Group £m**	**Alternative valuation method**	**Assumption**
Deposits from reinsurers	368	–	–	–	368	DCF approach, using a market observable discount rate.	Contractual cash flows discounted using a swaps-based risk-free curve.
Derivatives	486	536	21	32	1,075	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques are consistent with the market approach (for example, levels of fair value hierarchy). All observable market inputs.	Various assumptions used are dependent on derivative type, including interest rate curve, discount curve and implied volatility.
Debts owed to credit institutions	91	111	–	131	333	Refinancing loans: Internally developed model using a combination of observable and non-observable market inputs. Limited recourse bonds: Discounted cash flow methodology, then applying a suitable discount rate to adjust for OCS.	Various assumptions including discount rate (based on asset duration, adjusted for liquidity/ mortality risk) and house price inflation.
Subordinated liabilities in Basic Own Funds	225	250	–	1,004	1,479[1]	DCF approach, using a market observable discount rate adjusted to exclude the effect of changes in OCS.	PLL: Contractual cash flows discounted using a selected reference gilt yield. Changes in OCS are excluded by reference to the spread to the reference gilt at issue. PLAL: Contractual cash flows discounted using a swaps-based risk-free curve. Other Group companies: Contractual cash flows, discounted using a swap rate. Changes in OCS are excluded by reference to the swap rate at issue.

1 Includes Tier 2 subordinated debt (£439 million), US$ Tier 2 bonds (£366 million) and Tier 3 notes (£449 million) offset by £(250) consolidation adjustment for the PLAL subordinated loan notes which are internal to the Group (see section E.1.5.3).

The valuation of property reversion loans is sensitive to key assumptions of the discount rate and the house price inflation rate, set out in note E2.3 of the PGH Annual Report and Accounts for the year ended 31 December 2017.

Section D
Valuation for solvency purposes continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the valuation of assets and liabilities for solvency purposes.

Section E
Capital management

IN THIS SECTION

CAPITAL MANAGEMENT

Section E
Capital management continued

CAPITAL MANAGEMENT

This section provides information on the Group and insurance subsidiaries' Own Funds and SCR, including changes over the reporting period, together with an explanation of the material differences between net assets under IFRS and the Solvency II excess of assets over liabilities.

A Solvency II capital assessment involves valuation of Own Funds in line with Solvency II regulations and a risk-based assessment of the SCR. Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The Group and insurance subsidiaries' hold an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may reduce Own Funds and might otherwise cause failure to maintain the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

Key solvency metrics

At 31 December 2017, the capital position for PGH and its insurance subsidiaries is presented in the table below:

31 December 2017	PLL £m	PLAL £m	ALAC £m	PAWL £m	PA(GI) £m	Other Group entities £m	Consolidation and other adjustments £m	PGH Group £m
Eligible Own Funds	3,685	1,955	492	4	64	21,758	(21,286)	6,672
SCR	(2,897)	(1,590)	(91)	(3)	(16)	(859)	634	(4,822)
Solvency II surplus	**788**	**365**	**401**	**1**	**48**	**20,899**	**(20,652)**	**1,850**
Ratio of Eligible Own Funds to SCR	**127%**	**123%**	**540%**	**123%**	**405%**			**138%**
Shareholder capital coverage ratio	**151%**	**151%**	**540%**	**123%**	**405%**			**164%**

Comparatives for the PGH Group are not presented throughout section E as the Group SFCR as at 31 December 2016 was prepared for the PLHL Group. However, comparatives are included for each insurance subsidiary.

As at 31 December 2017, the Group's Solvency II surplus over the Consolidated Group SCR is £1,850 million, with a ratio of Eligible Own Funds to SCR of 138%.

76% of the Group's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital, share premium account related to ordinary share capital, surplus funds and the reconciliation reserve. This includes TMTP which are included in the calculation of Basic Own Funds as Tier 1 capital.

The Group and its insurance subsidiaries do not have any Ancillary Own Funds.

All the required SCR quantitative limits have been complied with for the Group and insurance subsidiaries, and result in no restrictions nor are any Own Funds required to be relegated to lower tiers.

Further details regarding the capital position of each of the insurance subsidiaries are set out in section E.1.

Shareholder capital coverage ratio

In the calculation of the Solvency II surplus, the SCR of unsupported with-profit funds and the Group pension schemes are included, but the related Eligible Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the pension schemes, are therefore not recognised in the Solvency II surplus as there is uncertainty as to the extent (if any) to which such surpluses will accrue to shareholders. However, such surpluses are available to absorb economic shocks, thereby increasing resilience to economic stresses.

The Group focuses on the metric of shareholder capital coverage ratio as a more appropriate measure of the extent to which shareholders' Eligible Own Funds cover the associated risk capital. It is defined as the ratio of Eligible Own Funds to SCR, after adjusting to exclude amounts relating to unsupported with-profit funds and the PGL Scheme.

Excluding the SCR and Own Funds relating to unsupported with-profit funds and the PGL Scheme, the Solvency II Shareholder Capital coverage ratio of PGH is 164% as at 31 December 2017.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS

E.1.1 Management of Own Funds

The Group's Capital Management Framework for managing its Own Funds is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- optimise the overall financial leverage ratio to maintain an investment grade credit rating; and
- to meet the dividend expectations of shareholders as set by the Group's dividend policy.

The Group and its insurance subsidiaries operate under a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite considers policyholder security, creditor obligations, dividend policy and regulatory capital requirements. There have been no material changes to the Group's policy suite over the reporting period.

A liquidity policy is set by the Boards and monitored each month at both executive and Board level. The policy ensures sufficient liquidity to meet creditor and dividend obligations through the combination of cash buffers and regular cash flow forecasting. Volatility in the latter is monitored at executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the relevant Board's risk appetite, de-risking activities are undertaken. Also see section C.4 on liquidity risk management.

A capital policy is also set by the relevant Boards and monitored by management regularly, to ensure there is sufficient capital to meet the SCR under a range of stress conditions which are currently determined at a 1-in-10 level. The capital policy is managed according to the risk profile and financial strength of the Group and insurance subsidiaries.

The Group and its insurance subsidiaries future capital position is projected over a five-year planning horizon as part of the AOP process.

E.1.2 Structure and quality of Own Funds

Own Funds are split into Tiers in line with the regulations. There are three 'Tiers' based on both 'permanence' and 'loss absorbency' (Tier 1 being the highest quality). Tier 1 is further divided into 'unrestricted' and 'restricted' Tier 1.

Own Funds which are classified as 'unrestricted' Tier 1 include share capital, surplus funds and the reconciliation reserve. Relevant Own Funds items which are classified as 'restricted' Tier 1 are certain subordinated liabilities and cannot make up more than 20% of total Tier 1.

The regulations impose limits on the amount of each Tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that may arise. Own Funds items need to be sufficient in amount, quality and liquidity to be available when the liabilities they are to cover arise. Items with a fixed duration or a right to redeem early may not be available when needed. Similarly, obligations to pay distributions or interest will reduce the amount available. The rules on 'tiering' are designed to reflect the existence of such features.

The regulations set out two methods for calculating Group solvency, 'method 1' (this is the default accounting based consolidation method) and 'method 2' (the deduction and aggregation method). There is also the option to use a combined approach. The Group exclusively uses method 1 to calculate its solvency position.

All intra-group balances within the PGH Group are eliminated on consolidation (including internal subordinated debt balances) and therefore the position presented for the Group reflects the Own Funds net of any intra-group transactions (including reinsurance).

E.1.3 Analysis of solvency position – PGH Group

The table below summarises the PGH Group's solvency position at 31 December 2017. The Own Funds QRT S.23.01.22 can also be found in Appendix 1.4.

					31 December 2017
Description	Section reference	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Ordinary share capital	E.1.3.1	–	–	–	**–**
Share premium account related to ordinary share capital	E.1.3.1	1,452	–	–	**1,452**
Surplus funds	E.1.3.1	2,287	–	–	**2,287**
Reconciliation reserve (pre availability restrictions)	E.1.3.1	2,203	–	–	**2,203**
Deferred tax assets	E.1.3.1	–	–	151	**151**
Excess of assets over liabilities		**5,942**	**–**	**151**	**6,093**
Subordinated liabilities	E.1.3.2	–	1,030	449	**1,479**
Total Basic and Available Own Funds		**5,942**	**1,030**	**600**	**7,572**
Availability restrictions	E.1.3.3	(900)	–	–	**(900)**
Eligible Own Funds to meet SCR		**5,042**	**1,030**	**600**	**6,672**
Consolidated Group SCR	E.1.3.4				**(4,822)**
Solvency II surplus					**1,850**
Ratio of Eligible Own Funds to SCR					**138%**
Shareholder capital coverage ratio					**164%**

Phoenix Group Holdings

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.1 Basic Own Funds

The PGH Group Basic Own Funds total £7,572 million and comprise of ordinary share capital, share premium account related to ordinary share capital, surplus funds, a reconciliation reserve, subordinated liabilities and deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The Group's issued and fully paid ordinary share capital is less than £1 million and is treated as Tier 1 unrestricted Own Funds. The Articles of Association of PGH include the right to cancel and withhold dividends at any time prior to payment.

Share premium account related to ordinary share capital

The share premium account related to ordinary share capital of £1,452 million is treated as Tier 1 unrestricted Own Funds.

Surplus funds

Surplus funds represent accumulated profits within a with-profits fund which have not yet been made available for distribution to policyholders. They satisfy the characteristics of Tier 1 because they will only be distributed to policyholders and shareholders in the future if it is appropriate to do so and are loss-absorbent because future distributions can be reduced if the amount of accumulated profits reduces due to future losses. They are generally only available to meet losses arising within the relevant with-profit fund and this is taken into account by restricting the Own Funds of each fund to the amount required to cover that fund's notional SCR.

The Group Basic Own Funds include surplus funds of £2,287 million which are classified as Tier 1 unrestricted Own Funds. The regulations require certain elements of the Solvency II balance sheet to be ring fenced in order not to disadvantage policyholders in certain funds. Therefore, since the surplus funds exist in the with-profit funds, they are subject to Ring Fenced Fund ('RFF') restrictions. Surplus funds can only be included in Eligible Own Funds up to the value of the SCR they are used to support. A restriction is required to be made for any amount of surplus funds in excess of the relevant SCR by deduction from the reconciliation reserve (see section E.1.3.3).

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Reconciliation Reserve	31 December 2017 £m
Excess of assets over liabilities	6,093
Deduct other Basic Own Funds items:	
Ordinary share capital	–
Share premium account related to ordinary share capital	(1,452)
Surplus funds	(2,287)
Deferred tax asset – Tier 3	(151)
Reconciliation reserve pre availability restrictions	**2,203**
Adjustment for restricted Own Funds items in respect of RFF (see section E.1.3.3)	(416)
Non-available Own Funds – pension scheme surplus (see section E.1.3.3)	(258)
Non-available Own Funds – foreseeable dividends (see section E.1.3.3)	(99)
Non-available Own Funds – diversification benefits (see section E.1.3.3)	(62)
Non-available Own Funds – PLL availability restriction (see section E.1.3.3)	(60)
Non-available Own Funds – restriction to regulatory return (see section E.1.3.3)	(4)
Non-available Own Funds – own shares restriction (see section E.1.3.3)	(2)
Total non-available Own Funds	**(900)**
Reconciliation reserve total (as shown on Own funds QRT)	**1,303**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.1 Basic Own Funds continued

Availability restrictions applied to the reconciliation reserve above together with other relevant considerations made in assessing the availability of Group Own Funds are detailed in section E.1.3.3.

Deferred tax assets
A deferred tax asset of £151 million is included as Tier 3 Own Funds, and further detail is included in section D.1.3. The table below sets out an analysis of movement in the deferred tax asset during the year.

Opening deferred tax assets (Tier 3) at 1 January 2017 (unaudited)	123
Trading losses	25
Expenses carried forward	21
Committed future pension contributions	(7)
Provisions and other temporary differences	(13)
Accelerated capital allowances	2
Closing deferred tax assets (Tier 3) at 31 December 2017	**151**

E.1.3.2 Subordinated Liabilities
Details on the Group's subordinated liabilities are shown in the table below:

Note	Instrument description	Issuer	Tier of capital	31 December 2017 Solvency II Value £m
A	£428m Subordinated debt	PGH	Tier 2	439
B	£200m Subordinated loan notes	PLL	Tier 2	225
C	£450m Tier 3 notes	PGH	Tier 3	449
D	US$500m Tier 2 bonds	PGH	Tier 2	366
				1,479

All instruments qualify under the Solvency II regulations. None of the items include principal loss absorbency mechanism features.

Notes
A: Subordinated debt – Tier 2
On 23 January 2015, PGH Capital Limited ('PGHC') issued £428 million of subordinated notes with a maturity date of 18 December 2025 at a coupon of 6.625%, the terms and conditions of which would allow the instrument to be treated as Tier 2 capital under the regulations. Upon issuance £32 million of these notes were held by Group companies. On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and the remaining £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million.

On 20 March 2017, PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes.

B: PLL Subordinated debt – Tier 2
Scottish Mutual Assurance Limited issued £200 million subordinated loan notes in 2001. With effect from 1 January 2009, as part of the Part VII transfer, these loan notes were transferred into the shareholder fund of PLL. The earliest repayment date of the loan notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding.

These notes qualified as Lower Tier 2 capital under the old Solvency I regime, but did not meet the full criteria set out in the regulations in order to be treated as either Tier 1 or Tier 2 capital. Under the regulations, the notes have transitioned into Solvency II as Tier 2 Own Funds. The transitional period ends 31 December 2026.

As outlined in section D.3, the subordinated loan notes are fair valued under Solvency II which results in £225 million contributing to Tier 2 Group Own Funds as at 31 December 2017.

As this subordinated loan note has not been issued by the ultimate parent it can only contribute to the Group up to the contribution of PLL to the Group SCR. As at 31 December 2017, no restriction to the loan notes is required.

C: Tier 3 notes
On 20 January 2017, PGHC issued £300 million of Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, PGH was substituted in place of PGHC as issuer of these notes.

On 5 May 2017, PGH also completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.2 Subordinated Liabilities continued

D: US$500m Tier 2 bonds

On 6 July 2017, PGH issued US$ 500 million of Tier 2 bonds due 2027 with a coupon of 5.375%.

Analysis of movement in subordinated debt

The table below sets out the changes in subordinated debt during the year. The table excludes the £250 million subordinated debt in PLAL received from PLHL as this does not count as capital at the Group level. Further details are included in section E.1.5.3.

Instrument description	Subordinated debt – Tier 2	PLL subordinated debt – Tier 2	US$500m Tier 2 bonds	Total Tier 2	Tier 3 notes	Total Tier 3	Total subordinated debt
Opening subordinated debt at 1 January 2017 (unaudited)	408	238	–	**646**	–	**–**	646
Subordinated debt issuance	–	–	385	**385**	450	**450**	835
Sale of intra-group holding in Tier 2 subordinated debt	32	–	–	**32**	–	**–**	32
Foreign exchange retranslation	–	–	(15)	**(15)**	–	–	(15)
Fair value gains/(losses)	(1)	(13)	(4)	**(18)**	(1)	**(1)**	(19)
Closing subordinated debt at 31 December 2017	**439**	**225**	**366**	**1,030**	**449**	**449**	**1,479**

E.1.3.3 Availability restrictions

As shown in the reconciliation reserve table above (see section E.1.3.1), the total non-available Group Own Funds are £900 million. Further details on each of the restrictions are included below.

Ring Fenced Funds restriction

The regulations specify that certain Own Funds items in RFFs and Matching Adjustment portfolios should be restricted. This means they can only be included in the calculation of Group solvency at an amount less than or equal to the RFF and Matching Adjustment portfolios notional SCR.

The with-profit funds in the Life Companies are treated as RFFs. The items of Own Funds within each with-profit RFF are the value of surplus funds, future shareholder transfers, and any shareholder capital support received. The Matching Adjustment portfolios in the Life Companies are annuity funds and are also treated as RFFs. Any Own Funds above SCR in the Matching Adjustment portfolios are also restricted and also shown as a deduction to the reconciliation reserve.

There are no restrictions for Matching Adjustment portfolios at 31 December 2017.

The RFF deduction of £(416) million comprises £(147) million from PLL RFFs and £(269) million from PLAL RFFs.

The excess of assets over liabilities across the PGH Group for the RFF and Matching Adjustment portfolios are £4,011 million.

Pension scheme surplus restriction

IAS19 surpluses arising on the PGL Scheme and Pearl Group Scheme are considered as restricted items of Own Funds and are therefore only included up to the contribution of the undertaking that recognises the surplus to the Group SCR, being PGH1 and PGH2 respectively.

As at 31 December 2017, £86 million (2016: £nil) of the Pearl Group Scheme and £172 million of the PGL Scheme surplus is considered restricted (including adjustment for assets held under collateral arrangements in the Life Companies). The restriction represents the amount by which the IAS19 surplus exceeds PGH2's and PGH1's contribution to the Group SCR.

Foreseeable dividends

A deduction of £(99) million has been recognised as at 31 December 2017, reflecting dividends on ordinary shares which have been approved by the Board and have been paid or are payable at the time of sign-off of the SFCR.

Non-available diversification benefits

Generally, each undertaking's contribution to the Group SCR will be less than its solo SCR due to the allocation of Group diversification benefits. The Group therefore assesses whether the difference between the undertaking's SCR and its contribution to the Group SCR is backed by Own Funds items that are capable of being considered fungible and transferable in order to be able to cover Group solvency. A restriction of £(62) million to Own Funds has currently been recognised as at 31 December 2017 reflecting the SCR Group diversification benefits allocated to the Group's Life Companies.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.3 Availability restrictions continued

Such amounts are considered non-fungible given the regulatory requirement to maintain entity Own Funds sufficient to cover the undertaking's SCR on a solo basis.

Restriction to regulatory return

Phoenix Wealth Services ('PWS') is regulated by the FCA under the IPRU (INV) Sourcebook, and is required to complete a Retail Mediation Activities Return ('RMAR'). As part of the fungibility and transferability assessment performed by the Group, the contribution of PWS has been compared to its surplus in the RMAR regulatory return. As the surplus reported in this return is less than the PWS contribution to the Group, a £(4) million restriction has been applied.

PLL availability restriction

The contribution of each entity to the PGH Group Solvency II surplus is restricted if the Group benefits from the elimination of intra-group transactions compared to an entity's solo position, where those benefits are not backed by fungible and transferable Own Fund items.

During 2016, PLL entered into a 'buy-in' agreement with the Group's PGL Scheme (further details can be found in the SFCR for the year ended 31 December 2016). Following the elimination of intra-group amounts in relation to this transaction, the contribution of PLL to the PGH Group Solvency II surplus exceeded its solo Solvency II surplus by £(60) million. Accordingly, a restriction of the same amount has been applied to the Group Own Funds.

Own share restriction

A deduction of £(2) million has been applied to the reconciliation reserve reflecting own shares held by PGH.

E.1.3.4 Consolidated Group SCR

The consolidated Group SCR is calculated using a partial Internal Model (i.e. partially on the Group's Internal Model and partially on Standard Formula). The consolidated Group SCR at 31 December 2017 is £4,822 million.

Further details of the methodology used to calculate the SCR are included in section E.2 and a description of the undertakings which are in the scope of the Group's partial Internal Model are provided in section E.4.1.

The Internal Model which is used to calculate the PGH Group SCR is consistent with the Internal Model used by the underlying entities, in respect of the model structure, assumptions and aggregation methodology. As indicated in section E.4.1, all non-insurance entities of the PGH Group are within the scope of the Group Internal Model. ALAC was outside of the scope of the Internal Model at 31 December 2017 and therefore assessed using the Standard Formula. As the majority of ALAC business has been reinsured to PLL, the remaining Standard Formula risks which are retained by ALAC only form a very small proportion (c.2%) of the total PGH Group SCR.

Phoenix uses the integration technique of the 'two worlds' approach when combining Standard Formula and Internal Model results in order to calculate the partial Internal Model SCR. This involves summing the Standard Formula and Internal Model components of the SCR, without any allowance for diversification between the Standard Formula and Internal Model results.

Further details of the components of the consolidated Group SCR are shown in the table below:

Components of consolidated Group SCR	SCR pre-diversification £m	Group adjustments £m	Diversification benefits £m	Total SCR £m
Life Companies	4,599	(521)	(62)	**4,016**
Insurance holding companies	695	–	(280)	**415**
Service Companies	27	–	(7)	**20**
UCITS management company	3	–	–	**3**
Other entities	220	148	–	**368**
Total SCR	**5,544**	**(373)**	**(349)**	**4,822**

SCR in respect of insurance holding companies and other entities relates primarily to the Group's exposure to its defined benefit pension schemes.

The negative Group adjustment of £(521) million for the Life Companies relates primarily to the treatment of intra-group loans. At a solo level, the Life Companies hold SCR in respect of loan receivable balances due from the insurance holding companies and other Group entities. On preparation of the Group solvency calculation, the loan receivable and payable balances are eliminated on consolidation and accordingly the related SCR is also eliminated.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.3 Analysis of solvency position – PGH Group continued
E.1.3.4 Consolidated Group SCR continued

In addition, the Group adjustments shown above include the impact of a reallocation of SCR held in respect of obligations under the Group's PGL Scheme from the Life Companies to other Group entities. The reallocation arises following the elimination of transactions between PLL and the PGL Scheme.

The Group diversification benefits principally arise from:

– synergies that arise where undertakings within the Group are exposed to stresses in opposite directions. For example, the Life Companies are exposed to a rise in credit spreads, whilst the Group pension schemes are exposed to a fall in credit spreads; and
– diversification of risks between undertakings that have different risk profiles. For example, the Life Companies have a higher risk exposure to persistency and credit risk relative to the pension schemes.

As set out in section E.1.3.3 SCR Group diversification benefits are partially restricted.

Minimum Group SCR
The main capital requirement under Solvency II is the SCR. However, there is a lower MCR which for Groups is referred to as the Minimum Group SCR ('MGSCR'). This reflects the absolute minimum metric that, if breached, will trigger serious regulatory intervention and potential closure of the Group. The MGSCR is the sum of the MCRs of the individual Life Companies and PA(GI). The MGSCR is analysed as follows at 31 December 2017.

Entity – Minimum Capital Requirement	31 December 2017 £m	31 December 2016 £m
PLL	724	705
PLAL	398	434
PAWL	3	12
ALAC	41	121
PA(GI)	4	8
Total MGSCR	**1,170**	**1,280**

Further details regarding the calculation of MCRs are set out in section E.2.3.

Excess of Own Funds over MGSCR
The MGSCR has also been assessed and is comfortably met with an excess over MGSCR of £4,070 million with a ratio of Eligible Own Funds to MGSCR of 448%.

The determination of the Eligible Own Funds available to meet the MGSCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2017 results in a £795 million restriction to Tier 2 capital as a result of it being in excess of the required 20% of MGSCR.

Analysis of Own Funds eligible to cover MGSCR	Tier 1 Unrestricted £m	Tier 2 £m	Tier 3 £m	31 December 2017 £m
Available Own Funds to meet Minimum Group SCR ('MGSCR')	5,006	1,029	–	6,035
Eligibility restrictions MGSCR	–	(795)	–	(795)
Eligible Own Funds to meet Minimum Group SCR	**5,006**	**234**	**–**	**5,240**
Minimum Group SCR				**(1,170)**
Excess over Minimum Group SCR				**4,070**
Ratio of Eligible Own Funds to Minimum Group SCR				**448%**

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.5 Analysis of movement in capital position

As previously outlined, the SFCR for the year ended 31 December 2016 was produced for the PLHL Group. As the Group's capital position is now being managed at the PGH level, only the opening position reflected in the table below reflects that of the PGH Group. A 31 December 2016 PGH Group result was included in the Summary section of last year's SFCR on a pro forma basis. This differs from the opening position presented below as the pro forma adjustments (comprising the PAWL Internal Model approval received in March 2017, the £300 million Tier 3 debt issuance that took place in January 2017 and a dynamic recalculation of TMTP) are included as movements in the period.

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, Group SCR and Solvency II surplus.

Analysis of movement in Group solvency position (£m)	Note	Own Funds £m	Eligible Own Funds after RFF restriction and other restrictions £m	Group SCR £m	Solvency II surplus £m
Opening position at 1 January 2017 (Unaudited)		**6,773**	**6,091**	**(5,082)**	**1,009**
Expected run-off	1	19	(119)	263	144
With-profit estate distribution	2	(213)	(42)	53	11
Management actions	3	321	321	232	553
Demographic experience variances (including changes to assumptions)	4	302	150	(183)	(33)
Economic variances on long-term business	5	422	143	61	204
Movement in risk margin and TMTP	6	(576)	(367)	36	(331)
Non-life earnings	7	(144)	(144)	(53)	(197)
Pension scheme movements	8	44	(25)	(34)	(59)
Subordinated debt issuance	9	835	835	–	835
Financing costs	10	(96)	(96)	–	(96)
External dividends	11	(192)	(192)	–	(192)
Change in Group Own Funds restrictions	12	77	117	(115)	2
Closing position at 31 December 2017		**7,572**	**6,672**	**(4,822)**	**1,850**

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.5 Analysis of movement in capital position continued

Note	Item	Information
1	Expected run-off	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £144 million.
2	With-profit estate distribution	Distributions of estate to policyholders generally occur from unsupported with-profit funds. The overall impact on surplus is £11 million and reflects the share of the estate distributed to shareholders.
3	Management actions	Management actions throughout the year have increased the Solvency II surplus by £553 million. Significant items include the impact from the Internal Model approval for PAWL business reinsured into PLL, the Part VII transfer of the PAWL business into PLL, reductions in expenses from operating synergies and the impact of strategic asset allocation and hedging activities.
4	Demographic experience variances (including changes to assumptions)	During the year, actuarial assumptions have been reviewed following recent demographic experience and the impact of the continued low interest rate environment on anticipated policyholder behaviour. This has resulted in changes in the best estimate assumptions for longevity, persistency and GAO take-up rates as well as review of persistency methodology for late retirements. Coupled with experience variances observed in the year, and model and methodology changes implemented in the actuarial models this has resulted in a £(33) million decrease in the Solvency II surplus.
5	Economic variances on long-term business	Economic variances on long-term business increased the Solvency II surplus by £204 million over the year primarily as a result of movements in yields, increases in unhedged equity positions in the period and changes to the asset mix.
6	Movement in risk margin and TMTP	Changes in risk margin of £88 million and TMTP of £(419) million decreased the overall Solvency II surplus by £(331) million. The TMTP recalculation is detailed in section D.2.7.2. The value of risk margin and TMTP as at 31 December 2017 is shown in section D.2.2.
7	Non-life earnings	Non-life earnings decreased the Solvency II surplus by £(197) million with profits in the Service Companies and other income in PA(GI) (see section A.4.1.5) being more than offset by the premium paid on partial redemption of the Group's senior bonds and costs associated with integration and corporate projects. Furthermore, the SCR has been strengthened by £53 million principally reflecting capital held in respect of derivative positions held to manage exposure to currency post issuance of the US$500 million Tier 2 bonds.
8	Pension scheme movements	Movements in the Group's pension schemes of £(59) million largely relates to pension scheme contributions paid on those schemes whose Own Funds are restricted in the Group solvency calculation (see section E.1.3.3) and net movement in the ALAC scheme which was in deficit.
9	Subordinated debt issuance	The issuance of the Tier 3 notes and the US$500 million Tier 2 bonds detailed in section E.1.3.2 increased the Solvency II surplus by £450 million and £385 million respectively.
10	Financing costs	Financing costs decreased Solvency II surplus by £(96) million. The main items include £(28) million for interest payments on the Tier 2 loan notes, £(27) million for interest payments on the Tier 3 loan notes, £(15) million for interest payments on the PLL Tier 2 loan notes and £(10) million interest payments on the US$500 million Tier 2 bonds. Further details are included in section E.1.2.3.
11	External dividends	Dividends paid to shareholders decreased the Solvency II surplus by £(192) million. This includes the £(99) million detailed in section E.1.3.3 for foreseeable dividends.
12	Change in Group Own Funds restrictions and impact of other Group adjustments	The increase in Solvency II surplus of £2 million is due to a decrease in restrictions applied to Group Own Funds during the year and other Group consolidation adjustments.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 Analysis of solvency position – PGH Group continued

E.1.3.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between the Group's net assets under IFRS and the excess of assets over liabilities under Solvency II.

PGH Group

	Section reference	31 December 2017 £m
Total consolidated equity per IFRS		**3,155**
Valuation differences:		
Assets increase/(decrease):	D.1.1	
Goodwill	D.1.2	(57)
Intangible assets/deferred acquisition costs	D.1.2	(1,505)
Deferred tax assets	D.1.2	4
Property, plant and equipment held for own use	D.1.2	(2)
Participations	D.1.2	(13)
Reinsurance recoverables	D.1.2	(415)
Receivables (Prepayments)	D.1.2	(8)
Own shares (directly held)	D.1.2	2
Total asset valuation differences	D.1.1	(1,994)
Liabilities (increase)/decrease:	D.1.2	
Technical provisions	D.2.1	4,163
Other technical provisions (unallocated surplus)	D.1.2	925
Deferred tax liabilities	D.1.2	64
Debts owed to credit institutions	D.1.2	(7)
Payables	D.1.2	(153)
Subordinated liabilities	D.1.2	(60)
Total liability valuation differences	D.1.2	**4,932**
Excess of assets over liabilities	D.1.2	**6,093**

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position – PLL

The table below summarises the solvency position for PLL at 31 December 2017. The Own Funds QRT S.23.01.01 can be found at Appendix 2.5.

Phoenix Life Limited

Description	Section reference	Unrestricted Tier 1 £m	Tier 2 £m	Tier 3 £m	31 December 2017 total £m	31 December 2016 total £m
Ordinary share capital	E.1.4.2	69	–	–	69	69
Share premium account related to ordinary share capital	E.1.4.2	1	–	–	1	1
Surplus funds	E.1.4.2	1,337	–	–	1,337	1,522
Reconciliation reserve (pre-availability restrictions)	E.1.4.2	2,185	–	–	2,185	1,839
Deferred tax assets	E.1.4.2	–	–	15	15	4
Excess of assets over liabilities		**3,592**	**–**	**15**	**3,607**	**3,435**
Subordinated liabilities	E.1.4.3	–	225	–	225	238
Total Basic and Available Own Funds		**3,592**	**225**	**15**	**3,832**	**3,673**
Ring Fenced Fund restriction	E.1.4.4	(147)	–	–	(147)	(60)
Eligible Own Funds to meet SCR		**3,445**	**225**	**15**	**3,685**	**3,613**
SCR	E.2.1				(2,897)	(2,820)
Solvency II surplus					**788**	**793**
Ratio of Eligible Own Funds to SCR	E.1.4.1				**127%**	**128%**
Shareholder capital coverage ratio	E.1.4.1				**151%**	**150%**
Eligible Own Funds to meet MCR	E.1.4.1	**3,445**	**144**	**–**	**3,589**	**3,511**
MCR					(724)	(705)
Excess over MCR	E.1.4.1				**2,865**	**2,806**
Ratio of Eligible Own Funds to MCR	E.1.4.1				**496%**	**498%**

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position – PLL continued

E.1.4.1 Overview of solvency position

As at 31 December 2017, the Solvency II surplus over SCR is £788 million (2016: £793 million), with a ratio of Eligible Own Funds to SCR of 127% (2016: 128%). The excess of Eligible Own Funds after deductions over the MCR is £2,865 million (2016: £2,806 million), with a ratio of Eligible Own Funds to MCR of 496% (2016: 498%).

93% (2016: 93%) of the Eligible Own Funds after deductions is unrestricted Tier 1, and is principally comprised of ordinary share capital, share premium, surplus funds and the reconciliation reserve. This includes TMTP which is included in the calculation of Basic Own Funds as Tier 1 capital. The determination of the Eligible Own Funds available to meet the MCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2017 resulted in a £(81) million (2016: £(97) million) restriction to Tier 2 capital as a result of it being in excess of the required 20% of MCR. Tier 3 capital cannot be used to meet the MCR.

Excluding the SCR and Own Funds relating to unsupported with-profit funds, the Solvency II shareholder capital coverage ratio is 151% as at 31 December 2017 (2016: 150%).

E.1.4.2 Basic Own Funds items

The Basic Own Funds before deductions total £3,832 million (2016: £3,673 million) and comprise ordinary share capital, share premium, surplus funds, a reconciliation reserve, subordinated liabilities and deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The issued and fully paid ordinary share capital of £69 million (2016: £69 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements. The Articles of Association of PLL include the right to cancel and withhold dividends at any time prior to payment.

Share premium account related to ordinary share capital premium

The share premium related to ordinary share capital of £1 million (2016: £1 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements.

Surplus funds

Further details regarding the Solvency II treatment of surplus funds are set out in section E.1.3.1.

The Basic Own Funds include surplus funds of £1,337 million (2016: £1,522 million) which are classified as Tier 1 unrestricted Own Funds.

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Phoenix Life Limited

Reconciliation Reserve	31 December 2017 £m	31 December 2016 £m
Excess of assets over liabilities	3,607	3,435
Deduct other Basic Own Funds items		
Ordinary share capital	(69)	(69)
Share premium account related to ordinary share capital	(1)	(1)
Surplus funds	(1,337)	(1,522)
Deferred tax asset – Tier 3	(15)	(4)
Reconciliation reserve pre availability restrictions	**2,185**	**1,839**
Ring Fenced Fund restriction	(147)	(60)
Reconciliation reserve total (as shown on Own Funds QRT)	**2,038**	**1,779**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.2 Basic Own Funds continued
Deferred tax assets
Deferred tax assets of £15 million (2016: £4 million) are included as Tier 3 Own Funds. The increase of £11 million during the year is principally due to an increase in the deferred tax asset on expenses carried forward. Further details regarding the composition of the deferred tax asset is included in section D.1.3.

E.1.4.3 Subordinated liabilities
Further details regarding the PLL subordinated liabilities are set out in section E.1.3.2 (note B).

As outlined in section D.3, the subordinated loan notes are recognised at their economic value after excluding the impact of changes in OCS, which results in £225 million contributing to Tier 2 Group Own Funds as at 31 December 2017 (2016: £238 million). This movement during the year arises from revaluation of £25 million (2016: £7 million) in the year. There have been no further changes to the subordinated liabilities during the year.

As the subordinated liability is classified as Tier 2 at 31 December 2017, further details regarding the principal loss absorbency mechanism complying with Article 71(1) (e) of the Commission Delegated Regulation (EU) 2015/35 have not been included as this Article relates to paid-in subordinated liabilities classified as Tier 1 only.

E.1.4.4 Availability restrictions
As shown in the reconciliation reserve in E.1.4.2, there is a deduction to Own Funds of £(147) million (2016: £(60) million) in respect of a RFF. Further details regarding the Solvency II treatment for this restriction are included in section E.1.3.3.

The total excess of assets over liabilities for the RFFs and the Matching Adjustment portfolio are £2,655 million (2016: £2,224 million), and this is restricted by the £147 million (2016: £60 million) RFF restriction. There are no restrictions to the Matching Adjustment portfolio at 31 December 2017.

E.1.4.5 Analysis of movement in capital position
The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position (£m)	Note	Own Funds £m	Eligible Own Funds after RFF restriction £m	SCR £m	Solvency II surplus £m
Opening position at 1 January 2017		**3,673**	**3,613**	**(2,820)**	**793**
Expected run-off	1	10	(73)	140	67
With-profit estate distribution	2	(157)	(48)	53	5
Management actions	3	317	317	110	427
Demographic experience variances (including changes to assumptions)	4	246	115	20	135
Economic variances on long-term business	5	207	49	(8)	41
Movement in risk margin and TMTP	6	(550)	(374)	39	(335)
Financing costs	7	(15)	(15)	–	(15)
ALAC reinsurance	8	257	257	(427)	(170)
Intra-group capital flows	9	(156)	(156)	(4)	(160)
Closing position at 31 December 2017		**3,832**	**3,685**	**(2,897)**	**788**

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.4 Analysis of solvency position – PLL continued

E.1.4.5 Analysis of movement in capital position continued

Note	Item	Information
1	Expected run-off	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £67 million.
2	With-profit estate distribution	Distributions of estate to policyholders generally occur from unsupported with-profit funds, The overall impact on surplus is £5 million and reflects the share of the estate distributed to shareholders.
3	Management actions	Management actions throughout the year have increased the Solvency II surplus by £427 million. Significant items include the impact from the Internal Model approval for the PAWL business reinsured into PLL, the Part VII transfer of the PAWL business into PLL and the impact of strategic asset allocation and hedging activities.
4	Demographic experience variances (including changes to assumptions)	During the year, actuarial assumptions have been reviewed following recent demographic experience and the impact of the continued low interest rate environment on anticipated policyholder behaviour. This has resulted in changes in the best estimate assumptions principally for longevity, mortality, GAO take-up assumptions and persistency methodology to allow for noticeable experience of late retirements. Coupled with experience variances observed in the year, model and methodology changes and ongoing efficiency improvements implemented in the actuarial models this has resulted in a £135 million increase in the Solvency II surplus.
5	Economic variances on long-term business	Economic variances on long-term business increased the Solvency II surplus by £41 million over the year primarily as a result of movements in yields, increases in unhedged equity positions in the period and changes to the asset mix.
6	Movement in risk margin and TMTP	Changes in the risk margin of £51 million and TMTP of £(386) million decreased the overall Solvency II surplus by £(335) million. The TMTP recalculation is detailed in section D.27.2. The value of risk margin and TMTP as at 31 December 2017 are shown in section D.2.2.
7	Financing costs	Financing costs decreased Solvency II surplus by £(15) million reflecting interest payments on the £225 million subordinated loan notes detailed in section D.1.
8	ALAC reinsurance	As set out in section A.1.4.1 substantially all of the risks and rewards of the existing and new business of ALAC (that were not subject to the existing reassurance arrangements and with the exception of the unit linked funds and with-profits funds) has been transferred to PLL by way of two reinsurance arrangements. The transaction decreased the Solvency II surplus by £(170) million. After taking into account the associated impact of additional capital required to be held under the PLL capital policy, capital support totalling £305 million was received from the Company's parent. Further details are provided below.
9	Intra-group capital flows	Intra-group capital flows decreased the Solvency II surplus by £(160) million including the impact of dividends of £(315) million paid during the year to the Company's parent. This was offset by a net capital contribution received from the Company's parent of £155 million, representing the £305 million of capital support required to facilitate the ALAC reinsurance transaction detailed above, net of an assumed additional dividend of £150 million.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 Analysis of solvency position – PLL continued
E.1.4.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between PLL's net assets under IFRS and the excess of assets over liabilities under Solvency II.

	Section reference	31 December 2017 £m	31 December 2016 £m
Total equity per IFRS		**783**	**990**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets/Deferred Acquisition Costs	D.1.2	(167)	(178)
Reinsurance recoverables	D.1.2	(97)	364
Reinsurance receivables	D.1.2	–	(99)
Receivables (prepayments)	D.1.2	(73)	(94)
Deferred tax assets	D.1.2	(1)	(3)
Total asset valuation differences		(338)	(10)
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	2,791	2,103
Other technical provisions (unallocated surplus)	D.2.2	599	540
Deferred tax liabilities	D.1.2	(217)	(166)
Payables (deferred income)	D.1.2	14	16
Loan revaluation	D.1.2	(25)	(38)
Total liability valuation differences		**3,162**	**2,455**
Excess of assets over liabilities	D.1.2	**3,607**	**3,435**

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.5 Analysis of solvency position – PLAL
The table below summarises the solvency position for PLAL as at 31 December 2017. The Own Funds QRT S.23.01.01 can be found at Appendix 3.5.

Description	Section reference	Unrestricted Tier 1 £m	Tier 2 £m	Tier 3 £m	31 December 2017 total £m	31 December 2016 total £m
Ordinary share capital	E.1.5.2	342	–	–	342	342
Share premium account related to ordinary share capital	E.1.5.2	41	–	–	41	41
Surplus funds	E.1.5.2	949	–	–	949	892
Reconciliation reserve (pre-availability restrictions)	E.1.5.2	624	–	–	624	687
Deferred tax assets	E.1.5.2	–	–	18	18	12
Excess of assets over liabilities		**1,956**	**–**	**18**	**1,974**	**1,974**
Subordinated liabilities	E.1.5.3	–	250	–	250	250
Total Basic and Available Own Funds		**1,956**	**250**	**18**	**2,224**	**2,224**
Ring Fenced Fund restriction	E.1.5.4	(269)	–	–	(269)	(168)
Eligible Own Funds to meet SCR		**1,687**	**250**	**18**	**1,955**	**2,056**
SCR	E.2.1				(1,590)	(1,736)
Solvency II surplus					**365**	**320**
Ratio of Eligible Own Funds to SCR	E.1.5.1				**123%**	**118%**
Shareholder capital coverage ratio	E.1.5.1				**151%**	**149%**
Eligible Own Funds to meet MCR	E.1.5.1	**1,687**	**80**	**–**	**1,767**	**1,881**
MCR					(398)	(434)
Excess over MCR	E.1.5.1				**1,369**	**1,447**
Ratio of Eligible Own Funds to MCR	E.1.5.1				**445%**	**433%**

Phoenix Life Assurance Limited

E.1.5.1 Overview of solvency position
As at 31 December 2017, the Solvency II surplus over SCR is £365 million (2016: £320 million), with a ratio of Eligible Own Funds to SCR of 123% (2016: 118%). The excess of Eligible Own Funds after deductions over the MCR is £1,369 million (2016: £1,447 million), with a ratio of Eligible Own Funds to MCR of 445% (2016: 433%).

86% (2016: 87%) of the Eligible Own Funds after deductions is unrestricted Tier 1, and is principally comprised of ordinary share capital, share premium, surplus funds and the reconciliation reserve. This includes TMTP which is included in the calculation of Basic Own Funds as Tier 1 capital. The determination of the Eligible Own Funds available to meet the MCR requires the application of specific quantitative limits on the tiering of available capital. Application of these tests as at 31 December 2017 result in a £170 million (2016: £163 million) restriction to Tier 2 capital as a result of it being in excess of the required 20% of MCR. Tier 3 capital cannot be used to meet the MCR.

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.5 Analysis of solvency position – PLAL continued
E.1.5.2 Basic Own Funds items
The Basic Own Funds before deductions total £2,224 million (2016: £2,224 million) and comprise ordinary share capital, share premium, surplus funds, a reconciliation reserve, subordinated liabilities and net deferred tax assets. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital
The issued and fully paid ordinary share capital of £342 million (2016: £342 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements. The Articles of Association of PLAL include the right to cancel and withhold dividends at any time prior to payment.

Share premium account related to ordinary share capital premium
The share premium related to ordinary share capital of £41 million (2016: £41 million) is treated as unrestricted Tier 1 Own Funds, as it meets Tier 1 requirements.

Surplus funds
The Basic Own Funds include surplus funds of £949 million (2016: £892 million) which are classified as Tier 1 unrestricted Own Funds. Further details regarding the Solvency II treatment of surplus funds are set out in section E.1.3.1.

Reconciliation reserve
The reconciliation reserve is treated as Tier 1 Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which form part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

Phoenix Life Assurance Limited

Reconciliation reserve	31 December 2017 £m	31 December 2016 £m
Excess of assets over liabilities	1,974	1,974
Deduct other Basic Own Funds items		
Ordinary share capital	(342)	(342)
Share premium account related to ordinary share capital	(41)	(41)
Surplus funds	(949)	(892)
Deferred tax asset – Tier 3	(18)	(12)
Reconciliation reserve pre availability restrictions	**624**	**687**
Ring Fenced Fund restriction	(269)	(168)
Reconciliation reserve total (as shown on Own Funds QRT)	**355**	**519**

Deferred tax assets
Deferred tax assets of £18 million (2016: £12 million) are included as Tier 3 Own Funds. The increase of £6 million during the year is due to an increase in the deferred tax asset on trading losses. Further details regarding the composition of the deferred tax asset is included in section D.1.3.

E.1.5.3 Subordinated liabilities
PLAL received a subordinated loan facility of £250 million from a fellow Group company, PLHL, on 2 September 2009. This has been fully utilised and bears interest at six-month LIBOR + 350 bps. The interest is paid semi-annually. The maturity date of the loan is 2 September 2019. Repayment of any part of the loan earlier than the maturity date is conditional on PLAL giving the PRA not less than six months' notice in writing of the proposed early repayment and receiving written confirmation that the PRA does not object to such a repayment.

Under the regulations, the loan is treated as Tier 2 Own Funds. As outlined in section D.3.2, the subordinated debt has the same value under Solvency II and IFRS (as there have been no change in OCS since inception), which results in £250 million contributing to Tier 2 Own Funds as at 31 December 2017.

As the subordinated debt is classified as Tier 2 at 31 December 2017, further details regarding the principal loss absorbency mechanism complying with Article 71(1) (e) of the Commission Delegated Regulation (EU) 2015/35 have not been included as this Article relates to paid-in subordinated liabilities classified as Tier 1 only.

There have been no changes in the value of the subordinated debt since 31 December 2016.

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.5 Analysis of solvency position – PLAL continued

E.1.5.4 Availability restrictions

As shown in the reconciliation reserve table in E.1.5.2, there is a deduction to Own Funds of £(269) million (2016: £(168) million) in respect of RFF restriction. Further details regarding the Solvency II treatment for this restriction are included in section E.1.3.3.

The total excess of assets over liabilities for the RFFs and the Matching Adjustment portfolio are £1,356 million (2016: £1,428 million) and this is restricted by the £(269) million (2016: £(168) million) RFF restriction. There are no restrictions to the Matching Adjustment portfolio at 31 December 2017.

E.1.5.5 Analysis of movement in capital position

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position (£m)	Note	Own Funds £m	Eligible Own Funds after RFF restriction £m	SCR £m	Solvency II surplus £m
Opening position at 1 January 2017		**2,224**	**2,056**	**(1,736)**	**320**
Expected run-off	1	–	(56)	119	63
With-profit estate distribution	2	(56)	6	–	6
Management actions	3	13	13	15	28
Demographic experience variances (including changes to assumptions)	4	22	2	(203)	(201)
Economic variances on long-term business	5	144	24	57	81
Movement in risk margin and TMTP	6	(49)	(16)	(2)	(18)
Financing costs	7	(11)	(11)	–	(11)
Intragroup capital flows	8	(63)	(63)	160	97
Closing position at 31 December 2017		**2,224**	**1,955**	**(1,590)**	**365**

Note	Item	Information
1	Expected run-off	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £63 million.
2	With-profit estate distribution	Distributions of estate to policyholders generally occur from unsupported with-profit funds, The overall impact on surplus is £6 million and reflects the share of the estate distributed to shareholders.
3	Management actions	Management actions throughout the year have increased the Solvency II surplus by £28 million. Significant items include economic hedges put in place to reduce the SCR and a reduction in future expenses due to a change to the service agreement between the Life Companies and the Service Companies.
4	Demographic experience variances (including changes to assumptions)	During the year, actuarial assumptions have been reviewed following recent demographic experience and the impact of the continued low interest rate environment on anticipated policyholder behaviour. This has resulted in changes in the best estimate assumptions for longevity and a review of persistency methodology to allow for late retirements in the Company. Coupled with experience variances observed in the year, and model and methodology changes implemented in the actuarial models this has resulted in a £(201) million decrease in the Solvency II surplus.
5	Economic variances on long-term business	Economic variances on long-term business increased the Solvency II surplus by £81 million over the year primarily a result of movements in yields, increases in unhedged equity positions in the period and changes to the asset mix.
6	Movement in risk margin and TMTP	Changes in the risk margin of £14 million and TMTP of £(32) million decreased the overall Solvency II surplus by £(18) million. The TMTP recalculation is detailed in section D.2.7.2. The value of risk margin and TMTP as at 31 December 2017 are shown in section D.2.2.
7	Financing costs	Financing costs decreased Solvency II surplus by £(11) million reflecting interest payments on the £250 million subordinated debt payable to PLHL. Further details are included in section D.1.
8	Intra-group capital flows	Intra-group capital flows increased the Solvency II surplus by £97 million. During the year there has been a £166 million reduction in the value of loans made to Group. As the SCR assumes there will be no repayment of any Group loan, any repayment increases the Solvency II surplus. This was largely offset by dividends paid to Group of £(75) million.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.5 Analysis of solvency position – PLAL continued

E.1.5.6 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between PLAL's net assets under IFRS and the excess of assets over liabilities under Solvency II.

Description	Section reference	31 December 2017 £m	31 December 2016 £m
Total equity per IFRS		**670**	**759**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets	D.1.2	(11)	(6)
Reinsurance recoverables	D.1.2	(42)	(55)
Receivables (prepayments)	D.1.2	(45)	(49)
Total asset valuation differences		**(98)**	**(110)**
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	1,159	1,067
Other technical provisions (unallocated surplus)	D.2.2	320	333
Deferred tax liabilities	D.1.2	(67)	(62)
Debts owed to credit institutions	D.1.2	(10)	(13)
Total liability valuation differences		**1,402**	**1,325**
Excess of assets over liabilities	D.1.2	**1,974**	**1,974**

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.6 Analysis of solvency position – ALAC

The table below summarises the solvency position for ALAC as at 31 December 2017. The Own Funds QRT S.23.01.01 can be found in Appendix 4.4.

Abbey Life Assurance Company Limited

Description	Unrestricted Tier 1 £m	Tier 3 £m	31 December 2017 total £m	31 December 2016 total £m
Ordinary share capital	31	–	31	31
Share premium account related to ordinary share capital	254	–	254	254
Reconciliation reserve	193	–	193	731
Deferred tax assets	–	14	14	–
Basic, Available and Eligible Own Funds to meet SCR	**478**	**14**	**492**	**1,015**
SCR			(91)	(484)
Solvency II surplus			**401**	**531**
Ratio of Eligible Own Funds to SCR			**540%**	**210%**
Eligible Own Funds to meet MCR	**478**	**–**	**479**	**1,015**
MCR			(41)	(121)
Excess over MCR			**438**	**894**
Ratio of Eligible Own Funds to MCR			**1,167%**	**839%**

E.1.6.1 Overview of solvency position

As at 31 December 2017, the Solvency II surplus over SCR is £401 million (2016: £531 million), with a ratio of Eligible Own Funds to SCR of 540% (2016: 210%). The excess of Eligible Own Funds after deductions over the MCR is £438 million (2016: £894 million), with a ratio of Eligible Own Funds to MCR of 1,167% (2016: 839%).

With the exception of £14 million of deferred tax assets which are classified as Tier 3, ALAC's Own Funds consists entirely of Tier 1 – unrestricted Own Fund items, including ordinary share capital, share premium account related to ordinary share capital, surplus funds and reconciliation reserve. ALAC's deferred tax assets increased during the year principally due to an increase in the deferred tax asset on expenses carried forward.

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further details regarding the impact of various sensitivities on the excess of assets over liabilities which forms part of the Own Funds calculation are set out in section C.7. The reconciliation reserve is calculated as follows:

ALAC

Reconciliation Reserve	31 December 2017 £m	31 December 2016 £m
Excess of assets over liabilities	492	1,015
Deduct other Basic Own Funds items		
Ordinary share capital	(31)	(31)
Share premium account related to ordinary share capital	(254)	(254)
Deferred tax asset – Tier 3	(14)	–
Reconciliation reserve	**193**	**731**

There are no deductions for restricted assets in respect of RFFs, Matching Adjustment portfolios, encumbrances or foreseeable dividends. The determination of the Eligible Own Funds available to meet the MCR requires the application of specific quantitative limits on the tiering of available capital. These limits also result in no restrictions. Tier 3 capital cannot be used to meet the MCR.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.6 Analysis of solvency position – ALAC continued
E.1.6.2 Analysis of movement in capital position
The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position (£m)	Note	Own Funds £m	SCR £m	Solvency II surplus £m
Opening position at 1 January 2017		**1,015**	**(484)**	**531**
Expected run-off	1	10	5	15
Management actions	2	(3)	93	90
Demographic experience variances (including changes to assumptions)	3	35	–	35
Economic variances on long-term business	4	66	36	102
Movement in risk margin	5	23	–	23
Reinsurance to PLL	6	(187)	259	72
Intra-group capital flows	7	(467)	–	(467)
Closing position at 31 December 2017		**492**	**(91)**	**401**

Note	Item	Information
1	Expected run-off	Policy run-off over the year resulted in the release of the related SCR requirements and increased the Solvency II surplus by £15 million.
2	Management actions	Management actions throughout the year have increased the Solvency II surplus by £90 million. Significant items include a reduction in future expense allowances due to the operational economies expected from integrating the business with the other Life Companies and the adoption of the Service Companies model. Other items include moving the staff pension scheme to a fellow Group entity PeLHL (which included a £74 million cash payment) and establishing a hedging strategy to reduce exposure to equity risk.
3	Demographic experience variances (including changes to assumptions)	During the year, actuarial assumptions have been reviewed to reflect actual and anticipated changes in demographic experience. This has resulted in changes in the best estimate assumptions for longevity and mortality and a change in the assumed persistency rates. The combined impact of these changes is an increase in Solvency II surplus of £35 million.
4	Economic variance on long-term business	Economic variances on long-term business increased the Solvency II surplus by £102 million over the year primarily as a result of falling yields in the period, spreads narrowing, and increases in equities over the period.
5	Movement in risk margin	The change in risk margin increased Solvency II surplus by £23 million. This is mainly attributable to the run-off of the business. This excludes any impact from effecting the reinsurance. For ALAC there is no TMTP recalculation.
6	Reinsurance to PLL	The reinsurance involved the transfer of most of the risks out of ALAC in exchange for the payment of a reinsurance premium, the net impact of which was a £72 million increase in Solvency II surplus after allowing for the release of SCR capital.
7	Intra-group capital flows	Intra-group capital flows decreased the Solvency II surplus by £(467) million reflecting dividends paid to the Company's parent, of which £305 million was used to facilitate the reinsurance.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.6 Analysis of solvency position – ALAC continued

E.1.6.3 Reconciliation of IFRS equity to excess of assets over liabilities

The table below provides an analysis of the key differences between ALAC's net assets under IFRS and the excess of assets over liabilities under Solvency II.

Abbey Life Assurance Limited

	Section reference	31 December 2017 £m	31 December 2016 £m
Total equity per IFRS		**529**	**795**
Valuation differences:			
Assets increase/(decrease):			
Intangible assets	D.1.2	–	(74)
Deferred tax assets	D.1.2	–	(5)
Reinsurance recoverables	D.1.2	(525)	(1,114)
Receivables (prepayments)	D.1.2	(2)	(3)
Total asset valuation differences		**(527)**	**(1,196)**
Liabilities (increase)/decrease:			
Technical provisions	D.2.2	483	1,386
Other technical provisions (unallocated surplus)	D.2.2	6	6
Provisions other than technical provisions	D.1.2	–	(34)
Deferred tax liabilities	D.1.2	1	(13)
Insurance and intermediaries payables	D.1.2	–	71
Total liability valuation differences		**490**	**1,416**
Excess of assets over liabilities	D.1.2	**492**	**1,015**

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED

E.1.7 Analysis of solvency position – PAWL (Unaudited)

The table below summarises the solvency position for PAWL as at 31 December 2017. The Own Funds QRT S.23.01.01 (unaudited) can be found at Appendix 5.3.

	Description	31 December 2017 total £m	31 December 2016 total £m
Phoenix AW Limited	Ordinary share capital	20	20
	Reconciliation reserve	(16)	30
	Basic, Available and Eligible Own Funds to meet SCR	**4**	**50**
	SCR[1]	(3)	(28)
	Solvency II surplus	**1**	**22**
	Ratio of Eligible Own Funds to SCR	**123%**	**181%**
	Eligible Own Funds to meet MCR	**4**	**50**
	MCR	(3)	(12)
	Excess over MCR	**1**	**38**
	Ratio of Eligible Own Funds to MCR	**123%**	**402%**

1 Under the Group's Internal Model, PAWL holds no SCR as it has no material risks remaining. However, a notional SCR is presented on the basis that the SCR cannot be less than the MCR.

As at 31 December 2017, the Solvency II surplus over the SCR is £1 million (2016: £22 million), with a ratio of Eligible Own Funds to SCR of 123% (2016: 181%). The excess of Eligible Own Funds after deductions over the MCR is £1 million (2016: £38 million), with a ratio of Eligible Own Funds to MCR of 123% (2016: 402%).

PAWL's Own Funds consists entirely of Tier 1 – unrestricted Own Fund items, including ordinary share capital and reconciliation reserve. There are no Tier 1 – restricted, Tier 2 or Tier 3 Own Fund items.

There are no deductions for restricted assets in respect of RFFs, Matching Adjustment portfolios, encumbrances or foreseeable dividends.

The movement in the PAWL's capital position over the period is largely due to the Part VII of all its business into PLL effective from 30 September 2017, with the exception of £4 million in cash. A £5 million dividend was also paid in cash in March 2017.

There are no differences between PAWL's equity under UKGAAP and the excess of assets over liabilities under Solvency II.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.8 Analysis of solvency position – PA(GI)

The table below summarises the solvency position for PA(GI) as at 31 December 2017. The Own Funds QRT S.23.01.01 is included in Appendix 6.3.

	Description	31 December 2017 total £m	31 December 2016 total £m
PA (GI) Limited	Ordinary share capital	3	3
	Reconciliation reserve	61	39
	Basic, Available and Eligible Own Funds to meet SCR	**64**	**42**
	SCR	(16)	(32)
	Solvency II surplus	**48**	**10**
	Ratio of Eligible Own Funds to SCR	**405%**	**133%**
	Eligible Own Funds to meet MCR	**64**	**42**
	MCR	(4)	(8)
	Excess over MCR	**60**	**34**
	Ratio of Eligible Own Funds to MCR	**1,621%**	**530%**

As at 31 December 2017, the Solvency II surplus over the SCR is £48 million (2016: £10 million), with a ratio of Eligible Own Funds to SCR of 405% (2016: 133%). The excess of Eligible Own Funds after deductions over the MCR is £60 million (2016: £34 million), with a ratio of Eligible Own Funds to MCR of 1,621% (2016: 530%).

PA(GI)'s Own Funds consists entirely of Tier 1 – unrestricted Own Fund items, including ordinary share capital and reconciliation reserve. There are no Tier 1 – restricted, Tier 2 or Tier 3 Own Fund items.

There are no deductions for restricted assets in respect of RFFs, Matching Adjustment portfolios, encumbrances or foreseeable dividends.

The increase in the Solvency II surplus of £38 million reflects an increase in Eligible Own Funds of £22 million as a result of recognition of reimbursements of £39 million in respect of recoveries due or received from third parties offset by £(21) million increase in the provision for costs for claims relating to historic creditor insurance underwritten. The recognition of recoveries from third parties also led to a reduction in the SCR.

There are no differences between PA(GI)'s equity under IFRS and the excess of assets over liabilities under Solvency II.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement

The insurance subsidiaries and the Group's SCR at 31 December 2017 is presented below.

The ALAC Solvency Capital Requirements are determined on a Standard Formula basis. Capital requirements for all other entities are determined using the Group's Internal Model. The solvency position of the PGH Group is therefore based on the Group's partial Internal Model. Following the reinsurance of the majority of ALAC's risks into PLL, the residual Standard Formula SCR for ALAC forms an insignificant small part of the PGH Group SCR.

Analysis of SCR – 31 December 2017	Note	PLL £m	PLAL £m	ALAC £m	PA(GI) £m	Other Group entities £m	Group adjustments £m	PGH Group partial Internal Model £m
Risk categories								
Underwriting risk (i.e. insurance risk)	1	1,550	822	–	–	180	(30)	2,523
Market risk	2	981	424	11	–	437	(147)	1,706
Credit risk	3	1,099	567	72	–	72	(129)	1,681
Liquidity risk	4	–	–	–	–	–	–	–
Operational risk	5	652	159	14	16	16	–	857
Other risks	6	58	6	–	–	12	–	76
Total undiversified SCR		**4,340**	**1,979**	**97**	**16**	**716**	**(306)**	**6,842**
Diversification benefits	7	(1,245)	(549)	(6)	–	(90)	(71)	(1,962)
Non-linearity	8	57	26	–	–	–	(29)	54
Management actions	9	(202)	(12)	–	–	–	–	(214)
Loss absorbing capacity of deferred tax ('LACDT')	10	(244)	(52)	–	–	–	–	(297)
Subsidiary risk capital	11	5	–	–	–	220	–	225
Consolidation adjustments	12	187	198	–	–	–	(213)	173
Total SCR		**2,897**	**1,590**	**91**	**16**	**846**	**(618)**	**4,822**

The final SCR is still subject to supervisory assessment. There are no capital add-ons and the Group has not applied to use undertaking specific parameters when calculating the Standard Formula SCR for entities which are outside of the scope of the Group Internal Model.

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.1 Solvency Capital Requirement continued

The definitions of each of the risks are included in the table below. The components and sources of each of the risks and, of the methods used to assess, measure and monitor each of the risks are included in section C.

Note	Risk module	Information
1	**Underwriting risk**	Underwriting risk (i.e. insurance risk) is the risk that the frequency and severity of insured events may be worse than expected. The main sources of insurance risk are mortality risk, longevity risk, morbidity risk, expense risk and lapse risk. More details on these risks are included in section C.1.
2	**Market risk**	Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market influences. Market risk comprises interest rate risk, currency risk and other price risk (comprising equity risk, property risk, inflation risk, gilt-swap spread risk and alternative asset class risk). More details on these risks are included in section C.2.
3	**Credit risk**	Credit risk is the risk that a party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The principal sources of credit risk for the Group and its insurance subsidiaries include spread risk, investment counterparty risk, reinsurance counterparty risk, outsourcer default risk and stock-lending risk. More details on these risks are provided in section C.3.
4	**Liquidity risk**	Liquidity risk is defined as the failure of the Group or its insurance subsidiaries to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Group has exposure to liquidity risk as a result of servicing its external debt and equity investors, and from the operating requirements of its subsidiaries. The Group's Life Companies have exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. More details on these risks are provided in section C.4.
5	**Operational risk**	Operational risk is the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. Details of the sources of operational risk are provided in section C.5.
6	**Other risks**	Other risks comprise tax risk, geopolitical risk, customer risk and strategic risk. Further details are included in section C.6.
7	**Diversification benefits**	Diversification arises when the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not perfectly correlated. Diversification benefits are determined using a correlation matrix.
8	**Non-linearity**	Non-linearity arises when there is interdependency between risks, such that the combined impact of two or more risks occurring together does not equal the sum of the impacts from each of the risks occurring in isolation.
9	**Management actions**	Management actions primarily apply to with-profit funds. Such actions include reducing reversionary and terminal bonus rates, removing past conditional estate distributions, and increasing asset share/guarantee charges under stressed conditions. The management actions assumed for each fund are consistent with the fund's PPFM.
10	**Loss absorbing capacity of deferred tax ('LACDT')**	The LACDT adjustment represents the change in value of deferred tax assets and liabilities which would result from an instantaneous loss in Own Funds equal to the SCR (before LACDT adjustment).
11	**Subsidiary risk capital**	Subsidiary risk capital relates to PUTM and SunLife Limited, which are subsidiaries of PLL and Pearl Group Holdings (No.1) Limited a subsidiary of Impala Holdings Limited – see section A.1.2.2.
12	**Consolidation adjustments**	Consolidation adjustments represent a range of adjustments which are applied to the post-diversified SCR when aggregating to PGH Group level.

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.2 Changes in SCR

The material changes in the SCR and reasons thereof are set out in section E.1.3.

E.2.3 Minimum Capital Requirement

As set out in section E.1.2.5, the Group's MCR at 31 December 2017 is £1,170 million (2016: £1,280 million).

The MCR for each insurance subsidiary is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or EUR 3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to the technical provisions and capital at risk as at 31 December 2017.

The components of the overall calculation of the MCR as at 31 December 2017 are:

Calculation of MCR – 31 December 2017	PLL £m	PLAL £m	PA (GI) £m	PAWL[1] £m	ALAC £m	PGH £m
MCR before the application of floors and caps	248	157	–	–	52	
MCR cap (45% of SCR)	1,304	716	7	n/a	41	
MCR floor (higher of 25% of SCR or EUR 3.7m)	724	398	4	3	23	
MCR (post application of floors and caps)	**724**	**398**	**4**	**3**	**41**	**1,170**

The changes in MCR during the reporting period are set out below:

Analysis of change in MCR	PLL £m	PLAL £m	PA (GI) £m	PAWL £m	ALAC £m	PGH £m
1 January 2017	705	434	8	12	121	1,280
31 December 2017	724	398	4	3	41	1,170
Movement in MCR	**19**	**(36)**	**(4)**	**(9)**	**(80)**	**(110)**

1 PAWL has zero SCR under the Internal Model, as it does not retain any material risks following the Part VII transfer into PLL. Therefore the MCR cap of 45% of SCR does not apply, and the PAWL MCR is based on the absolute minimum of €3.7m as at 31 December 2017 until it was de-authorised on 9 March 2018.

The MCR at both the current and previous reporting periods is primarily based on the floor prescribed by Solvency II of 25% of Life Companies' SCR; hence the change in SCR is the driver for the changes in MCR.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

The UK has not implemented the member state option in the regulations to permit the use of this sub-module for the Standard Formula calculation, and therefore neither the Group nor any of the Life Companies use the duration-based equity risk sub-module in the calculation of the SCR.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This section outlines the purpose of the Internal Model, its scope, methodology and assumptions, key differences between Standard Formula and Internal Model, and the nature and appropriateness of data used.

E.4.1 Scope of Internal Model

Coverage

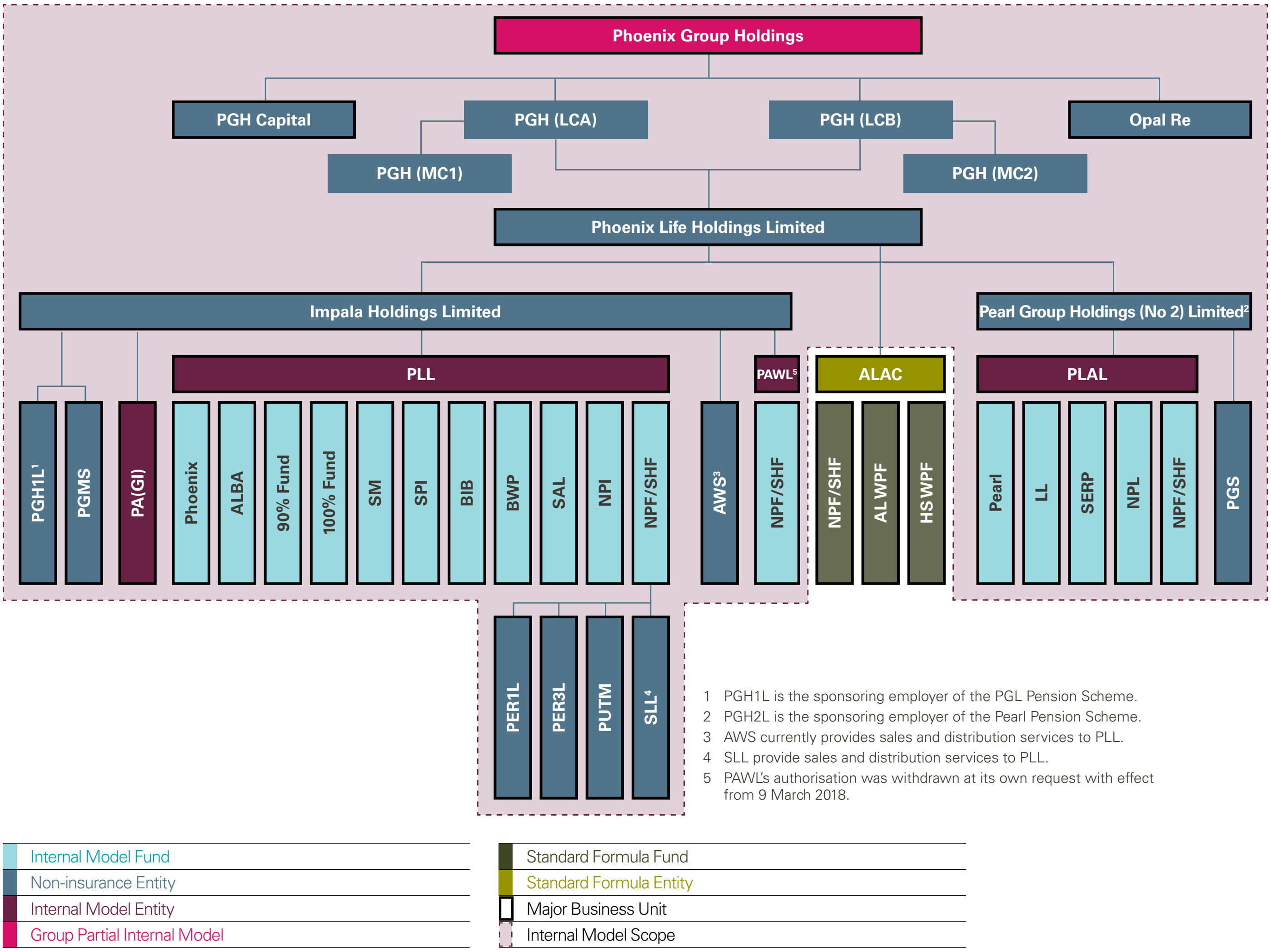
In December 2015, the PLHL Group was granted the PRA's approval for use of its Internal Model to assess Solvency Capital Requirements. Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA businesses within the scope of the Group's Internal Model in March 2017. The AXA Wealth business was transferred into PLL via Part VII transfer with an effective date of 30 September 2017.

In June 2017, the Group obtained the PRA's approval to extend the scope of the Internal Model to the ultimate parent company, PGH. This Internal Model change covers all entities above PLHL in the Group structure.

For the Abbey Life business acquired in 2016, an application to move the business onto the Group's Internal Model was submitted to the PRA during the fourth quarter of 2017, with PRA approval received in March 2018. As at 31 December 2017 the Solvency Capital Requirements for the Abbey Life business reinsured to PLL have been determined on an Internal Model basis, as the reinsured business is similar to existing business in PLL. However, for business remaining in ALAC the Solvency Capital Requirements are required to be determined on a Standard Formula basis as at 31 December 2017.

As ALAC reports on a Standard Formula basis, the Solvency II position of the PGH Group as at 31 December 2017 is determined on a partial Internal Model basis (i.e. the SCR is based partially on the Group's Internal Model and partially on Standard Formula).

The diagram below sets out a simplified view of the current PGH Group structure, which details the entities and funds within the scope of the Internal Model as at 31 December 2017.



1 PGH1L is the sponsoring employer of the PGL Pension Scheme.
2 PGH2L is the sponsoring employer of the Pearl Pension Scheme.
3 AWS currently provides sales and distribution services to PLL.
4 SLL provide sales and distribution services to PLL.
5 PAWL's authorisation was withdrawn at its own request with effect from 9 March 2018.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.1 Scope of Internal Model continued

Risk categories

A key element of the Group's risk strategy is to ensure that the Group has a robust understanding of the risks it faces. This is achieved through regular monitoring and reporting of risks. Further details are included in section B.3.

All key risks (i.e. those forming part of the Standard Formula and risks specific to the insurance subsidiaries and Group) in the risk universe are within the scope of the Group's Internal Model.

Capital is held against all risks within the risk universe, unless:

– the risk is one that would not be expected to impact Own Funds; or
– exposure to the risk is not significant; or
– there is a dedicated risk management process in place to ensure that the risk exposure remains immaterial or is unlikely to arise at all.

Justification for not holding capital for any risks within the risk universe is documented and approved by senior management. This position is re-assessed on a regular cycle or sooner if specified trigger events have occurred.

E.4.2 Uses of the Internal Model

The Internal Model is widely used and plays an important role in the system of governance (in particular, the risk management system), decision-making, solvency capital assessment and allocation of capital throughout the Group.

Internal Model outputs (principally the balance sheet and stress and scenario analysis) are used to inform decisions which impact the risk profile or capital requirements. These decisions include, but are not limited to:

Setting risk appetite

As outlined in section B.3, the Group sets its risk appetite to manage risks, and this is reviewed annually. Risk appetite establishes the boundaries within which the Group is willing to operate, and the amount of risk that it wishes to accept.

The risk appetite statement is regularly reviewed through scenario analysis which covers a range of material risks from the risk universe. Results are regularly presented to the Life and Group Boards.

Informing risk reporting

The Group's risk reporting framework summarises the risk profile of the Group and is regularly presented to management committees and the Boards. Each report is structured around the risk universe and summarises key risk management information, including the risk appetite dashboard and a breakdown of risk capital by individual risk categories.

Setting capital management policy

Capital management policies are set by the Group and each regulated Life Company, in order to provide an additional level of solvency protection over the SCR. Capital policies are set by reference to risk appetite scenarios and reviewed annually.

Decision-making in respect of Group funding

Outputs from the Internal Model are used as the basis for recommendations regarding the release of cash from the Life Companies, for payment of dividends to shareholders or to meet other obligations within the Group.

Informing decisions on significant projects and strategic activity

When determining the viability of a project (for example, a funds merger or acquisition) or a change in strategy, the impacts on financial metrics will be a key consideration which utilises outputs from the Internal Model.

Establishing AOP

The AOP is used to review the expected financial performance of the Group and to ensure it remains aligned with the overall strategy and risk appetite. This involves the production of financial projections using a central set of assumptions. Stress and scenario testing is completed in line with the Group's Risk Appetite Framework. Further details on stress and scenario testing are included in section C.

Setting investment strategy

Outputs from the Internal Model are used for setting investment strategy. The investment of assets is a core activity that allows the Group to enhance value and meet policyholder expectations. The Group generates value through investing in a range of asset classes. Policies are in place that set out the strategy to be followed to manage the various investment risks.

Setting assumptions

Assumptions are required to be set for the Group's modelled risks. These assumptions are derived from a range of sources, which include Internal Model outputs, experience analysis, industry benchmarking and expert judgement. Setting of assumptions is subject to extensive governance review and sign-off.

Other uses

In addition to the above uses, Internal Model outputs are also used in the production of outputs for external reporting, tax planning, and setting the Group's remuneration policy.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.3 Partial Internal Model

As described in section E.4.1 above, the Group operated under a partial Internal Model at 31 December 2017.

The partial Internal Model SCR calculation for the Group combines the Standard Formula SCR component with the Internal Model SCR component. The chosen approach simply involves summing the Standard Formula SCR and Internal Model SCR components, without allowing for any diversification between the two components. This is a prudent approach.

The aggregation methodology is an integration technique known as the 'two worlds' approach, and is set out in the regulations. The use of this methodology has been approved by the MGC.

In March 2018, the Group received PRA approval to include ALAC within the scope of the Group's Internal Model, and therefore move to full Internal Model.

E.4.4 Calculation of Probability Distribution Forecast

Overview

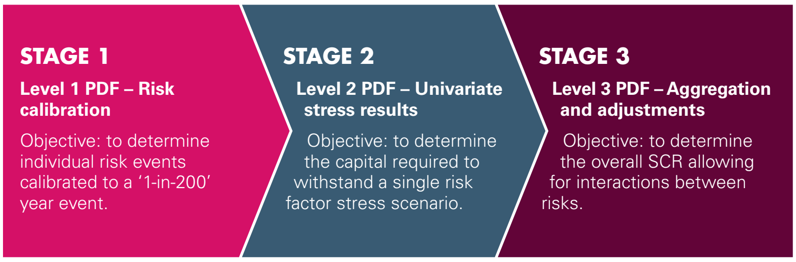
A key input required to calculate the SCR is the Probability Distribution Forecast ('PDF') for a particular risk or group of risks. The PDF determines the range of possible outcomes for the risk(s) being modelled and the associated probability attached to each outcome.

The calculation of the Internal Model SCR requires an assessment of the capital required in a 1-in-200 one-year stress event and also for stress events with different likelihoods. PDFs are utilised for this assessment. Phoenix methodology requires the PDF to be determined at three different levels, namely the Level 1, Level 2 and Level 3 PDFs.

The Group's Internal Model applies a univariate approach to assess the impact of individual risk events, where the financial impact of each individual risk event (or stress) is combined with the financial impact of other risks through the use of a correlation matrix. Further adjustments for the impact of combination risks, management actions and tax are also made.

For example, the risk capital for equity risk, property risk and longevity risk are firstly determined in isolation using the Level 1 and Level 2 PDFs for each risk. The risk capital determined from the Level 2 PDF for each of these risks is then combined with the risk capital for all other risks via the correlation matrix in order to determine the overall SCR, which is determined from the Level 3 PDF.

Further details on the Level 1, 2 and 3 PDFs are summarised below:



Stage 1 – Level 1 PDF – Risk calibration

The first stage in the calculation of capital requirements is the calibration of all risk factors covered by the Internal Model. The output of this process is the Level 1 PDF for each risk factor, which is used to determine individual risk events at the 1-in-200 probability level. For example, at the 1-in-200 probability level, the Level 1 PDF calibration for equity risk may imply a Y% fall in equity values.

Level 1 PDFs will be refined on a regular basis through the results of the annual experience investigations (and any other relevant analysis). Level 1 PDFs are subject to governance by a number of senior committees including the Actuarial Technical Committee (which is chaired by the Chief Actuary of Phoenix Life) and MGC.

Market risks

The majority of market risks are assessed and calibrated through Phoenix's market calibration model. In this case, full Level 1 PDFs are produced by fitting statistical distributions based on analyses of empirical data.

For those market risks not calculated using the market calibration model, a mixture of experience analysis and expert judgement are used to calculate best estimate assumptions and 1-in-200 one-year events.

Non-market risks

The Level 1 PDF for longevity trend risk is output using the Lee Carter stochastic model. A full distribution of events (and hence full Level 1 PDF) is therefore produced.

Some non-market risks are assumed to be normally distributed (e.g. mortality) and a mixture of experience analysis and expert judgement are used to calculate best estimate assumptions and 1-in-200 one-year events. Additional points on the distribution are identified through curve fitting as necessary.

For other risks not assumed to be normally distributed (e.g. persistency), points are calculated at best estimate, 1-in-10 and 1-in-200 one-year points, with additional points also considered as necessary. Points are derived using the results of experience analysis and expert judgement.

Operational risk

Operational risk emanates from a series of underlying sub-risks (e.g. model risk, data risk, fraud risk) which are combined to determine the overall Level 2 PDF for this risk. An overall Level 1 PDF is not produced.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.4 Calculation of Probability Distribution Forecast continued

Stage 2 – Level 2 PDF – Univariate stress results

The Internal Model uses the risk calibrations established in stage 1 to assess the capital required to cover each single risk factor ('univariate') stress scenario.

For example, the capital required to cover a Y% fall in equity values is determined by comparing the Own Funds in the base position with the stressed value of the Own Funds (i.e. the capital required is equal to the change in the excess of assets over liabilities following a Y% fall in equity values).

Stage 3 – Level 3 PDF – Aggregation and adjustments

As the Group and its insurance subsidiaries are exposed to a large number of risks, a correlation matrix approach is used to aggregate the univariate risks by allowing for dependencies between risks. The aggregated SCR is then further adjusted for additional 'non-linear' (i.e. second order) impacts caused when all risks occur at the same time in the aggregate scenario, the impact of additional (i.e. non-dynamic) management actions that can be used to reduce losses under stressed conditions and the LACDT.

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model

This section includes an explanation of the main differences in methodologies and underlying assumptions used in the Standard Formula and Internal Model components of the partial Internal Model SCR.

E.4.5.1 Structural model differences

The structure of the Standard Formula and the Group's Internal Model methodology are similar in that:

- for each univariate risk the stressed value of assets and liabilities is compared with the unstressed value of assets and liabilities to determine the univariate SCR; and
- univariate risk capital amounts are aggregated to produce an overall SCR using correlation matrices.

However, under the Standard Formula, univariate stress tests are aggregated at a risk module level, and a second correlation matrix is used to then further aggregate across risk modules. The Internal Model aggregates all univariate SCR's through a single correlation matrix.

E.4.5.2 Differences in the nature of risks considered and application of the stress

The main difference between the assessment of risks under the Group Internal Model and Standard Formula is that the Group Internal Model is based on the assessment of risks relevant to the Group rather than prescribed stresses under the Standard Formula.

The key differences in the risks considered and the stresses applied are set out below.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.2 Differences in the nature of risks considered and application of the stress continued

MARKET RISK

Univariate stress	Internal Model	Standard Formula	Main differences
Interest rate risk	Three stresses are applied that consider: – a shift in rates across all terms; – a twist in the yield curve; and – a shift in short and longer-term rates. For each stress both upward and downward movements are considered. Under each stress, the real yield is assumed to remain fixed, and therefore market implied inflation is also stressed under each interest rate stress.	A term dependent interest rate stress that considers both upward and downward movements in interest rates. As no change to market implied inflation is assumed, real yields are also stressed.	The Internal Model approach looks at a wider range of yield curve movements and applies a more onerous stress than the Standard Formula. The Internal Model also considers changes to the level of implied interest rate volatility. Real yields are stressed separately under the Internal Model. Negative interest rates are permitted under the Internal Model approach.
Gilt spread risk	This stress considers the impact of a movement in gilt yields relative to swap yields.	No equivalent stress under Standard Formula.	The Internal Model captures the risk that liabilities which are valued using swap rates will move differently to the value of any gilt assets held. For pension scheme liabilities, which are valued at gilts plus a margin, the Internal Model captures the risk that the liability value will move differently to the value of any swaps held.
Currency risk	This stress considers the most onerous impact of an upwards and downwards movement in foreign currency exchange rates. Movements in swap rates across different currencies are also considered.	This stress considers the most onerous impact of an upwards and downwards movement in foreign currency exchange rates.	Application of the exchange rate stress is the same for both Standard Formula and Internal Model. The calibration of the stress may differ across the two metrics. The Standard Formula does not consider changes in the swap margin between different currencies.
Equity risk	This stress considers the most onerous impact of an upwards and downwards movement in equity values. Changes to the level of implied equity volatility also considered.	A fall to equity values that is varied (via the equity dampener) to reflect market conditions at the valuation date.	No explicit equity dampener applies under the Internal Model. Internal Model also considers changes to the level of implied equity volatility. Internal Model considers both a rise and fall in equity values.
Property risk	This stress considers the most onerous impact of an upwards and downwards movement in property values. Changes to the level of implied property volatility also considered.	A fall in property values.	Internal Model also considers changes to the level of implied property volatility. Internal Model considers both a rise and fall in property values. Different levels of stress may apply to commercial and residential property under the Internal Model.
Alternative asset risk	This stress considers the most onerous impact of an upwards and downwards movement in the value of alternative assets (e.g. quants and fundamentals). Changes to the level of implied alternative asset volatility also considered.	No equivalent stress under the Standard Formula. Alternative investments are considered as part of the equity risk stress under the Standard Formula.	The Internal Model captures the alternative asset risk separately and also considers changes to the level of implied volatility.
Inflation risk	This stress considers a shift and a twist in the real yield curve and includes the impact of an inflation volatility stress to certain annuity liabilities.	No inflation stress under the Standard Formula.	No requirement to hold risk capital under Standard Formula.
Concentration risk	No explicit concentration risk capital is held under the Internal Model.	Formulaic calculation that considers the market risk of loss or adverse change in assets and liabilities due to the accumulation of exposures with the same counterparty. The calculation varies based on the creditworthiness of the counterparty.	Within the Internal Model, concentration risk is allowed for implicitly within other risk modules, namely equity risk, property risk, credit spread risk and counterparty risk. This is implemented through the assumption setting process used to calibrate the risks to a 1-in-200 one-year event.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.2 Differences in the nature of risks considered and application of the stress continued

CREDIT RISK

Feature	Internal Model	Standard Formula	Main differences
Market credit spread risk	Considers both a widening and narrowing of credit spreads to corporate bond type assets.	Stress considers a widening of credit spreads to corporate bond type assets. A separate stress applies to securitisations. For credit derivatives the stress is bi-directional.	Under the Internal Model securitisations are treated as corporate bond type assets. The Internal Model considers both spread widening and spread narrowing.
Counterparty default risk	Loss given default for reinsurance counterparties and derivative counterparties is calculated as per the Standard Formula, except that the loss also considers the increase in risk margin that would result on default and there is no allowance for risk mitigation benefits. Outsourcer default risk is a bespoke calculation recognising the importance and the stability of the outsourcer.	Counterparties are stressed under prescribed rules. The loss given default calculation allows for the amount of loss, probability of loss (based on credit worthiness) and recoverability. Loss given default calculation also allows for risk mitigation benefit.	Outsourcer arrangements are not included in the Standard Formula because as they are not classified as risk mitigating under this basis.

INSURANCE RISK

Feature	Internal Model	Standard Formula	Main differences
Mortality (and catastrophe) risk	**Mortality:** Flat percentage increase in mortality rates for all policyholders where mortality risk is significant. **Catastrophe stress:** Absolute increase in the rate of policyholders dying over the following year.	As for Internal Model.	Application of the stress is the same for both Standard Formula and Internal Model. The calibration of the stress may differ across the two metrics.
Longevity risk	Two separate stresses are performed that consider: – changes in base table mortality; and – future mortality improvements. – within the base table stress, an allowance is made for increases in the proportion married assumption where relevant.	Only base table mortality rates are stressed, with no stress to future mortality improvement assumptions.	There is no stress for improvements in mortality under the Standard Formula. No longevity stress is applied to pension schemes under the Standard Formula (this also applies to all other underwriting risks in the Standard Formula). No requirement to stress proportion married assumption under the Standard Formula.
Lapse risk	Three separate lapse stress components are considered: (i) Each product is assessed as being exposed to an increase, decrease or twist to lapse rates, depending on which direction gives the most onerous increase to risk capital. (ii) A stress to retirement rates and GAO take-up rates. The retirement stress is based on the most onerous direction at entity and Group level; and (iii) a mass lapse stress	The most onerous of the following three stresses: (i) An increase in lapse rates for all policies together with a fall in GAO take-up rates; (ii) A decrease in lapse rates for all policies together with an increase in GAO take-up rates; and (iii) A mass lapse scenario.	The Internal Model approach assesses the most onerous direction of the lapse stress at a product level, whereas the Standard Formula benefits from cross-subsidies between products for each direction. The Internal Model considers a combination of all three lapse stress components when aggregating across risks,. The Standard Formula only uses the most onerous lapse component to determine the SCR.
Expense risk	A percentage increase in expenses and expense inflation.	An immediate percentage increase in expenses together with an increase to expense inflation.	Investment management costs are not stressed under the Internal Model.
New Business Pricing Risk	A stress to cover pricing risk on vesting annuities and SunLife Protection business.	No equivalent stress under Standard Formula.	No risk capital is required under Standard Formula.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.2 Differences in the nature of risks considered and application of the stress continued

FINANCIAL SOUNDNESS RISK

Feature	Internal Model	Standard Formula	Main differences
Liquidity and funding risk	Tests are performed on the ability to meet liability cash flows with existing liquid assets. If failed, additional capital is held.	No equivalent stress under Standard Formula.	No risk capital is required under Standard Formula.
Tax risk	Risk capital considers an increase in tax rates and the risk of challenges from HMRC in respect of previously submitted tax returns.	No equivalent stress under Standard Formula.	No risk capital is required under Standard Formula.

OPERATIONAL RISK

Feature	Internal Model	Standard Formula	Main differences
Operational risk	A range of operational risks are assessed individually, using a frequency/severity approach to assess risk capital. The individual risks are combined using a correlation matrix approach to determine the total SCR for operational risk. For mis-selling risk within PA(GI) a scenario approach focused around workshops with subject matter experts is used to determine the severity of stress events.	Operational risk under the Standard Formula uses a formulaic approach.	Internal Model approach looks through to the underlying operational risks. In contrast, Standard Formula uses a formulaic approach as a proxy.
Customer risk	A frequency/severity approach is used to assess risk capital.	This risk is captured under operational risk which uses a formulaic approach.	Standalone assessment of customer risk under Internal Model, which requires looking through to the underlying customer risks.

STRATEGIC RISK

Univariate stress	Internal Model	Standard Formula	Main differences
Strategic risk	Risk capital is held to recognise the costs that could be incurred if some investment management agreements are dissolved.	No equivalent stress is required under the Standard Formula.	No requirement to hold risk capital under Standard Formula.

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.3 Differences in aggregation including dependencies between risks

The Internal Model aggregation process has a number of specific design features which are set out in the table below:

Feature	Internal Model	Standard Formula
Allowance for non-linearity	A non-linearity adjustment is made to reflect the difference between the loss incurred if all risks occur simultaneously and the sum of the losses incurred if each risk had occurred separately.	No allowance.
LACDT	As per Standard Formula, although methodology differences apply.	Explicit adjustment for LACDT.
Diversification between funds	No diversification is allowed with strong (self-supporting) RFFs and self-supporting pension schemes. However, diversification is permitted between Matching Adjustment portfolios, shareholder supported With-Profit Funds/pension schemes and other non-ring-fenced funds and entities. For funds, where diversification between them is permitted, the directional choice of each risk driver depends on the direction which is most onerous in aggregate, rather than the most onerous direction at fund level.	No inter-fund diversification benefits are allowed for with RFFs (whether or not they are shareholder supported) and with Matching Adjustment portfolios. The directional choice of each risk driver depends on the most onerous risk at an entity or Group level.

E.4.5.4 Management actions

With-profits business

For the Group, management actions primarily apply to with-profit funds. The management actions available for use in the calculation of the SCR for each with-profit fund are consistent with those actions set out in the funds' PPFM.

The SCR for a with-profit fund will allow for 'dynamic' management actions and additionally may allow for 'non-dynamic' management actions.

The dynamic management actions reflect those actions that form part of normal working practice and these are always 'switched-on' in base and stress model runs. For example, in the calculation of base and stressed technical provisions, annual and final bonus rates will vary in each of the stochastic simulations used to value with-profit liabilities.

Non-dynamic management actions are additional actions that are not considered part of normal day-to-day working practice. For example, past conditional estate distributions may be removed or asset share/guarantee charges may be increased to levels above those assumed in the base technical provisions.

Matching Adjustment portfolio

For the Matching Adjustment portfolio, there is a potential management action in stressed conditions to bring in additional eligible credit assets to restore matching and compliance.

Other non-profit business (excluding business in the Matching Adjustment portfolio)

Whilst there may be some additional management actions possible under stress conditions (e.g. such as potentially increasing unit-linked annual management charges where justified by increased levels of expenses), no such actions are currently assumed.

The management actions methodology in the Internal Model and Standard Formula is summarised in the table below:

Feature	Internal Model	Standard Formula
Management actions	For each univariate stress dynamic management actions are consistent with those assumed as part of the technical provisions. No allowance for non-dynamic management actions is made in univariate stresses. For the single equivalent scenario dynamic management actions are consistent with those assumed as part of the technical provisions. Non-dynamic management actions can then subsequently be used to offset the part of the SCR caused by negative estate. Apart from removal of conditional estate distributions, non-dynamic management actions are restricted so that no credit is taken against non-chargeable risks events.	For each univariate stress in the net Basic SCR ('nBSCR'), dynamic management actions are allowed. Non-dynamic management actions can then subsequently be used to offset the part of the SCR caused by a negative estate. No allowance for management actions is made in the gross Basic SCR ('BSCR'). The difference between the BSCR calculation and nBSCR calculation is used to derive the Loss Absorbing Capacity of Technical Provisions ('LACTP').

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.4 Management actions continued

Risk mitigating techniques

Risk mitigating techniques represent arrangements that have been entered into by the Group with the aim of transferring part or all of the risk associated with a particular element of the business. These techniques aim to mitigate against:

- market/credit risks – through the use of instruments such as derivatives, or other such options, which can provide mitigation against equity risk, credit risk, property risk, interest rate risk and currency risk; and
- underwriting risks – through the use of reinsurance arrangements.

Whilst these arrangements aim to reduce the exposure to market/credit and underwriting risks, they will also introduce additional default risk in relation to the arrangement counterparty(s). This risk is managed in many cases through the use of collateral arrangements.

Under Solvency II, there are strict criteria that must be met in order for an instrument to qualify as risk mitigating.

Differences between the Internal Model and Standard Formula methodology are summarised in the table below:

Feature	Internal Model	Standard Formula
Criteria for risk mitigation to be taken into account	The requirements applied under the Internal Model are less prescriptive, but are broadly consistent with the Standard Formula (with the exception of basis risk – see below).	There is a strict list of requirements that must be met for risk mitigation, as identified within the regulations.
Financial risk mitigation	The risk mitigating instrument and the asset/liability being hedged will be stressed as a package under the Internal Model, with an allowance for any basis risk.	Where fully risk mitigating, both the risk mitigating instrument and the asset/liability being hedged are not stressed. Where not fully risk mitigating, the risk mitigating instrument and the asset/liability being hedged will be stressed as a package, provided that the instrument is not subject to material basis risk. If not deemed risk mitigating, or the instrument is subject to material basis risk, then no capital benefit will be recognised for the instrument under stress. For bonds and Credit Default Swaps this would result in the biting stresses being in opposite directions.
Basis risk	Basis risk is captured through reductions in the effectiveness of the risk mitigating instrument under the relevant stressed conditions. This is achieved by allowing for only a proportion of the change in the movement of the risk mitigating instrument under stressed conditions.	Only risk mitigating instruments with no (or immaterial) basis risk shall provide a capital benefit under the Standard Formula SCR.
Insurance risk mitigation	Phoenix considers all of its reinsurance arrangements to be fully risk mitigating.	A set of prescriptive criteria are applied to determine whether a reinsurance arrangement is considered to be risk mitigating. If reinsurance arrangements are risk mitigating, then the value of the reinsurance asset will be re-valued under each stress in line with the reinsured liabilities. If the arrangement is partially risk mitigating, the reinsurance asset will be re-valued under each stress to the extent that the associated (stressed) collateral covers the risk exposure. If the arrangement is not risk mitigating, the reinsurance asset is not stressed, but the reinsured liabilities will be stressed.

Section E
Capital management continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 Methodology and assumption differences between Standard Formula and Internal Model continued

E.4.5.5 Other differences

Other key differences between Internal Model and Standard Formula methodology are summarised in the table below:

Feature	Internal Model	Standard Formula
Internal loans (Covering both asset and liability)	The value of these loans (and associated accrued income) is fully written off within the risk capital assessment, with no allowance for diversification with any other risks. The impact on both Own Funds and SCR is consolidated out when aggregating to Group level.	Group loans are stressed according to the credit spread and interest rate risk modules. The impact on each individual risk module is stripped out when aggregating the SCR to Group level, before correlating with other risks.
Intra-group insurance and reinsurance	For reinsurance between Life Companies (or funds of Life Companies), Own Funds and SCR are calculated assuming that the company which accepts the reinsurance retains the associated assets and liabilities. No SCR is held by the ceding company in relation to the risks reinsured. For insurance between a Group defined benefit pension scheme and a life company, the insurance is eliminated for the Group consolidation of Own Funds and SCR.	Intra-group insurance or reinsurance transactions involving ring-fenced funds or matching adjustment portfolios are not eliminated when consolidating to Group level. All other intra-group insurance and reinsurance arrangements are eliminated when calculating the Group SCR.
Other residual related undertakings ('ORRUs')	ORRUs are assessed on a look-through basis by considering all risks from the Phoenix risk universe. These risks are considered to be diversifiable across the Group.	ORRUs are treated as strategic participations, and are subject to a capital charge which does not diversify against any other Group undertakings.

E.4.6 Risk measures and time periods used in the Internal Model

The risk measures and time periods used in the Group's Internal Model are in line with those set out by the regulations, i.e. the SCR is assessed by considering the capital resources that are required to ensure that the Own Funds are sufficient to meet a stress event calibrated to a 99.5% confidence level over a one-year period. In practice, stress events are assumed to occur instantaneously rather than over a one-year period.

E.4.7 Nature and appropriateness of data

The main data items used in the Internal Model are:

- internal and external data used to calibrate the Level 1 PDFs and correlation matrices used as part of the Internal Model SCR aggregation methodology; and
- policy liability data, asset data, product terms and conditions and reinsurance data, which are used to value Own Funds under base and stress conditions.

All data used in the Internal Model is assessed for appropriateness, completeness and accuracy. To support this, certain controls are in place. These controls, are set out in the Data Management Framework which outlines how data is handled, managed and controlled before being used in the Internal Model. In addition, periodic controls are applied to validate the ongoing appropriateness of the data. Regular controls are applied each time the data is extracted and whenever data is manipulated or transformed. Examples of the types of controls performed include data integrity checks, independent source checks and reasonableness and consistency checks.

The results of applying the controls are captured in validation reports. Weaknesses and limitations are logged and prioritised for future development activity. Any Expert Judgements applied during the process are logged.

CAPITAL MANAGEMENT CONTINUED

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The PGH Group, and each of its insurance subsidiaries held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with capital requirements.

As part of the Group's RMF, various controls are in place to ensure continuing compliance with capital requirements. These include:

- holding a capital buffer (i.e. 'Capital Policy') above the SCR to provide resilience under a range of stress conditions. The amount of the capital buffer is set and monitored by the PGH and insurance subsidiary Boards and reflects the risk profile and financial strength of the Group and individual insurance subsidiaries. In situations where the amount of the capital buffer is breached, the Boards are obliged to identify remedial actions to restore the excess assets to the required buffer in a timely manner. To this end, the Boards, no less frequently than annually, approve thresholds that would trigger the remedial actions. These thresholds are calculated both including and excluding any potential recalculation of the TMTP;
- monitoring solvency on a weekly basis, with results reported weekly to senior management and monthly to management committees and boards;
- projecting solvency positions on a quarterly basis, so as to provide an early view of potential capital shortfalls;
- monitoring of balance sheet sensitivities, which are produced on a monthly basis and distributed to senior management; and
- subjecting the solvency positions of the Group and its insurance subsidiaries to Reverse Stress Testing at least annually. The RST exercise provides an assessment of policyholder security by testing the combined strength of the funds available to each insurance subsidiary and the Group to enable regulatory capital requirements under stress conditions to be met.

CAPITAL MANAGEMENT CONTINUED

E.6 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Group and insurance subsidiaries Own Funds and SCR.

Appendix and additional information

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
GLOSSARY

ANNUAL OPERATING PLAN ('AOP')	The Group's five-year strategic plan approved by the Board.
ASSET LIABILITY MANAGEMENT ('ALM')	Management of mismatches between assets and liabilities within risk appetite.
BEST ESTIMATE LIABILITY ('BEL')	The probability weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows), using the relevant interest rate term structure and taking into account economic and non-economic assumptions.
BLACK-SCHOLES	A mathematical model used to calculate the value of an option.
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders.
EIOPA	European Insurance and Occupational Pensions Authority.
FAIR VALUE	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FINANCIAL CONDUCT AUTHORITY ('FCA')	The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers.
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ('GAAP')	A common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements.
INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')	Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board ('IASB').
INTERNAL MODEL ('IM')	The agreed methodology and model, approved by the PRA, to calculate the Solvency Capital Requirement ('SCR') pursuant to Solvency II.
LINE OF BUSINESS ('LoB')	The applicable lines of business as prescribed by Annex I of Commission Delegated Regulation (EU) 2015/35.
LONG TERM GUARANTEE MEASURES	The extrapolation of risk-free interest rates, the Matching Adjustment ('MA'), the Volatility Adjustment ('VA'), the extension of the recovery period in case of non-compliance with the SCR, the transitional measures on the risk-free interest rates and the Transitional Measure on Technical Provisions ('TMTP').
LONG-TERM INCENTIVE PLAN ('LTIP')	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy.
MANAGEMENT SERVICE AGREEMENT ('MSA')	Contracts that exist between the Phoenix Life and Services Companies or between Services Companies and their outsource partners.
MATCHING ADJUSTMENT ('MA')	An allowance, subject to PRA's approval that allows insurers to use a higher discount rate, based on the underlying assets, when valuing liabilities that meet strict eligibility criteria.
OPERATING PROFIT	Operating profit is a non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it provides long-term performance information unaffected by short term economic volatility.
OWN FUNDS	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed quantitative limits and transferability and fungibility restrictions to Basic Own Funds.
PARTIAL INTERNAL MODEL ('PIM')	A methodology of calculating SCR partially on an approved Internal Model basis and partially on a Standard Formula basis.
PART VII TRANSFER	The transfer of insurance policies under Part VII of Financial Services and Markets Act 2000 ('FSMA') 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert.
PRUDENTIAL REGULATION AUTHORITY ('PRA')	The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities.
PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT ('PPFM')	A publicly available document which explains how the Company's with-profit business is run. As part of demonstrating that customers are treated fairly, the Board certifies that the PPFM has been complied with.

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
GLOSSARY CONTINUED

RISK MARGIN	The amount used to ensure that the value of the technical provisions is equivalent to the amount that a Life Company would be expected to require in order to take over and meet insurance and reinsurance obligations.
SOLVENCY II	A new regime for the prudential regulation of European insurance companies that came into force on 1 January 2016.
SOLVENCY II SURPLUS	The excess of Eligible Own Funds over the Solvency Capital Requirement.
SOLVENCY CAPITAL REQUIREMENT ('SCR')	SCR relates to risks and obligations to which the Group is exposed and calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensure that capital is sufficient to withstand a broadly '1-in-200' event.
STANDARD FORMULA	A set of calculations prescribed by the regulations for generating the SCR.
TECHNICAL PROVISIONS	The sum of the Best Estimate Liabilities and the risk margin. Technical provisions include Transitional Measures on Technical Provisions where firms have received PRA approval to apply the deduction.
TRANSITIONAL MEASURES ON TECHNICAL PROVISIONS ('TMTP')	An allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime. It is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is an item of Own Funds.

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017)

This report has been prepared in conjunction with the following QRTs, the table below illustrates the templates applicable to the PGH Group and each insurance subsidiary.

An S.05.02.1 (Premiums, Claims and Expenses by country) QRT is not included for PGH or any of the insurance subsidiaries. This is because in all cases more than 90% of business is UK based.

QRT number	QRT name	PGH Group (Appendix 1)	PLL (Appendix 2)	PLAL (Appendix 3)	ALAC (Appendix 4)	PAWL (unaudited) (Appendix 5)	PA(GI) (Appendix 6)
S.02.01.02	Balance sheet	✓	✓	✓	✓	✓	✓
S.05.01.02	Premiums, claims and expenses by Line of Business	✓	✓	✓	✓	✓	✓
S.12.01.02	Life and Health SLT technical provisions	-	✓	✓	✓	-	-
S.22.01.21	Impact of long term guarantees and transitionals (Life Companies)	-	✓	✓	-	-	-
S.22.01.22	Impact of long term guarantees and transitionals (Group)	✓	-	-	-	-	-
S.23.01.01	Own Funds (Life Companies)	-	✓	✓	✓	✓	✓
S.23.01.22	Own Funds (Group)	✓	-	-	-	-	-
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula	-	-	-	✓	-	-
S.25.02.22	Solvency Capital Requirement – partial Internal Model	✓	-	-	-	-	-
S.25.03.21	Solvency Capital Requirement – for undertakings on full Internal Model	-	✓	✓	-	-	✓
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity	-	✓	✓	✓	✓	✓
S.32.01.22	Undertakings in the scope of the Group	✓	-	-	-	-	-

All public disclosure QRTs shown in the Appendices are presented in sterling (£) rounded to the nearest thousand.

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP
Appendix 1.1 – S.02.01.02 – Balance sheet QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	151,111
Pension benefit surplus	R0050	321,643
Property, plant & equipment held for own use	R0060	23,750
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**43,582,165**
Property (other than for own use)	R0080	384,263
Holdings in related undertakings, including participations	R0090	20,739,253
Equities	R0100	173,178
Equities – listed	R0110	140,002
Equities – unlisted	R0120	33,175
Bonds	R0130	17,205,371
Government Bonds	R0140	10,636,232
Corporate Bonds	R0150	6,404,858
Structured notes	R0160	87,302
Collateralised securities	R0170	76,979
Collective Investments Undertakings	R0180	2,450,813
Derivatives	R0190	2,561,796
Deposits other than cash equivalents	R0200	67,491
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	23,870,592
Loans and mortgages	**R0230**	**1,345,187**
Loans on policies	R0240	9,766
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	1,335,421
Reinsurance recoverables from:	**R0270**	**8,842,459**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	2,711,693
Health similar to life	R0320	78,255
Life excluding health and index-linked and unit-linked	R0330	2,633,438
Life index-linked and unit-linked	R0340	6,130,766
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	7,329
Reinsurance receivables	R0370	32,427
Receivables (trade, not insurance)	R0380	682,235
Own shares (held directly)	R0390	2,343
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	710,269
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**79,571,510**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.1 – S.02.01.02 – Balance sheet QRT continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**37,035,443**
Technical provisions – health (similar to life)	**R0610**	**142,286**
TP calculated as a whole	R0620	
Best estimate	R0630	141,497
Risk margin	R0640	789
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**36,893,157**
TP calculated as a whole	R0660	
Best estimate	R0670	36,836,940
Risk margin	R0680	56,216
TP – index-linked and unit-linked	**R0690**	**29,715,195**
TP calculated as a whole	R0700	
Best estimate	R0710	29,664,631
Risk margin	R0720	50,564
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	132,580
Pension benefit obligations	R0760	69,493
Deposits from reinsurers	R0770	367,586
Deferred tax liabilities	R0780	438,975
Derivatives	R0790	1,099,902
Debts owed to credit institutions	R0800	2,218,985
Financial liabilities other than debts owed to credit institutions	R0810	943
Insurance & intermediaries payables	R0820	522,575
Reinsurance payables	R0830	23,190
Payables (trade, not insurance)	R0840	374,530
Subordinated liabilities	**R0850**	**1,479,523**
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	1,479,523
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**73,478,919**

Excess of assets over liabilities	**R1000**	**6,092,591**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.2 – S.05.01.02 – Premiums, claims and expense by Line of Business QRT

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	13,185	160,342	1,075,331	836,458				77,998	**2,163,314**
Reinsurers' share	R1420	1,708	7,530	1,118,188	159,538				77,313	**1,364,277**
Net	**R1500**	**11,476**	**152,813**	**(42,857)**	**676,920**				**685**	**799,037**
Premiums earned										
Gross	R1510	13,185	160,342	1,075,331	836,458				77,998	**2,163,314**
Reinsurers' share	R1520	1,708	7,530	1,118,188	159,538				77,313	**1,364,277**
Net	**R1600**	**11,476**	**152,813**	**(42,857)**	**676,920**				**685**	**799,037**
Claims incurred										
Gross	R1610	21,320	2,245,031	4,794,009	1,002,547				35,872	**8,098,780**
Reinsurers' share	R1620	11,039	129,246	2,687,555	154,198				35,796	**3,017,835**
Net	**R1700**	**10,281**	**2,115,785**	**2,106,454**	**848,349**				**76**	**5,080,945**
Changes in other technical provisions										
Gross	R1710	(39,685)	815,296	2,390,781	(369,177)			0	(370,803)	**2,426,412**
Reinsurers' share	R1720	9,339	6,126	1,027,834	377,854			0	111,955	**1,533,108**
Net	**R1800**	(49,025)	809,171	1,362,947	(747,030)			0	(482,758)	**893,304**
Expenses incurred	**R1900**	**510**	**131,663**	**121,915**	**374,505**					**628,592**
Other expenses	R2500									
Total expenses	**R2600**									**628,592**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.3 – S.22.01.22 – Impact of long-term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	66,750,638	2,537,050			729,705
Basic own funds	R0020	6,636,578	(2,050,704)			(662,307)
Eligible own funds to meet Solvency Capital Requirement	R0050	6,671,651	(2,050,704)			(662,307)
Solvency Capital Requirement	R0090	4,822,133	(164,659)			921,343

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.4 – S.23.01.22 – Own Funds QRT

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	33	33			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030	1,452,297	1,452,297			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070	2,285,906	2,285,906			
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	1,302,780	1,302,780			
Subordinated liabilities	R0140	1,479,523			1,030,471	449,051
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160	151,111				151,111
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic Own Funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	35,072	35,072			
Whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280	35,072	35,072			
Total basic own funds after deductions	R0290	6,636,578	5,005,944		1,030,471	600,163

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.4 – S.23.01.22 – Own Funds QRT continued

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Own funds of other financial sectors						
Credit institutions, investment firms, financial institutions, alternative investment fund managers, financial institutions	R0410	(5,770)	(5,770)			
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430	40,843	40,843			
Total own funds of other financial sectors	R0440	35,072	35,072			
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450					
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	6,636,578	5,005,944		1,030,471	600,163
Total available own funds to meet the minimum consolidated group SCR	R0530	6,036,416	5,005,944		1,030,471	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	6,636,578	5,005,944		1,030,471	600,163
Total eligible own funds to meet the minimum consolidated group SCR	R0570	5,239,868	5,005,944		233,924	
Minimum consolidated Group SCR	R0610	1,169,620				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	448%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	6,671,651	5,041,017		1,030,471	600,163
Group SCR	R0680	4,822,133				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	138%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	6,092,591
Own shares (included as assets on the balance sheet)	R0710	2,343
Foreseeable dividends, distributions and charges	R0720	99,000
Other basic own fund items	R0730	3,889,348
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	415,711
Other non available own funds	R0750	383,409
Reconciliation reserve before deduction for participations in other financial sector	R0760	1,302,780
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	335,028
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total EPIFP	R0790	335,028

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.5 – S.25.02.22 – SCR QRT – Partial Internal Model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplification
C0010	C0020	C0030	C0070	C0080	C0090
10700I	Market Spread Risk	1,494,897	1,494,897		
10700P	Market Spread Risk (pension scheme)	68,237	68,237		
11000I	Market risk excluding spread risk	1,299,534	1,299,534		
11000P	Market risk excluding spread risk (pension scheme)	406,783	406,783		
19900I	Diversification within Market Risk	(266,746)	(266,746)		
20000I	Counterparty Risk	117,806	117,806		
20000P	Counterparty Risk (pension scheme)	-	-		
30000I	Life Underwriting Risk	2,299,699	2,299,699		
30000P	Life Underwriting Risk (pension scheme)	222,813	222,813		
40000I	Health Underwriting Risk	-	-		
70100I	Operational Risk	840,761	840,761		
70100P	Operational Risk (pension scheme)	15,849	15,849		
80150I	Other Risks - Strategic Risk	12,149	12,149		
80150P	Other Risks - Strategic Risk (pension scheme)	-	-		
80190I	Other Risks - Financial Soundness Risk	63,952	63,952		
80190P	Other Risks - Financial Soundness Risk (pension scheme)	-	-		
80200I	Non-dynamic management actions	(213,771)	(213,771)		
80300I	Loss-absorbing capacity of deferred tax	(296,903)	(296,903)		
80400I	Other Adjustments	227,074	227,074		
80400P	Other Adjustments (pension scheme)	-	-		

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	6,292,206
Diversification	R0060	(1,694,997)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	4,597,209
Capital add-on already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	4,822,133
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(2,670,585)
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(296,903)
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	977,769
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	2,444,894
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	1,174,547
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	1,169,620
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	3,428
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	3,428
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non- regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	221,496
Overall SCR		
SCR for undertakings included via D and A	R0560	
Solvency capital requirement	R0570	4,822,133

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800B79QMNUVLO3I52	1 - LEI	Alcobendas Entrust Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	5493005FMXD1DF7H5U38	1 - LEI	Abbey Life Assurance Company Limited	1 - Life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	21380035Z7JKF61E6Y61	1 - LEI	Alba Life Trustees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800IHCXV68Y68RU96	1 - LEI	Phoenix Wealth Trustee Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YA6KBR5F6X5773	1 - LEI	Phoenix AW Limited	1 - Life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800PSSLEQR5IDJ351	1 - LEI	Phoenix Wealth Services Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800S88OB7OOLWB337	1 - LEI	Britannic Finance Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800J8J5RG7CXMLT47	1 - LEI	Britannic Group Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800OCFONM4ZNJBB35	1 - LEI	Britannic Money Investment Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800RGEZJWU7O2EQ55	1 - LEI	PG Dormant (No 6) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800RUJKNJ1A9ZX173	1 - LEI	Phoenix Unit Trust Managers Limited	14 - UCITS management companies as defined in Article 1 (54) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		4 - Method 1: Sectoral rules
GB	213800ZE7DJL9NPP7P54	1 - LEI	Century Group Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800VUT844OO5BG366	1 - LEI	CH Management Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800F4I4AWU6NBME19	1 - LEI	Cityfourinc	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YR5DXOHV9PG825	1 - LEI	Clearfol Investment Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
JE	213800HH4EBMNEMZ7F92	1 - LEI	ILC1 (Jersey) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
JE	213800PRI1Y9YF64UR32	1 - LEI	IH (Jersey) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YSR6GTJ8MVUS19	1 - LEI	Impala Holdings Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800MQMHVIR9ZA1Y57	1 - LEI	London Life Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800WTNFSQI1U7DV20	1 - LEI	NPI Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IE	635400GBPN5HTTIVVH83	1 - LEI	Mutual Securitisation plc	99 - Other	Company limited by shares	1 - Mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009129G12OFZWC28	1 - LEI	NP Life Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800QU1FBSLX89Q242	1 - LEI	National Provident Life Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
BE	21380031B1D56JRCE375BE10000	2 - Specific code	Opal Reassurance Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	21380067P35533CPS717	1 - LEI	Pearl Assurance Group Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800CZWH4VG2X7HP11	1 - LEI	PA (GI) Limited	2 - Non life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800NH6RYZBJ6K5C11	1 - LEI	Pearl AL Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800DJMETF2ALADE56	1 - LEI	Phoenix & London Assurance Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YXNP7NQGER8E10	1 - LEI	Phoenix Customer Care Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138007DV547Q2B7MR04	1 - LEI	Phoenix ER1 Limited	11 - Non-regulated undertaking carrying out financial activities as defined in Article 1 (52) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		4 - Method 1: Sectoral rules
GB	21380039WGL689JN6E44	1 - LEI	Phoenix ER3 Limited	11 - Non-regulated undertaking carrying out financial activities as defined in Article 1 (52) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		4 - Method 1: Sectoral rules
GB	213800ILIUK3NF5H7465	1 - LEI	Phoenix ER4 Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
KY	21380031B1D56JRCE375	1 - LEI	Phoenix Group Holdings	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Public limited company	2 - Non-mutual								1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800PO6LOTMSXHAP71	1 - LEI	Pearl Group Holdings (No. 1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
JE	213800ZS4F4C9ZOG5Z06	1 - LEI	PGH1 (Jersey) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138002124DJU5NAJB47	1 - LEI	Pearl Group Holdings (No. 2) Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
IE	213800HW7LORF5UQUW14	1 - LEI	PGH Capital plc	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10007	2 - Specific code	PGH (LC1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10005	2 - Specific code	PGH (LC2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	Criteria of influence: % capital share	Criteria of influence: % used for the establishment of consolidated accounts	Criteria of influence: % voting rights	Criteria of influence: Other criteria	Criteria of influence: Level of influence	Criteria of influence: Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	Inclusion in the scope of group supervision: Date of decision if art.214 is applied	Group solvency calculation: Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800TBZW26HVJ7YD19	1 - LEI	PGH (LCA) Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800639F2IYJN5LX30	1 - LEI	PGH (LCB) Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138009PGTUXA25AU785GB10009	2 - Specific code	PGH (MC1) Limited	8 - Credit institution, investment firm and financial institution	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		4 - Method 1: Sectoral rules
GB	2138009PGTUXA25AU785GB10010	2 - Specific code	PGH (MC2) Limited	8 - Credit institution, investment firm and financial institution	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		4 - Method 1: Sectoral rules
GB	2138009PGTUXA25AU785GB10008	2 - Specific code	PGH (TC1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10006	2 - Specific code	PGH (TC2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138005CNV9TY74WAR28	1 - LEI	Pearl Group Management Services Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800ZG6QXSK9G9GO74	1 - LEI	PGMS (Glasgow) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
IE	213800DP8RHURBWQUW31	1 - LEI	PGMS (Ireland) Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
IE	213800XE94GLGH5TUQ16	1 - LEI	PGMS (Ireland) Holdings Unlimited Company	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KR6QUMTDIX5H91	1 - LEI	Pearl Group Services Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800GXSEN5TJWQMI72	1 - LEI	PGS 2 Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785	1 - LEI	Phoenix Life Holdings Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800LHZHSXHFZ59970	1 - LEI	Phoenix Life Assurance Limited	1 - Life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138005INFYUNFGXD528	1 - LEI	Pearl Life Holdings Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800LA8MQUY21IG777	1 - LEI	Phoenix Life Insurance Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800F8BC7QS1SGPG53	1 - LEI	Phoenix Life Limited	1 - Life insurance undertaking	Company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138007JS9TEWB48XZ26	1 - LEI	Pearl Life Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800Z38YTTKT3C9L87	1 - LEI	Phoenix Pensions Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED
Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	2138002CJZVH844BO431	1 - LEI	PG Dormant (No 4) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800JTP4IW1CLE8Q08	1 - LEI	Phoenix Pensions Trustee Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800F9J1GCM4FMTU87	1 - LEI	Pearl Customer Care Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KF69UDXM4ZE284	1 - LEI	Pearl RLH Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
US	213800NASW8ZHVZ3U265	1 - LEI	Pearl (WP) Investments LLC	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800JU1AQEHLXNFB22	1 - LEI	Phoenix SL Direct Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800O1YBZJ7WJK2567	1 - LEI	SL Liverpool plc	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800EFHIV4NSSD3D48	1 - LEI	The Phoenix Life SCP Institution	99 - Other	Company limited by guarantee	2 - Non-mutual			100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800GRORRHUWA5C435	1 - LEI	Alba LAS Pensions Management Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800R8PJ9EPBQLWP58	1 - LEI	The Pearl Martineau Galleries Limited Partnership	99 - Other	Limited Partnership	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800CPL9WKRMHYQN02	1 - LEI	The Pearl Martineau Limited Partnership	99 - Other	Limited Partnership	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800W2EAL6W37KKU59	1 - LEI	UK Commercial Property Estates Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800521LWAVOZHUR12	1 - LEI	UK Commercial Property Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800DJ3JFFA1P8TS31	1 - LEI	UK Commercial Property Estates Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800FZM1LGPU46ZP56	1 - LEI	UK Commercial Property Nominee Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800J1T7J1138EOQ84	1 - LEI	UK Commercial Property GP Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	213800HDNBJ5VT5XQO97	1 - LEI	UKCPT Limited Partnership	99 - Other	Limited Partnership	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GG	2138009PGTUXA25AU785GB10012	2 - Specific code	UK Commercial Property Finance Holdings Limited	99 - Other	Limited Partnership	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009PGTUXA25AU785GB10013	2 - Specific code	Brixton Radlett Property Limited	99 - Other	Limited Partnership	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800XBTJGEIJPJIT08	1 - LEI	Phoenix ER2 Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138006AVN3BGVP6FN70	1 - LEI	Abbey Life Trust Securities Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED
Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800QSPR2LRLU34T67	1 - LEI	Abbey Life Trustee Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800SHU5OGZS6PJZ19	1 - LEI	Pearl (Covent Garden) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800Q3CZMOFF9OE643	1 - LEI	NPI (Westgate) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800UX8KICATW4FL79	1 - LEI	NPI (Printworks) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800G8PY6JCXSQLC67	1 - LEI	Pearl (Barwell 2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138001CFOTDN3U7BM31	1 - LEI	Pearl (Chiswick House) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800GRV1G4NBVR2C83	1 - LEI	Pearl (Printworks) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138007GV3TM61ULD343	1 - LEI	PUTM Bothwell Asia Pacific (Excluding Japan) Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.32%	100.00%	99.32%		1 - Dominant	99.32%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138001KPRR6P5IG1960	1 - LEI	PUTM Bothwell Credit Financial Sterling Hedged Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800QZTKMAJY8XSB43	1 - LEI	PUTM Bothwell Credit Non Financial Sterling Hedged Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800A36R1Z1S85RR19	1 - LEI	PUTM Bothwell Emerging Market Debt Unconstrained Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800VCC5MENTKHP567	1 - LEI	PUTM Bothwell Emerging Markets Equity Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.88%	100.00%	99.88%		1 - Dominant	99.88%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800T31U3W79HGRH81	1 - LEI	PUTM Bothwell Euro Sovereign Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.56%	100.00%	99.56%		1 - Dominant	99.56%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800P8QDZ2EUITVU80	1 - LEI	PUTM Bothwell Europe Fund	99 - Other	Authorised unit trust	2 - Non-mutual		98.13%	100.00%	98.13%		1 - Dominant	98.13%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800882SVHV1XPLA47	1 - LEI	PUTM Bothwell European Credit Fund	99 - Other	Authorised unit trust	2 - Non-mutual		85.04%	100.00%	85.04%		1 - Dominant	85.04%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800VU8M72BGVW2T34	1 - LEI	PUTM Bothwell Fixed ABS Sterling Hedged Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800XSYBULEE2E4N30	1 - LEI	PUTM Bothwell Floating Rate ABS Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138008DFTGZAKHGR525	1 - LEI	PUTM Bothwell Global Bond Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.73%	100.00%	99.73%		1 - Dominant	99.73%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800JGHD8XCIYNWU64	1 - LEI	PUTM Bothwell Global Credit Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.98%	100.00%	99.98%		1 - Dominant	99.98%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800D2NQORX8CJQZ25	1 - LEI	PUTM Bothwell Global Equity Fund	99 - Other	Authorised unit trust	2 - Non-mutual		97.34%	100.00%	97.34%		1 - Dominant	97.34%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800FOR1Z8YSVHSW15	1 - LEI	PUTM Bothwell Index-Linked Sterling Hedged Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800IH74PGGQ7I4488	1 - LEI	PUTM Bothwell Japan Tracker Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.49%	100.00%	99.49%		1 - Dominant	99.49%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800JH8I75Q3WBIX59	1 - LEI	Pearl (Martineau Phase 1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800EEKY3ZQDUYKV60	1 - LEI	Pearl MP Birmingham Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800FUUJNPK8RGKI07	1 - LEI	Pearl (Moor House 1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800AAGWJ9I1A76T36	1 - LEI	Pearl (Moor House 2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800UL2ISGIL5ZYH43	1 - LEI	Pearl (Moor House) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YF19MJX799LJ16	1 - LEI	Phoenix Life Pension Trust Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KSY8FMU99DE175	1 - LEI	Phoenix Pension Scheme (Trustees) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138007RKH637ZHATD66	1 - LEI	PUTM Bothwell UK Equity 350 Fund	99 - Other	Authorised unit trust	2 - Non-mutual		99.27%	100.00%	99.27%		1 - Dominant	99.27%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KH7K7YYQ7LLG85	1 - LEI	PUTM Bothwell UK Equity Income Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800W7W7GTN3HH8I82	1 - LEI	PUTM Bothwell UK Equity Smaller Companies Fund	99 - Other	Authorised unit trust	2 - Non-mutual		98.53%	100.00%	98.53%		1 - Dominant	98.53%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800DN8K9C4SHNSO89	1 - LEI	PUTM Cautious Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.29%	100.00%	99.29%		1 - Dominant	99.29%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800XLPB31C21BK654	1 - LEI	PUTM European Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.50%	100.00%	99.50%		1 - Dominant	99.50%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138004HI8MR9C7M4110	1 - LEI	PUTM Far Eastern Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.73%	100.00%	99.73%		1 - Dominant	99.73%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138007MBUBP1DYEF454	1 - LEI	PUTM Growth Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800R93551HXPTCO23	1 - LEI	PUTM International Growth Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.56%	100.00%	99.56%		1 - Dominant	99.56%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800TGH1B5H3CCKM64	1 - LEI	PUTM Opportunity Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.99%	100.00%	99.99%		1 - Dominant	99.99%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KPZ3IYLLF4UT85	1 - LEI	PUTM UK All-Share Index Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.96%	100.00%	99.96%		1 - Dominant	99.96%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800P3GNH79HH17J98	1 - LEI	PUTM UK Equity Unit Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.89%	100.00%	99.89%		1 - Dominant	99.89%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800R4RZSQBOAMVN21	1 - LEI	PUTM UK Stock Market Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED
Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
IE	213800F18AWU4JY7PV04	1 - LEI	Standard Life Investments Sterling short duration managed liquidity fund	99 - Other	Open ended investment company	2 - Non-mutual		92.06%	100.00%	92.06%		1 - Dominant	92.06%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800CIR2UE599MVG13	1 - LEI	Standard Life Investments UK Real Estate Income Feeder Fund	99 - Other	Open ended investment company	2 - Non-mutual		29.04%	29.04%	29.04%		2 - Significant	29.04%	1 - Included in the scope		3 - Method 1: Adjusted equity method
LU	5493002WQL6BCM1H6D35	1 - LEI	Standard Life Investments Global SICAV Emerging Market Debt Unconstrained Fund	99 - Other	Société d'Investissement À Capital Variable (SICAV)	2 - Non-mutual		84.30%	100.00%	84.30%		1 - Dominant	84.30%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	372EHZXZC4FO1JPGOK71	1 - LEI	Aberdeen Financial Equity Fund	99 - Other	Company limited by shares	2 - Non-mutual		84.52%	100.00%	84.52%		1 - Dominant	84.52%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300G9T4G15WXCD957	1 - LEI	Scottish Widows Ethical Fund	99 - Other	Open ended investment company	2 - Non-mutual		22.44%	22.44%	22.44%		2 - Significant	22.44%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300S31L6C8BSM2G23	1 - LEI	Scottish Widows International Bond Fund	99 - Other	Open ended investment company	2 - Non-mutual		59.86%	59.86%	59.86%		2 - Significant	59.86%	1 - Included in the scope		3 - Method 1: Adjusted equity method
LU	5493007Y7ZYJQ7UM7O14	1 - LEI	AB SICAV I - Global Factor Portfolio (SF1)	99 - Other	Société d'Investissement À Capital Variable (SICAV)	2 - Non-mutual		39.22%	39.22%	39.22%		2 - Significant	39.22%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800IVG9SKM4YH4C86	1 - LEI	AXA Fixed Interest Investment ICVC - Sterling Strategic Bond Fund	99 - Other	Open ended investment company	2 - Non-mutual		59.73%	59.73%	59.73%		2 - Significant	59.73%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300Y1874OGLBYCG21	1 - LEI	BlackRock LBG DC 'A' Fund	99 - Other	Authorised unit trust	2 - Non-mutual		93.81%	100.00%	93.81%		1 - Dominant	93.81%	1 - Included in the scope		3 - Method 1: Adjusted equity method
IE	2138003WI1N8BCMPJN72	1 - LEI	PG Dormant No 2 Holdings	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	5493005Q5UD09XMDS126	1 - LEI	Aberdeen Capital Trust	99 - Other	Authorised unit trust	2 - Non-mutual		99.64%	100.00%	99.64%		1 - Dominant	99.64%	1 - Included in the scope		3 - Method 1: Adjusted equity method
LU	5493001SH18E5YGIWZ06	1 - LEI	AB SICAV I - ESG Responsible Global Factor Portfolio AB	99 - Other	Société d'Investissement À Capital Variable (SICAV)	2 - Non-mutual		71.39%	100.00%	71.39%		1 - Dominant	71.39%	1 - Included in the scope		3 - Method 1: Adjusted equity method
LU	56D8IVMHN27NW5MPNL88	1 - LEI	AQR UCITS Funds - AQR Global Risk Parity UCITS Fund	99 - Other	Open ended investment company	2 - Non-mutual		21.60%	21.60%	21.60%		2 - Significant	21.60%	1 - Included in the scope		3 - Method 1: Adjusted equity method
LU	549300RDK6X3LSLXYT37	1 - LEI	AB SICAV I - Diversified Yield Plus Portfolio S GBP Acc	99 - Other	Société d'Investissement À Capital Variable (SICAV)	2 - Non-mutual		42.65%	42.65%	42.65%		2 - Significant	42.65%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300MQT7YRWQ7R2C91	1 - LEI	BlackRock Market Advantage Fund	99 - Other	Authorised unit trust	2 - Non-mutual		66.03%	66.03%	66.03%		2 - Significant	66.03%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300QZ8U30ES36XU09	1 - LEI	Aberdeen UK Smaller Companies Equity Fund	99 - Other	Open ended investment company	2 - Non-mutual		26.05%	26.05%	26.05%		2 - Significant	26.05%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	549300FOFZB42GW3KA59	1 - LEI	Aberdeen Global Emerging Markets Quantitative Equity Fund	99 - Other	Open ended investment company	2 - Non-mutual		21.52%	21.52%	21.52%		2 - Significant	21.52%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	21380067JPI4ENNTAD73	1 - LEI	PUTM Bothwell Institutional Credit accum	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138004YB2HUL6PHSQ91	1 - LEI	Janus Henderson Global Care Funds - Janus Henderson Institutional Global Care Managed Fund	99 - Other	Open ended investment company	2 - Non-mutual		60.10%	60.10%	60.10%		2 - Significant	60.10%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	21380011W681SRN4QP87	1 - LEI	Janus Henderson UK & Europe Funds - Janus Henderson Institutional UK Gilt Fund	99 - Other	Open ended investment company	2 - Non-mutual		71.33%	71.33%	71.33%		2 - Significant	71.33%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800LTMCNSTCTDBM34	1 - LEI	Janus Henderson Diversified Growth Fund	99 - Other	Open ended investment company	2 - Non-mutual		84.27%	100.00%	84.27%		1 - Dominant	84.27%	1 - Included in the scope		3 - Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800PZXIJUMYOXDN27	1 - LEI	Janus Henderson Global Funds - Janus Henderson Institutional Overseas Bond Fund	99 - Other	Open ended investment company	2 - Non-mutual		99.14%	100.00%	99.14%		1 - Dominant	99.14%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800TQYSHLWYSUR685	1 - LEI	Janus Henderson Institutional UK Index Opportunities Fund	99 - Other	Authorised unit trust	2 - Non-mutual		72.18%	72.18%	72.18%		2 - Significant	72.18%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800IJ3HKI1OZKQ289	1 - LEI	Janus Henderson Institutional Mainstream UK Equity Trust	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800RYS2Q664BL2G62	1 - LEI	Janus Henderson Strategic Investment Funds - Janus Henderson Institutional European Index Opportunities Fund	99 - Other	Open ended investment company	2 - Non-mutual		79.52%	100.00%	79.52%		1 - Dominant	79.52%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138005OLWBASFXB7S08	1 - LEI	Pearl (Stockley Park) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800H867B9CB2RM694	1 - LEI	London Life Trustees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138001ZOXFC79PEZS19	1 - LEI	Pearl Trustees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138005IQK4DZ2N8UH82	1 - LEI	Pearl Group Secretariat Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138005ZEJNYUIFBET73	1 - LEI	BA (FURBS) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	21380065SBT1KWR9GL23	1 - LEI	National Provident Institution	99 - Other	Unlimited company	2 - Non-mutual			100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800V8BBPFHQH81386	1 - LEI	Pearl RLG Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800696N9OI66X5I18	1 - LEI	The London Life Association Limited	99 - Other	Company limited by guarantee	2 - Non-mutual			100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800H9LDHZUVWW9F07	1 - LEI	Pearl (Martineau Phase 2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800C2PGN9I9C33L82	1 - LEI	Century Trustee Services Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800Y7LOTDOSDNEL59	1 - LEI	Evergreen Trustee Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800LXCCINIMTRFW79	1 - LEI	Corunna Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800LJMZ4QEJ8AUV97	1 - LEI	Pearl ULA Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800J33B28B2SKEF70	1 - LEI	Scottish Mutual Nominees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800YBYX8PMP3QQM09	1 - LEI	PG Dormant (No 5) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800HTOXWIQA6XQW93	1 - LEI	The Scottish Mutual Assurance Society	99 - Other	Company limited by guarantee	2 - Non-mutual			100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED
Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Criteria of influence: % capital share	Criteria of influence: % used for the establishment of consolidated accounts	Criteria of influence: % voting rights	Criteria of influence: Other criteria	Criteria of influence: Level of influence	Criteria of influence: Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	Inclusion in the scope of group supervision: Date of decision if art.214 is applied	Group solvency calculation: Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
LU	549300DNUXWL5JL2I848	1 - LEI	American Century SICAV - Concentrated Global Growth Equity	99 - Other	Société d'Investissement À Capital Variable (SICAV)	2 - Non-mutual		42.23%	42.23%	42.23%		2 - Significant	42.23%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	GB00BT9QBY23	2 - Specific code	Architas Diversified Real Assets Fund	99 - Other	Open ended investment company	2 - Non-mutual		26.83%	26.83%	26.83%		2 - Significant	26.83%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	GB0034251834	2 - Specific code	Architas MA Active Dynamic Fund Class R Net Accumulation	99 - Other	Open ended investment company	2 - Non-mutual		21.86%	21.86%	21.86%		2 - Significant	21.86%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800KHXBLNLCG65816	1 - LEI	PUTM Bothwell Long Gilt Sterling Hedged Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800SEKD6AE8YAIX35	1 - LEI	PUTM Bothwell North America Fund	99 - Other	Authorised unit trust	2 - Non-mutual		90.28%	100.00%	90.28%		1 - Dominant	90.28%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800TRPZOHA5CTQT96	1 - LEI	PUTM Bothwell Sterling Credit Fund	99 - Other	Authorised unit trust	2 - Non-mutual		97.62%	100.00%	97.62%		1 - Dominant	97.62%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800FHKCOXS82HQG65	1 - LEI	PUTM Bothwell Sterling Government Bond Fund	99 - Other	Authorised unit trust	2 - Non-mutual		98.82%	100.00%	98.82%		1 - Dominant	98.82%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800W3AMX9O6QS6F82	1 - LEI	PUTM Bothwell Sub-Sovereign Bond Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800XP7PXFVTAW1H83	1 - LEI	PUTM Bothwell Tactical Asset Allocation Fund	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800GCSPYUX5TO2V30	1 - LEI	Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Japan Index Opportunities Fund	99 - Other	Open ended investment company	2 - Non-mutual		65.39%	100.00%	65.39%		1 - Dominant	65.39%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138007DWD6A7X7FL923	1 - LEI	Janus Henderson Strategic Investment Funds - Janus Henderson Institutional North American Index Opportunities Fund	99 - Other	Open ended investment company	2 - Non-mutual		83.91%	100.00%	83.91%		1 - Dominant	83.91%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138006CHW6K23X8BM02	1 - LEI	Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund	99 - Other	Open ended investment company	2 - Non-mutual		70.44%	100.00%	70.44%		1 - Dominant	70.44%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800I7IK5UQW1RAB89	1 - LEI	Janus Henderson Institutional Short Duration Bond Fund	99 - Other	Authorised unit trust	2 - Non-mutual		86.54%	100.00%	86.54%		1 - Dominant	86.54%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800SPJ66CK3GEGF30	1 - LEI	Janus Henderson Institutional UK Equity Tracker Trust	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
IE	213800SH4MG4MNVECA61	1 - LEI	Ignis Strategic Solutions Funds plc - Fundamental Strategies Fund	99 - Other	Open ended investment company	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
IE	213800TDBB718C196H58	1 - LEI	Ignis Strategic Solutions Funds plc - Systematic Strategies Fund	99 - Other	Open ended investment company	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	21380039CUL33ZF3UK04	1 - LEI	Ignis Private Equity Fund LP	99 - Other	Limited Partnership	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138006EXLOU452E4658	1 - LEI	Ignis Strategic Credit Fund LP	99 - Other	Limited Partnership	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
IE	213800FIO2R1AW5DBT98	1 - LEI	Standard Life Investments - Sterling Liquidity Fund	99 - Other	Open ended investment company	2 - Non-mutual		42.11%	42.11%	42.11%		2 - Significant	42.11%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138009BU7B91VZP2M65	1 - LEI	Pearl MG Birmingham Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
JE	213800TX72T5473WZ385	1 - LEI	SMA (Jersey) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PGH GROUP CONTINUED

Appendix 1.6 – S.32.01.22 – Undertakings in the scope of the Group continued

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art.214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800ZILLOABHU4ZT66	1 - LEI	Scottish Mutual Assurance Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800UXTAJKGRTYZR73	1 - LEI	Scottish Mutual Customer Care Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800AZRF8KX73WPT70	1 - LEI	PUTM UK Stock Market Fund (Series 3)	99 - Other	Authorised unit trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800LFFJ5UNTAEZK91	1 - LEI	Scottish Mutual Pension Funds Investment Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800HVX64Z6SADYQ50	1 - LEI	Phoenix SCP Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138001Q4BGZ3QASNG93	1 - LEI	Impala Loan Company 1 Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	213800H548923LR12H43	1 - LEI	SPL (Holdings) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	2138005L17YPC9MYB770	1 - LEI	SPL (Holdings 1) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	2138005P7ZYYWWBCRY26	1 - LEI	Phoenix SCP Pensions Trustees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	213800OHBY9DMQUET391	1 - LEI	Phoenix SCP Trustees Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GG	213800JN4FQ1A9G8EU25	1 - LEI	UK Commercial Property Trust Limited	99 - Other	Company limited by shares	2 - Non-mutual		47.87%	47.87%	47.87%		2 - Significant	47.87%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	213800XE3S51YKKDFC05	1 - LEI	Phoenix Wealth Holdings Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive2009/138/EC	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800NH2VPBDG1QO657	1 - LEI	Zilmer Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
JE	213800CUYV3HL17JP515	1 - LEI	Phoenix Group Employee Benefit Trust	99 - Other	Trust	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	21380031B1D56JRCE375GB10000	2 - Specific code	Phoenix Group Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	2138003PPIEA27377A59	1 - LEI	SunLife Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"
GB	21380089ZAQLRGSTXL02	1 - LEI	PG Dormant (No 3) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		"3 - Method 1: Adjusted equity method"

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL

Appendix 2.1 – S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	15,391
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**28,941,342**
Property (other than for own use)	R0080	337,586
Holdings in related undertakings, including participations	R0090	12,761,438
Equities	R0100	143,895
Equities – listed	R0110	140,002
Equities – unlisted	R0120	3,893
Bonds	R0130	13,776,555
Government Bonds	R0140	7,679,144
Corporate Bonds	R0150	4,871,330
Structured notes	R0160	30,890
Collateralised securities	R0170	1,195,191
Collective Investments Undertakings	R0180	196,345
Derivatives	R0190	1,676,583
Deposits other than cash equivalents	R0200	48,939
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	16,072,170
Loans and mortgages	**R0230**	**1,526,177**
Loans on policies	R0240	1,530
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	1,524,647
Reinsurance recoverables from:	**R0270**	**8,178,221**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	2,050,160
Health similar to life	R0320	74,086
Life excluding health and index-linked and unit-linked	R0330	1,976,073
Life index-linked and unit-linked	R0340	6,128,061
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	5,631
Reinsurance receivables	R0370	30,346
Receivables (trade, not insurance)	R0380	487,971
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	287,202
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**55,544,450**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.1 – S.02.01.02 – Balance sheet continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**25,636,955**
Technical provisions – health (similar to life)	**R0610**	**134,295**
TP calculated as a whole	R0620	
Best estimate	R0630	133,506
Risk margin	R0640	789
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**25,502,660**
TP calculated as a whole	R0660	
Best estimate	R0670	25,455,201
Risk margin	R0680	47,459
TP – index-linked and unit-linked	**R0690**	**22,015,507**
TP calculated as a whole	R0700	
Best estimate	R0710	22,013,475
Risk margin	R0720	2,031
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	1,585
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	367,586
Deferred tax liabilities	R0780	314,779
Derivatives	R0790	504,935
Debts owed to credit institutions	R0800	1,212,546
Financial liabilities other than debts owed to credit institutions	R0810	1,111,410
Insurance & intermediaries payables	R0820	330,571
Reinsurance payables	R0830	12,362
Payables (trade, not insurance)	R0840	203,765
Subordinated liabilities	**R0850**	**225,327**
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	225,327
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**51,937,328**
Excess of assets over liabilities	**R1000**	**3,607,122**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED
Appendix 2.2 – S.05.01.02 – Premiums, claims and expense by Line of Business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	11,230	113,098	354,716	470,488				2,614,338	**3,563,870**
Reinsurers' share	R1420	269	6,138	261,306	140,611					**408,324**
Net	**R1500**	**10,961**	**106,960**	**93,410**	**329,877**				**2,614,338**	**3,155,546**
Premiums earned										
Gross	R1510	11,230	113,098	354,716	470,488				2,614,338	**3,563,870**
Reinsurers' share	R1520	269	6,138	261,306	140,611					**408,324**
Net	**R1600**	**10,961**	**106,960**	**93,410**	**329,877**				**2,614,338**	**3,155,546**
Claims incurred										
Gross	R1610	19,092	1,378,604	1,152,640	676,733				182,859	**3,409,928**
Reinsurers' share	R1620	9,927	46,786	520,736	172,967					**750,416**
Net	**R1700**	**9,164**	**1,331,817**	**631,905**	**503,766**				**182,859**	**2,659,512**
Changes in other technical provisions										
Gross	R1710	-42,720	589,940	-10,918,222	-665,599			0	-2,984,095	**-14,020,696**
Reinsurers' share	R1720	3,742	6,243	-5,819,366	-190,837			0	111,955	**-5,888,263**
Net	**R1800**	-46,462	583,697	-5,098,855	-474,762			0	-3,096,050	**-8,132,433**
Expenses incurred	**R1900**	**242**	**60,741**	**76,421**	**323,634**					**461,037**
Other expenses	R2500									
Total expenses	**R2600**									**461,037**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.3 – S.12.01.02 – Life and health SLT technical provisions

			Index-linked and unit-linked insurance		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	**R0010**				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020				
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	**R0030**	**13,117,140**		**18,849,296**	**1,094,361**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	132,431		5,866,063	29,823
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	12,984,709		12,983,233	1,064,539
Risk Margin	**R0100**	**244,922**	**19,656**		
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110				
Best estimate	R0120	(246,618)		(39,854)	(6)
Risk margin	R0130	(237,094)	(17,841)		
Technical provisions – total	**R0200**	**12,878,352**	**19,905,612**		

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Other life insurance					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**9,250,364**	**1,920,196**		**3,960,187**	**48,191,546**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,578,148	616,777		(119,108)	**8,104,134**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		7,672,216	1,303,419		4,079,295	**40,087,411**
Risk Margin	**R0100**	**634,946**				**156,605**	**1,056,129**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(302,071)	(84,177)		(50,143)	**(722,869)**
Risk margin	R0130	(597,462)				(154,242)	**(1,006,639)**
Technical provisions – total	**R0200**	**10,821,796**				**3,912,407**	**47,518,167**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED
Appendix 2.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**125,984**			**8,163**	**134,147**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		74,086				**74,086**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		51,898			8,163	**60,061**
Risk Margin	**R0100**	**8,389**				**2,614**	**11,004**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(544)			(98)	**(641)**
Risk margin	R0130	(7,600)				(2,614)	**(10,214)**
Technical provisions – total	**R0200**	**126,230**				**8,066**	**134,295**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.4 – S.22.01.21 – Impact of long-term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	47,652,462	1,740,364			640,486
Basic own funds	R0020	3,685,276	(1,469,286)			(573,088)
Eligible own funds to meet Solvency Capital Requirement	R0050	3,685,276	(1,469,286)			(573,088)
Solvency Capital Requirement	R0090	2,896,916	(203,669)			817,174
Eligible own funds to meet Minimum Capital Requirement	R0100	3,589,405	(1,459,103)			(613,947)
Minimum Capital Requirement	R0110	724,229	(50,917)			204,294

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED
Appendix 2.5 – S.23.01.01 – Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/ 35						
Ordinary share capital (gross of own shares)	R0010	69,088	69,088			
Share premium account related to ordinary share capital	R0030	546	546			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070	1,337,275	1,337,275			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	2,037,650	2,037,650			
Subordinated liabilities	R0140	225,327			225,327	
An amount equal to the value of net deferred tax assets	R0160	15,391				15,391
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	3,685,276	3,444,559		225,327	15,391
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	3,685,276	3,444,559		225,327	15,391
Total available own funds to meet the MCR	R0510	3,669,886	3,444,559		225,327	
Total eligible own funds to meet the SCR	R0540	3,685,276	3,444,559		225,327	15,391
Total eligible own funds to meet the MCR	R0550	3,589,405	3,444,559		144,846	
SCR	R0580	2,896,916				
MCR	R0600	724,229				
Ratio of eligible own funds to SCR	R0620	127%				
Ratio of eligible own funds to MCR	R0640	496%				

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.5 – S.23.01.01 – Own Funds continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	3,607,122
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	1,422,299
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	147,173
Reconciliation reserve	R0760	2,037,650
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	317,445
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	317,445

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.6 – S.25.03.21 – Solvency Capital Requirement for undertakings on full Internal Model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10700I	Market Spread Risk	1,011,672
11000I	Market risk excluding spread risk	986,017
19900I	Diversification within Market Risk	(178,175)
20000I	Counterparty Risk	87,189
30000I	Life underwriting Risk	1,550,103
70100I	Operational Risk	652,297
80150I	Other Risks	-
80190I	Other Risks	244,854
80200I	Non-dynamic management actions	(202,105)
80300I	Loss-absorbing capacity of deferred tax	(244,477)
80400I	Other Adjustments	56,588

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	3,963,963
Diversification	R0060	(1,067,046)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	**2,896,916**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**2,896,916**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(1,760,608)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(244,477)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,189,255
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	1,221,549
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	969,318
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 2 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLL CONTINUED

Appendix 2.7 – S.28.01.01 – Minimum Capital Requirement only life or only non-life insurance or reinsurance activity

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	C0060
Obligations with-profit participation – guaranteed benefits	R0210	6,366,222	
Obligations with-profit participation – future discretionary benefits	R0220	6,374,712	
Index-linked and unit-linked insurance obligations	R0230	16,128,148	
Other life (re)insurance and health (re)insurance obligations	R0240	10,554,881	
Total capital at risk for all life (re)insurance obligations	R0250		13,870,489

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		248,324

Overall MCR calculation		
		C0070
Linear MCR	R0300	**248,324**
SCR	R0310	2,896,916
MCR cap	R0320	1,303,612
MCR floor	R0330	724,229
Combined MCR	R0340	724,229
Absolute floor of the MCR	R0350	3,251
		C0070
Minimum Capital Requirement	**R0400**	**724,229**

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL

Appendix 3.1– S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	17,974
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**14,935,001**
Property (other than for own use)	R0080	44,617
Holdings in related undertakings, including participations	R0090	5,061,847
Equities	R0100	141,359
Equities – listed	R0110	112,328
Equities – unlisted	R0120	29,032
Bonds	R0130	4,384,218
Government Bonds	R0140	2,932,674
Corporate Bonds	R0150	1,424,869
Structured notes	R0160	2,323
Collateralised securities	R0170	24,352
Collective Investments Undertakings	R0180	4,399,574
Derivatives	R0190	884,833
Deposits other than cash equivalents	R0200	18,552
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	341,112
Loans and mortgages	**R0230**	**207,355**
Loans on policies	R0240	7,938
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	199,418
Reinsurance recoverables from:	**R0270**	**2,868,756**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	1,169,108
Health similar to life	R0320	1,722
Life excluding health and index-linked and unit-linked	R0330	1,167,386
Life index-linked and unit-linked	R0340	1,699,648
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	950
Reinsurance receivables	R0370	475
Receivables (trade, not insurance)	R0380	139,587
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	101,421
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**18,612,631**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED
Appendix 3.1– S.02.01.02 – Balance sheet continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**12,967,617**
Technical provisions – health (similar to life)	**R0610**	**2,320**
TP calculated as a whole	R0620	
Best estimate	R0630	2,320
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**12,965,297**
TP calculated as a whole	R0660	
Best estimate	R0670	12,956,917
Risk margin	R0680	8,380
TP – index-linked and unit-linked	**R0690**	**2,060,676**
TP calculated as a whole	R0700	
Best estimate	R0710	2,060,676
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	2,171
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	85,928
Derivatives	R0790	542,271
Debts owed to credit institutions	R0800	604,864
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	73,753
Reinsurance payables	R0830	9,450
Payables (trade, not insurance)	R0840	41,562
Subordinated liabilities	**R0850**	**250,000**
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	250,000
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**16,638,292**

Excess of assets over liabilities	**R1000**	**1,974,339**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.2 – S.05.01.02 – Premiums, claims and expense by Line of Business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	817	47,072	18,636	183,407				111	**250,042**
Reinsurers' share	R1420	766	1,482	6,138	19,931					**28,318**
Net	**R1500**	**50**	**45,589**	**12,498**	**163,476**				**111**	**221,724**
Premiums earned										
Gross	R1510	817	47,072	18,636	183,407				111	**250,042**
Reinsurers' share	R1520	766	1,482	6,138	19,931					**28,318**
Net	**R1600**	**50**	**45,589**	**12,498**	**163,476**				**111**	**221,724**
Claims incurred										
Gross	R1610	156	863,033	251,782	154,043				16,196	**1,285,209**
Reinsurers' share	R1620	10	82,460	155,680	20,247					**258,397**
Net	**R1700**	**146**	**780,572**	**96,102**	**133,796**				**16,196**	**1,026,812**
Changes in other technical provisions										
Gross	R1710	51	219,543	97,443	124,527			0	13,743	**455,307**
Reinsurers' share	R1720	0	0	65,667	128,318			0	0	**193,984**
Net	**R1800**	51	219,543	31,777	-3,791			0	13,743	**261,322**
Expenses incurred	**R1900**		**70,879**	**6,610**	**16,138**					**93,627**
Other expenses	R2500									
Total expenses	**R2600**									**93,627**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.3 – S.12.01.02 – Life and health SLT technical provisions

			Index-linked and unit-linked insurance		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	**R0010**				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020				
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	**R0030**	**10,267,537**		**2,017,092**	**13,312**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080			1,693,861	5,787
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	10,267,537		323,231	7,525
Risk Margin	**R0100**	**318,726**	**2,348**		
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110				
Best estimate	R0120	(320,825)		(277)	
Risk margin	R0130	(316,412)	(2,348)		
Technical provisions – total	**R0200**	**9,949,026**	**2,030,127**		

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Other life insurance					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**2,700,725**	**224,223**		**157,199**	**15,380,088**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,167,386				**2,867,034**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		1,533,339	224,223		157,199	**12,513,054**
Risk Margin	**R0100**	**120,618**				**1,139**	**442,830**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(31,647)	(6,161)		(3,585)	**(362,495)**
Risk margin	R0130	(114,604)				(1,086)	**(434,450)**
Technical provisions – total	**R0200**	**2,893,153**				**153,667**	**15,025,973**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**2,329**				**2,329**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,722				**1,722**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		607				**607**
Risk Margin	**R0100**						
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120		(9)				**(9)**
Risk margin	R0130						
Technical provisions – total	**R0200**	**2,320**					**2,320**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.4 – S.22.01.21 – Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	15,028,293	796,954			89,219
Basic own funds	R0020	1,955,800	(581,418)			(89,219)
Eligible own funds to meet Solvency Capital Requirement	R0050	1,955,800	(581,418)			(89,219)
Solvency Capital Requirement	R0090	1,590,351	39,009			104,168
Eligible own funds to meet Minimum Capital Requirement	R0100	1,767,344	(583,368)			(94,428)
Minimum Capital Requirement	R0110	397,588	9,752			26,042

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.5 – S.23.01.01 – Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/ 35						
Ordinary share capital (gross of own shares)	R0010	342,109	342,109			
Share premium account related to ordinary share capital	R0030	40,716	40,716			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070	948,632	948,632			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	356,369	356,369			
Subordinated liabilities	R0140	250,000			250,000	
An amount equal to the value of net deferred tax assets	R0160	17,974				17,974
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	1,955,800	1,687,826		250,000	17,974
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	1,955,800	1,687,826		250,000	17,974
Total available own funds to meet the MCR	R0510	1,937,826	1,687,826		250,000	
Total eligible own funds to meet the SCR	R0540	1,955,800	1,687,826		250,000	17,974
Total eligible own funds to meet the MCR	R0550	1,767,344	1,687,826		79,518	
SCR	R0580	1,590,351				
MCR	R0600	397,588				
Ratio of eligible own funds to SCR	R0620	123%				
Ratio of eligible own funds to MCR	R0640	445%				

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED
Appendix 3.5 – S.23.01.01 – Own Funds continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	1,974,339
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	1,349,431
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	268,539
Reconciliation reserve	R0760	356,369
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	17,583
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	17,583

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED

Appendix 3.6 – S.25.03.21 – Solvency Capital Requirement for undertakings on full Internal Models

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10700I	Market Spread Risk	550,678
11000I	Market risk excluding spread risk	424,174
19900I	Diversification within Market Risk	(79,073)
20000I	Counterparty Risk	16,788
30000I	Life underwriting Risk	821,969
70100I	Operational Risk	159,046
80150I	Other Risks	-
80190I	Other Risks	204,420
80200I	Non-dynamic management actions	(11,667)
80300I	Loss-absorbing capacity of deferred tax	(52,425)
80400I	Other Adjustments	26,437

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	2,060,348
Diversification	R0060	(469,997)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	**1,590,351**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**1,590,351**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(909,977)
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(52,425)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	383,363
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	1,219,762
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	205,229
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 3 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PLAL CONTINUED
Appendix 3.7 – S.28.01.01 – Minimum Capital Requirement only life or only non-life insurance or reinsurance activity

MCR calculation Life		Life activities: Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with-profit participation – guaranteed benefits	R0210	7,190,931	
Obligations with-profit participation – future discretionary benefits	R0220	2,883,903	
Index-linked and unit-linked insurance obligations	R0230	361,155	
Other life (re)insurance and health (re)insurance obligations	R0240	1,715,169	
Total capital at risk for all life (re)insurance obligations	R0250		3,213,827

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		156,898

Overall MCR calculation		
		C0070
Linear MCR	R0300	**156,898**
SCR	R0310	1,590,351
MCR cap	R0320	715,658
MCR floor	R0330	397,588
Combined MCR	R0340	397,588
Absolute floor of the MCR	R0350	3,251
		C0070
Minimum Capital Requirement	**R0400**	**397,588**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC

Appendix 4.1 – S.02.01.02 – Balance sheet QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	13,530
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**646,719**
Property (other than for own use)	R0080	7,310
Holdings in related undertakings, including participations	R0090	881
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	119,545
Government Bonds	R0140	24,414
Corporate Bonds	R0150	68,778
Structured notes	R0160	13,009
Collateralised securities	R0170	13,344
Collective Investments Undertakings	R0180	518,934
Derivatives	R0190	48
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	7,457,310
Loans and mortgages	**R0230**	**489**
Loans on policies	R0240	299
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	190
Reinsurance recoverables from:	**R0270**	**1,617,933**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	1,580,072
Health similar to life	R0320	10,610
Life excluding health and index-linked and unit-linked	R0330	1,569,462
Life index-linked and unit-linked	R0340	37,862
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	747
Reinsurance receivables	R0370	1,606
Receivables (trade, not insurance)	R0380	108,962
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	7,482
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**9,854,778**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.1 – S.02.01.02 – Balance sheet QRT continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**1,585,257**
Technical provisions – health (similar to life)	**R0610**	**13,834**
TP calculated as a whole	R0620	
Best estimate	R0630	13,834
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**1,571,423**
TP calculated as a whole	R0660	
Best estimate	R0670	1,571,046
Risk margin	R0680	378
TP – index-linked and unit-linked	**R0690**	**7,373,549**
TP calculated as a whole	R0700	
Best estimate	R0710	7,325,016
Risk margin	R0720	48,532
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	39,183
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	38,268
Derivatives	R0790	21,025
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	118,250
Reinsurance payables	R0830	1,379
Payables (trade, not insurance)	R0840	185,403
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**9,362,314**
Excess of assets over liabilities	**R1000**	**492,465**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.2 – S.05.01.02 – Premiums, claims and expense by Line of Business QRT

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	1,138	172	55,307	51,785				77,998	**186,402**
Reinsurers' share	R1420	673	20	877	2,500,515				77,313	**2,579,399**
Net	**R1500**	**465**	**152**	**54,430**					**685**	
Premiums earned										
Gross	R1510	1,138	172	55,307	51,785				77,998	**186,402**
Reinsurers' share	R1520	673	20	877	2,500,515				77,313	**2,579,399**
Net	**R1600**	**465**	**152**	**54,430**					**685**	
Claims incurred										
Gross	R1610	2,073	3,395	741,583	175,070				35,872	**957,994**
Reinsurers' share	R1620	1,102		4,506					35,796	**40,816**
Net	**R1700**	**971**	**3,395**	**737,078**	**175,659**				**76**	**917,178**
Changes in other technical provisions										
Gross	R1710	2,984	5,814	390,657	160,107			0	0	**559,563**
Reinsurers' share	R1720	-7,395	-117	-398,636	-1,786,294			0	0	**-2,192,442**
Net	**R1800**	10,379	5,931	789,293	1,946,401			0	0	**2,752,005**
Expenses incurred	**R1900**	**267**	**43**	**43,819**	**17,616**					**61,747**
Other expenses	R2500									
Total expenses	**R2600**									**61,747**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED
Appendix 4.3 – S.12.01.02 – Life and health SLT technical provisions

			Index-linked and unit-linked insurance		
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	**R0010**				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020				
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	**R0030**	**38,082**		**6,952,515**	**372,502**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	2,643		(141,435)	179,297
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	35,439		7,093,950	193,205
Risk Margin	**R0100**	**378**	**48,532**		
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110				
Best estimate	R0120				
Risk margin	R0130				
Technical provisions – total	**R0200**	**38,459**	**7,373,549**		

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED
Appendix 4.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Other life insurance					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
		C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		**1,616,939**	**28,268**		**(112,243)**	**8,896,062**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		1,650,795	28,268		(112,243)	**1,607,323**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		(33,855)				**7,288,739**
Risk Margin	**R0100**						**48,910**
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120						
Risk margin	R0130						
Technical provisions – total	**R0200**	**1,645,207**				**(112,243)**	**8,944,972**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.3 – S.12.01.02 – Life and health SLT technical provisions continued

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	**R0030**		13,834				**13,834**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		10,610				**10,610**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		3,224				**3,224**
Risk Margin	**R0100**						
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120						
Risk margin	R0130						
Technical provisions – total	**R0200**	**13,834**					**13,834**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED
Appendix 4.4 – S.23.01.22 – Own Funds QRT

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/ 35						
Ordinary share capital (gross of own shares)	R0010	30,500	30,500			
Share premium account related to ordinary share capital	R0030	253,619	253,619			
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	194,816	194,816			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	13,530				13,530
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	492,465	478,935			13,530
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	492,465	478,935			13,530
Total available own funds to meet the MCR	R0510	478,935	478,935			
Total eligible own funds to meet the SCR	R0540	492,465	478,935			13,530
Total eligible own funds to meet the MCR	R0550	478,935	478,935			
SCR	R0580	91,200				
MCR	R0600	41,040				
Ratio of eligible own funds to SCR	R0620	540%				
Ratio of eligible own funds to MCR	R0640	1167%				

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.4 – S.23.01.22 – Own Funds QRT continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	492,465
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	297,649
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	194,816
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.5 – S.25.01.21 – Solvency Capital Requirement for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	11,495		
Counterparty default risk	R0020	71,861		
Life underwriting risk	R0030	401		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	(6,167)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	**77,590**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	13,610
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	91,200
Capital add-on already set	R0210	
Solvency capital requirement	R0220	91,200
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	87,618
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	3,582
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 4 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – ALAC CONTINUED

Appendix 4.6 – S.28.01.01 – Minimum Capital Requirement only life or only non-life insurance or reinsurance activity

		Life activities	
MCR calculation Life		**Net (of reinsurance/ SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/ SPV) total capital at risk**
		C0050	**C0060**
Obligations with-profit participation – guaranteed benefits	R0210	28,486	
Obligations with-profit participation – future discretionary benefits	R0220	6,953	
Index-linked and unit-linked insurance obligations	R0230	7,287,155	
Other life (re)insurance and health (re)insurance obligations	R0240	-30,631	
Total capital at risk for all life (re)insurance obligations	R0250		2,787

		Non-life activities	Life activities
		C0010	**C0040**
MCRNL Result	R0010		
MCRL Result	R0200		51,704

Overall MCR calculation

		C0070
Linear MCR	R0300	**51,704**
SCR	R0310	91,200
MCR cap	R0320	41,040
MCR floor	R0330	22,800
Combined MCR	R0340	41,040
Absolute floor of the MCR	R0350	3,251
		C0070
Minimum Capital Requirement	**R0400**	**41,040**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED)
Appendix 5.1 – S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	4,000
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**4,000**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED) CONTINUED
Appendix 5.1 – S.02.01.02 – Balance sheet continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP – index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**0**
Excess of assets over liabilities	**R1000**	**4,000**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED) CONTINUED

Appendix 5.2 – S.05.01.02 – Premiums, claims and expenses by Line of Business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410			646,672	130,778					**777,450**
Reinsurers' share	R1420			856,005	130,778					**986,783**
Net	**R1500**									
Premiums earned										
Gross	R1510			646,672	130,778					**777,450**
Reinsurers' share	R1520			856,005	130,778					**986,783**
Net	**R1600**									
Claims incurred										
Gross	R1610			2,648,004	42,288					**2,690,293**
Reinsurers' share	R1620			2,147,503	42,288					**2,189,791**
Net	**R1700**			**500,501**						**500,501**
Changes in other technical provisions										
Gross	R1710	0	0	12,820,902	11,788			0	0	**12,832,690**
Reinsurers' share	R1720	0	0	6,808,491	11,788			0	0	**6,820,279**
Net	**R1800**	0	0	6,012,410	0			0	0	**6,012,410**
Expenses incurred	**R1900**			**12,180**						**12,180**
Other expenses	R2500									
Total expenses	**R2600**									**12,180**

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED) CONTINUED

Appendix 5.3 – S.23.01.01 – Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	19,625	19,625			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	(15,625)	(15,625)			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	4,000	4,000			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	4,000	4,000			
Total available own funds to meet the MCR	R0510	4,000	4,000			
Total eligible own funds to meet the SCR	R0540	4,000	4,000			
Total eligible own funds to meet the MCR	R0550	4,000	4,000			
SCR	R0580					
MCR	R0600	3,251				
Ratio of eligible own funds to SCR	R0620	0%				
Ratio of eligible own funds to MCR	R0640	123%				

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED) CONTINUED
Appendix 5.4 – S.23.01.01 – Own Funds continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	4,000
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	19,625
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	(15,625)
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

Appendix and additional information continued

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 5 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PAWL (UNAUDITED) CONTINUED

Appendix 5.5 – S.28.01.01 – Minimum Capital Requirement

MCR calculation Life		Life activities: Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with-profit participation – guaranteed benefits	R0210		
Obligations with-profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		

Overall MCR calculation		C0070
Linear MCR	R0300	
SCR	R0310	
MCR cap	R0320	
MCR floor	R0330	
Combined MCR	R0340	
Absolute floor of the MCR	R0350	3,251
		C0070
Minimum Capital Requirement	**R0400**	**3,251**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI)

Appendix 6.1 – S.02.01.02 – Balance sheet QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**73,425**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	73,425
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	32,373
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	1
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**105,800**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED
Appendix 6.1 – S.02.01.02 – Balance sheet QRT continued

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP – index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	39,789
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	1,935
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**41,724**
Excess of assets over liabilities	**R1000**	**64,076**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED

Appendix 6.2 – S.05.01.02 – Premiums, claims and expense by Line of Business QRT

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross – Direct Business	R0110																	0
Gross – Proportional reinsurance accepted	R0120																	0
Gross – Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140																	0
Net	**R0200**																	0
Premiums earned																		
Gross – Direct Business	R0210																	0
Gross – Proportional reinsurance accepted	R0220																	0
Gross – Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240																	0
Net	**R0300**																	0
Claims incurred																		
Gross – Direct Business	R0310																	0
Gross – Proportional reinsurance accepted	R0320																	0
Gross – Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340																	0
Net	**R0400**																	0
Changes in other technical provisions																		
Gross – Direct Business	R0410																	0
Gross – Proportional reinsurance accepted	R0420																	0
Gross – Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440																	0
Net	**R0500**																	0
Expenses incurred	**R0550**												21,439					**21,439**
Other expenses	R1200																	
Total expenses	**R1300**																	**21,439**

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED

Appendix 6.3 – S.23.01.01 – Own Funds QRT

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	3,000	3,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	61,076	61,076			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	64,076	64,076			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	64,076	64,076			
Total available own funds to meet the MCR	R0510	64,076	64,076			
Total eligible own funds to meet the SCR	R0540	64,076	64,076			
Total eligible own funds to meet the MCR	R0550	64,076	64,076			
SCR	R0580	15,808				
MCR	R0600	3,952				
Ratio of eligible own funds to SCR	R0620	405%				
Ratio of eligible own funds to MCR	R0640	1621%				

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED
Appendix 6.3 – S.23.01.01 – Own Funds QRT continued

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	64,076
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic Own Fund items	R0730	3,000
Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	61,076
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

APPENDIX AND ADDITIONAL INFORMATION CONTINUED

APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED

Appendix 6.4 – S.25.03.21 – Solvency Capital Requirement for undertakings on full Internal Models

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10700I	Market Spread Risk	-
11000I	Market risk excluding spread risk	-
19900I	Diversification within Market Risk	-
20000I	Counterparty Risk	-
30000I	Life underwriting Risk	-
70100I	Operational Risk	15,808
80150I	Other Risks	-
80190I	Other Risks	-
80200I	Non-dynamic management actions	-
80300I	Loss-absorbing capacity of deferred tax	-
80400I	Other Adjustments	-

Calculation of Solvency Capital Requirement		
		C0100
Total undiversified components	R0110	15,808
Diversification	R0060	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	**15,808**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**15,808**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX AND ADDITIONAL INFORMATION CONTINUED
APPENDIX 6 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2017) – PA(GI) CONTINUED

Appendix 6.5 – S. 28.01.01 – Minimum Capital Requirement only life or only non-life insurance or reinsurance activity

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance/SPV) total capital at risk
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	
SCR	R0310	15,808
MCR cap	R0320	7,114
MCR floor	R0330	3,952
Combined MCR	R0340	3,952
Absolute floor of the MCR	R0350	3,251
		C0070
Minimum Capital Requirement	**R0400**	**3,952**

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