SOLVENCY AND FINANCIAL CONDITION REPORT

Phoenix Life Holdings Limited
For the year ended 31 December 2016

PHOENIX AT A GLANCE

Phoenix is the UK's largest specialist closed life assurance fund consolidator.

c.6.1m
Policyholders

£76bn
Assets under management

OUR VISION

To be the saver-friendly 'industry solution' for the safe, innovative and profitable management of closed life funds.

OUR MISSION

To improve returns for policyholders while delivering value for shareholders.

OUR STRATEGIC PRIORITIES

IMPROVE CUSTOMER OUTCOMES
Improving customer outcomes is central to our vision of being the saver-friendly 'industry solution' for closed life funds.

DRIVE VALUE
In order to drive value, the Group looks to undertake management actions which increase and accelerate cash flows or enhance value.

MANAGE CAPITAL
The effective management of our risks and the efficient allocation of capital against them is critical in allowing us to achieve our strategic and operational objectives.

£

ENGAGE PEOPLE
Our people underpin everything that we do. The Group specifically targets, recruits and develops top quality people to support the achievement of its strategic and operational objectives.

OUR SPECIALIST OPERATING MODEL

Underpinned by 'The Phoenix Way', which characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold.

KEY PERFORMANCE INDICATORS

PLHL GROUP SOLVENCY II CAPITAL POSITION (HIGHEST EEA PARENT)

£2.0bn
Solvency II surplus (pro forma[1])

171%
Shareholder capital coverage ratio (pro forma[1])

PGH GROUP SOLVENCY II CAPITAL POSITION (ULTIMATE PARENT)

£1.1bn
Solvency II surplus (pro forma[1])

139%
Shareholder capital coverage ratio (pro forma[1])

[1] The pro forma position assumes a recalculation of Transitional Measures on Technical Provisions and is pro forma for the issuance of the Tier 3 bond that took place in January 2017, and the impact of including the acquired AXA business into the Group's Internal Model. More details are included in the Summary.

OPERATING PROFIT

£353m
PLHL Group

£351m
PGH Group

2016 ACQUISITIONS

In line with our strategy, we have acquired new businesses which have become part of the Phoenix Group.

The acquisitions of AXA Wealth's pension and protection businesses and Abbey Life reinforce Phoenix's position as the UK's leading closed life fund consolidator.

Phoenix has been a well-known name in the insurance world since 1782. From its beginnings more than 200 years ago, it has grown to become the largest UK consolidator of closed life assurance funds.

2017	The Group obtains PRA's approval to incorporate AXA Wealth's pension and protection businesses into the Group's Solvency II Internal Model Issued £450 million Tier 3 bond in two tranches of £300 million in January 2017 and £150 million in May 2017
2016	Phoenix Group Holdings successfully completes two acquisitions – AXA Wealth's pension and protection businesses, and Abbey Life Assurance Company Limited Agreed a revised unsecured revolving credit facility offering greater flexibility to make acquisitions
2015	Investment grade credit rating achieved from Fitch Ratings Solvency II full Internal Model approved Exchange of Tier 1 bonds into new subordinated notes
2014	Divestment of Ignis Asset Management Refinanced the Group's remaining senior bank debt and PIK notes into a single £900 million facility Issued £300 million unsecured seven-year bond
2013	Successful debt re-terming and equity raising of £250 million
2012	Transferred approximately £5 billion of annuity liabilities to Guardian Assurance Transferred business of NPI Limited to Phoenix Life Limited and London Life Limited to Phoenix Life Assurance Limited
2010	Pearl Group renamed Phoenix Group Holdings and achieves Premium Listing on London Stock Exchange
2009	Liberty Acquisition Holdings (International) acquires Pearl Group
2008	Pearl Group acquires Resolution plc
2006	Resolution plc acquires Abbey National's life business
2005	Pearl Group created Resolution Life Group acquires Swiss Life (UK) plc Britannic acquires Century Group and merges with Resolution Life Group to form Resolution plc
2004	Resolution Life Group acquires UK life operations of Royal & Sun Alliance Britannic acquires life operations of Allianz Cornhill
2001	Abbey National acquires Scottish Provident
1999	Britannic acquires Alba Life
1996	Royal & Sun Alliance established
1905	Britannic Assurance Company established
1857	Pearl Loan Company established
1837	Scottish Provident established
1836	Edinburgh & Glasgow Assurance established
1835	NPI established
1806	London Life established
1782	Phoenix Assurance established

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SUMMARY

INTRODUCTION AND BACKGROUND

Phoenix Group is the largest UK consolidator of closed life assurance funds with assets under management of £76 billion and more than six million policyholders, 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.

Phoenix Group Holdings ('PGH') is the ultimate parent company of the Phoenix Group. PGH is registered in the Cayman Islands and is Jersey resident, therefore outside of the European Economic Area ('EEA').

Phoenix Life Holdings Limited ('PLHL') is a subsidiary of PGH and is the highest EEA insurance Holding Company of the Phoenix Group.

In accordance with the European Insurance and Occupational Pension Authority ('EIOPA') and the Prudential Regulatory Authority ('PRA') regulations, Solvency II capital adequacy assessment and group supervision is undertaken at the level of the highest EEA insurance Holding Company, PLHL. As the ultimate parent company is outside of the EEA, a waiver is currently in place which permits group supervision to take place at the level of PGH, through the use of other methods, as opposed to full group supervision.

Unless otherwise specified, references to 'Group' or 'PLHL Group' in this report means PLHL and all its subsidiary undertakings. References to 'Phoenix', 'Phoenix Group' or 'PGH Group' mean PGH and all its subsidiary undertakings. The PLHL Group excludes Holding Companies above PLHL in the group structure. A simplified group structure chart is presented in Section A.1.2.1.

The operating Life Companies of the Group comprise:

– Phoenix Life Limited ('PLL');

– Phoenix Life Assurance Limited ('PLAL');

– AXA Wealth Limited ('AWL'); and

– Abbey Life Assurance Company Limited ('ALAC').

Following the implementation of Solvency II on 1 January 2016, this is the Group's first Solvency and Financial Condition Report ('SFCR') 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 Appendix 1 provide detailed information on the Group's business and performance, system of governance, risk profile, valuation for solvency purposes and capital position.

Separate SFCR's and QRTs for each of the Life Companies can be found at: http://www.thephoenixgroup.com/investor-relations/solvency-and-financial-condition-report/2016.aspx.

BUSINESS AND PERFORMANCE

Phoenix has delivered on its strategy of closed life fund consolidation despite the macroeconomic uncertainty seen in 2016, completing two acquisitions which have transformed the size of the Group:

– The acquisition of AXA Wealth's pensions and protection business completed in November 2016 comprised a pensions and investments business ('Embassy'), offering a range of propositions catering to both individual and corporate requirements and SunLife, a leader in the over 50s protection sector. The acquisition increased assets under management by £12 billion and added over 910,000 policies to the Group. The consideration of £373 million was funded through the combination of the net proceeds of £190 million from an equity placing on 27 May 2016 and a new short-term debt facility of £182 million.

– The acquisition of Abbey Life completed in December 2016 comprised unit-linked life and pensions policies, annuities in payment, and two small with-profit funds. Abbey Life added 735,000 policyholders and £10 billion of assets under management to the Group. Abbey Life closed to new retail business in 2000. The consideration of £933 million and related expenses were financed through a fully underwritten rights issue which raised a total of £735 million and a £250 million new short-term bank facility.

The impacts of continued low interest rates and economic volatility arising from the results of the UK referendum on its membership of the European Union and the outcomes of the US presidential elections placed considerable pressure on investment returns and capital generation in the period. The Group implemented additional interest rate hedging strategies during the course of 2016 to mitigate the adverse impacts of market movements and maintain Phoenix's resilient capital position.

SUMMARY
Continued

KEY PERFORMANCE INDICATORS

Prior to the completion of the two acquisitions, the Group calculated its capital requirements in accordance with the Group's Internal Model following approvals received from the PRA in 2015.

As at 31 December 2016, the capital assessment of the acquired AXA and Abbey Life businesses remained on a Standard Formula basis. Therefore the actual Solvency II capital position at 31 December 2016 is based partially on the Group's Internal Model and partially on Standard Formula.

Since the end of 2016, certain actions have been undertaken which have had a significant impact on the Group's Solvency II position. These actions comprise:

- the issuance in January 2017, of a £300 million subordinated Tier 3 bond that qualifies as Solvency II capital;
- the recalculation of Transitional Measures on Technical Provisions ('TMTP') as at 31 December 2016 in PLL following the PRA's approval in March 2017; and
- receipt of the PRA's approval in March 2017 to include the acquired AXA businesses within the scope of the Group's Solvency II Internal Model.

In order to illustrate the impacts of the above, pro forma adjustments have been made to the actual Solvency II metrics on a basis that assumes that these actions took place on 31 December 2016. In addition, a further adjustment is made to reflect an anticipated recalculation of TMTP in PLAL, not yet subject to PRA approval. This pro forma position is considered to provide a more appropriate analysis of the Group's capital position consistent with the basis by which solvency is being managed by the Group. The pro forma adjustments are explained in further detail in the Solvency II capital position section below.

The following table sets out the key financial performance measures monitored by the Group on both the actual and pro forma basis.

	31 December 2016 (Actual)	31 December 2016 (pro forma)
Solvency II surplus[1]	£2,017 million	£2,012 million
Shareholder capital coverage ratio	170%	171%
Operating profit	£353 million	n/a

[1] An estimated Solvency II surplus of £1.7 billion and a pro forma Solvency II surplus of £1.9 billion were reported in the PGH Annual Report and Accounts for the year ended 31 December 2016, published in March 2017. The estimated position included the impact of a recalculation of TMTP of approximately £0.3 billion which is not included in the actual position reported above as PRA approval had not been received as at 31 December 2016. Other changes between the amounts previously reported in the Annual Report and Accounts and the amounts presented above are due to finalisation of the Group capital position and preparation of the final QRTs.

Solvency II surplus is the excess of Eligible Own Funds over the Solvency Capital Requirement ('SCR').

The shareholder capital coverage ratio demonstrates the extent to which shareholders' Eligible Own Funds cover the SCR, after adjusting to exclude Own Funds and the associated SCR relating to unsupported with-profit funds and the unsupported Group pension schemes.

The operating profit is based on the IFRS financial statements after adjusting to exclude the impact of short-term economic variances and items considered to occur outside of the normal course of business. Further details on the components and the key drivers of the operating profit are included in section A.2.

The information contained in the detailed sections of the SFCR is based on the actual position of the PLHL Group. A further analysis of the pro forma position is presented in Appendix 2.

SYSTEM OF GOVERNANCE

The PGH Board is responsible for the strategic direction of the Phoenix Group.

The PLHL Board is responsible for managing the overall direction and performance of the PLHL 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 PGH and the PLHL Boards are committed to high standards of corporate governance and are supported by the appropriate Board committees and Management committees. Further detail on the governance structure of the Board and its committees is included in section B.1.

From the dates of their respective acquisitions, the acquired AXA and Abbey Life businesses have been transitioned into the Group's governance framework.

RISK PROFILE

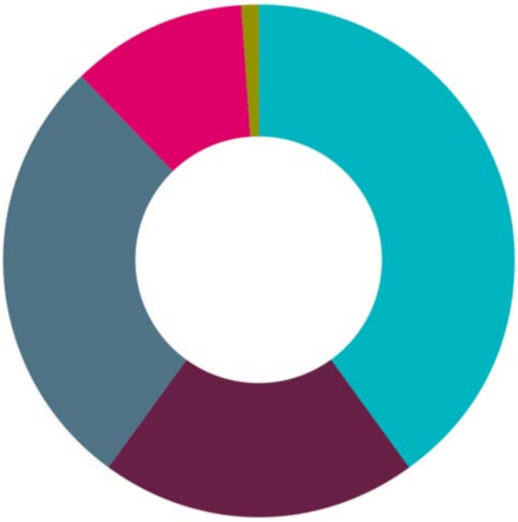
Phoenix Group operates a standardised Risk Management Framework ('RMF') for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures. The Group defines a risk appetite covering the level of risk it is willing to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

SUMMARY
Continued

RISK PROFILE CONTINUED

The chart below shows the composition of the Group's undiversified SCR as at 31 December 2016. The largest component of the undiversified SCR is underwriting risk 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 more details on the SCR set out in section E.2.1.



Key

Underwriting risk	40%
Market risk	20%
Credit risk	28%
Operational risk	11%
Other risks	1%

Significant business and other events during 2016 that impacted the risk profile of the Group include:

- The acquisition of AXA Wealth's pensions and protection business increased mortality, lapse and persistency risk, although the protection business acquired provides a natural hedge to the Group's existing longevity book. The acquired business also resulted in acceptance of underwriting risk from new business sold under the SunLife brand.
- The acquisition of the Abbey Life business increased longevity risk arising from its annuities-in-payment book and pension policies with guaranteed annuity options, as well as from the insurance corporate transactions in place with various third parties. Most of the longevity risk is reinsured externally.
- Hedging activity undertaken in response to the volatile economic environment which saw yields on UK government debt and swap rates fall in the first half of 2016 and then rise towards the end of the year.
- Further optimisation of the Group's Matching Adjustment portfolios through strategic asset allocation.
- A transfer, under Part VII of the Financial Services and Markets Act 2000 ('Part VII'), of a block of with-profit annuities to ReAssure Life Limited, delivering benefits from the release of expense reserves and a decrease in capital requirements for counterparty credit default and expense risks.
- Entering into a longevity swap on a £2.0 billion portfolio of immediate annuities, realising Solvency II surplus benefits as a result of a reduction in longevity risk capital required.

VALUATION FOR SOLVENCY PURPOSES

For 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.

At 31 December 2016, the Group's excess of assets over liabilities measured on a Solvency II basis was £7,014 million.

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.

SUMMARY
Continued

SOLVENCY II CAPITAL POSITION

PLHL CAPITAL POSITION

At 31 December 2016, PLHL's actual capital position (consistent with information reported in the accompanying QRTs) and the pro forma position are presented below:

	Eligible Own Funds £m	SCR £m	Solvency II Surplus £m	Regulatory capital coverage ratio	Shareholder capital coverage ratio[1]
Actual position	**7,080**	**(5,063)**	**2,017**	**140%**	**170%**
Pro forma adjustments:					
Impact of recalculation of TMTP as at 31 December 2016	(374)	98	(276)		
Impact of the issuance of the £300 million Tier 3 bond	150	–	150		
Impact of incorporating the AXA businesses in the Internal Model	8	105	113		
Changes in restrictions due to the pro forma adjustments	62	(54)	8		
Pro forma position at 31 December 2016	**6,926**	**(4,914)**	**2,012**	**141%**	**171%**

[1] The shareholder capital coverage ratio demonstrates the extent to which shareholders' Eligible Own Funds cover the SCR, after adjusting to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the unsupported Group pension schemes.

Quality of Own Funds

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

89% (pro forma 85%) of the Eligible Own Funds are unrestricted Tier 1, and principally comprise ordinary share capital, surplus funds of the unsupported with-profit funds (which are recognised only to a maximum of the related SCR), and the accumulated profits of the remaining business.

Eligible Own Funds include the impact of TMTP, following the PRA's approval for PLL and PLAL to apply these measures. A further analysis of the actual and pro forma TMTP is included in Appendix 2.

PLL, PLAL and ALAC also obtained the PRA's approval to apply Matching Adjustment, which allows the Life Companies to use a higher discount rate when valuing liabilities that meet strict eligibility criteria, with the effect of increasing Own Funds and reducing the SCR. Further details are set out in section D.2.7.1.

SCR by risk category

The SCR is the amount of capital an insurer is required to hold as per the regulations.

The pro forma SCR includes an adjustment to reflect the impact of including the AXA business in the Group's Internal Model, following receipt of the PRA's approval to do so in March 2017.

SUMMARY
Continued

SOLVENCY II CAPITAL POSITION CONTINUED

PLHL CAPITAL POSITION CONTINUED

Shareholder capital coverage ratio

In the calculation of the Group's 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 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 unsupported Group pension schemes.

At 31 December 2016, the shareholder capital coverage ratio is 170% (pro forma 171%).

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 are provided below and demonstrate the resilience of the Solvency II surplus. As the pro forma basis provides a more appropriate analysis of the Group's capital position on a look forward basis, the results of the stress testing are based on the pro forma position.

	Pro forma PLHL Solvency II surplus £m
Base: 1 January 2017[1]	**2,012**
Following a 20% fall in equity markets	1,992
Following a 15% fall in property values	1,947
Following a 55bps interest rates rise[2]	2,134
Following a 80bps interest rates fall[2]	1,894
Following credit spread widening[3]	1,901
Following 6% decrease in annuitant mortality rates[4]	1,627
Following 10% increase in assurance mortality rates	1,909
Following a 10% change in lapse rates[5]	1,887

1 Assumes stress occurs on 1 January 2017.

2 Assumes recalculation of transitionals.

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.

PGH CAPITAL POSITION

The Solvency II capital assessment and Group's regulatory supervision is performed at the PLHL Group level. The waiver currently in place which permits Group supervision to take place at the level of the ultimate parent, PGH, via other methods, as opposed to full Group supervision, is due to expire on 30 June 2017.

Phoenix intends to put in place a new UK-registered Holding Company for the Group as part of an ongoing simplification of the Group structure. The new company will be the ultimate parent company and the highest EEA insurance Holding Company. When complete, the Solvency II capital assessment and Group supervision will only be performed at this level.

From 1 July 2017 and pending the completion of the simplification of the Group structure, regulatory supervision and the Solvency II capital adequacy assessment is expected to be performed at both the PLHL and PGH level.

The key difference between the capital position of PLHL Group and that of the PGH Group is the inclusion, in the Own Funds calculation, of the Phoenix Group's current senior debt and the revolving credit facility.

SUMMARY
Continued

SOLVENCY II CAPITAL POSITION CONTINUED

PGH CAPITAL POSITION CONTINUED

The table below illustrates the pro forma Solvency II position at the PGH level at 31 December 2016.

	Eligible Own Funds £m	SCR £m	Solvency II Surplus £m	Shareholder capital coverage ratio
PLHL pro forma position	**6,926**	**(4,914)**	**2,012**	**171%**
Revolving credit facility	(550)	–	(550)	
Senior unsecured bond	(320)	–	(320)	
Net other items[1]	92	(15)	77	
2016 final dividend	(94)	–	(94)	
PGH pro forma position at 31 December 2016[2]	**6,054**	**(4,929)**	**1,125**	**139%**

[1] Net other items reflect the impact of intra group eliminations together with the recognition of cash and other assets held in companies above the PLHL subgroup.

[2] The PGH pro forma position assumes the substitution of the issuer of the Group's shareholder borrowings from PGH Capital plc to PGH effective from 20 March 2017, as if it occurred on 31 December 2016.

On 1 June 2017, Phoenix obtained the PRA's approval for a major model change to extend the scope of the Group Internal Model to the PGH level.

FUTURE DEVELOPMENTS

During 2017, Phoenix Group is focused on the smooth transition and efficient integration of the acquired AXA and Abbey Life businesses to deliver planned synergies whilst providing high quality of service to policyholders. An application to include the acquired Abbey Life business in the Group's Internal Model is expected to made during the second half of 2017.

Phoenix will look to continue the simplification of the Group's corporate structure, including activities associated with the Group's intention to put in place a new UK-registered Holding Company for the Group during 2018. This is expected to provide the Group with a streamlined and cost efficient governance structure as well as greater clarity for its stakeholders.

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

In line with the strategy, Phoenix Group will continue to seek further closed life fund acquisitions. The UK life and pensions market is undergoing fundamental change, driven by changes in regulation and customer behaviour. Phoenix expects further consolidation within the market and is well positioned to undertake acquisitions in future.

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT

PHOENIX LIFE HOLDINGS LIMITED

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

Financial period ended 31 December 2016.

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 2016, 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 2016 to the date of the publication of the 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 Board of Directors

Date: 13 June 2017

AUDITOR'S REPORT

AUDITOR'S REPORT

Report of the external independent auditor to the Directors of Phoenix Life Holdings Limited ('the Company') 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 the Company as at 31 December 2016:

– The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 31 December 2016 ('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 Templates subject to audit').

The Narrative Disclosures subject to audit and the 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 about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

– 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;

– 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

– 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 Life Holdings Limited as at 31 December 2016 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.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, for our work, for this report, or for the opinions we have formed.

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 Company 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 & I) 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.

AUDITOR'S REPORT
Continued

AUDITOR'S REPORT CONTINUED

Emphasis of Matter – Basis of Accounting

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. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another 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 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 which have been supplemented by written notices from the PRA on the Financial Services Register and 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 & I) 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 Company 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 Company's application or approval order.

AUDITOR'S REPORT
Continued

AUDITOR'S REPORT CONTINUED

Report on other legal and regulatory requirements.

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 Life Holdings 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

London

13 June 2017

– 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.

AUDITOR'S REPORT
Continued

Appendix – Relevant Elements of the Group Solvency and Financial Condition Report that are not subject to audit

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 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

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. Consolidated financial statements are not prepared at the PLHL Group level. The Phoenix Group consolidated financial statements are prepared at the ultimate parent company level, PGH, and are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'). Therefore, where financial information prepared on an IFRS basis is presented in the SFCR, the appropriate information in respect of the PLHL Group is presented and reconciled to information contained in the published IFRS consolidated financial statements of PGH.

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 PLHL Group, 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 Life Companies 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 PLHL Group SCR at 31 December 2016 was calculated partially on a Standard Formula and partially on an Internal Model basis.

As permitted by the regulations, comparison of information reported in the previous reporting period has not been presented in the SFCR for the year ended 31 December 2016. Comparatives will be presented for the first time in the SFCR for the year ending 31 December 2017.

SECTION A

IN THIS SECTION

SECTION A

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 INFORMATION REGARDING THE UNDERTAKING

PLHL is a private company limited by shares, incorporated, registered and domiciled in the United Kingdom.

PLHL is regulated, along with its insurance subsidiaries, by the PRA and the Financial Conduct Authority ('FCA'). Some of its 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 PLHL Group's external auditor 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

PLHL is jointly owned by PGH (LCA) Limited and PGH (LCB) Limited, both private companies limited by shares and registered in the United Kingdom. PLHL's ultimate parent is PGH. Both PGH (LCA) Limited and PGH (LCB) Limited are wholly owned by PGH, which is registered in the Cayman Islands with its principal place of business in Jersey and subject of a Premium Listing on the London Stock Exchange.

As at 31 December 2016, 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.

A simplified Group structure chart as at 31 December 2016 is provided below, and shows PLHL's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.

The current Holding Company structure, which was formed at the time of the Group's restructuring in 2009, is complex for Phoenix's stakeholders. As part of an ongoing Group simplification process, Phoenix intends to put in place a new UK-registered Holding Company for the Group in 2018. The new company will be the ultimate parent company and the highest EEA insurance Group Holding Company.

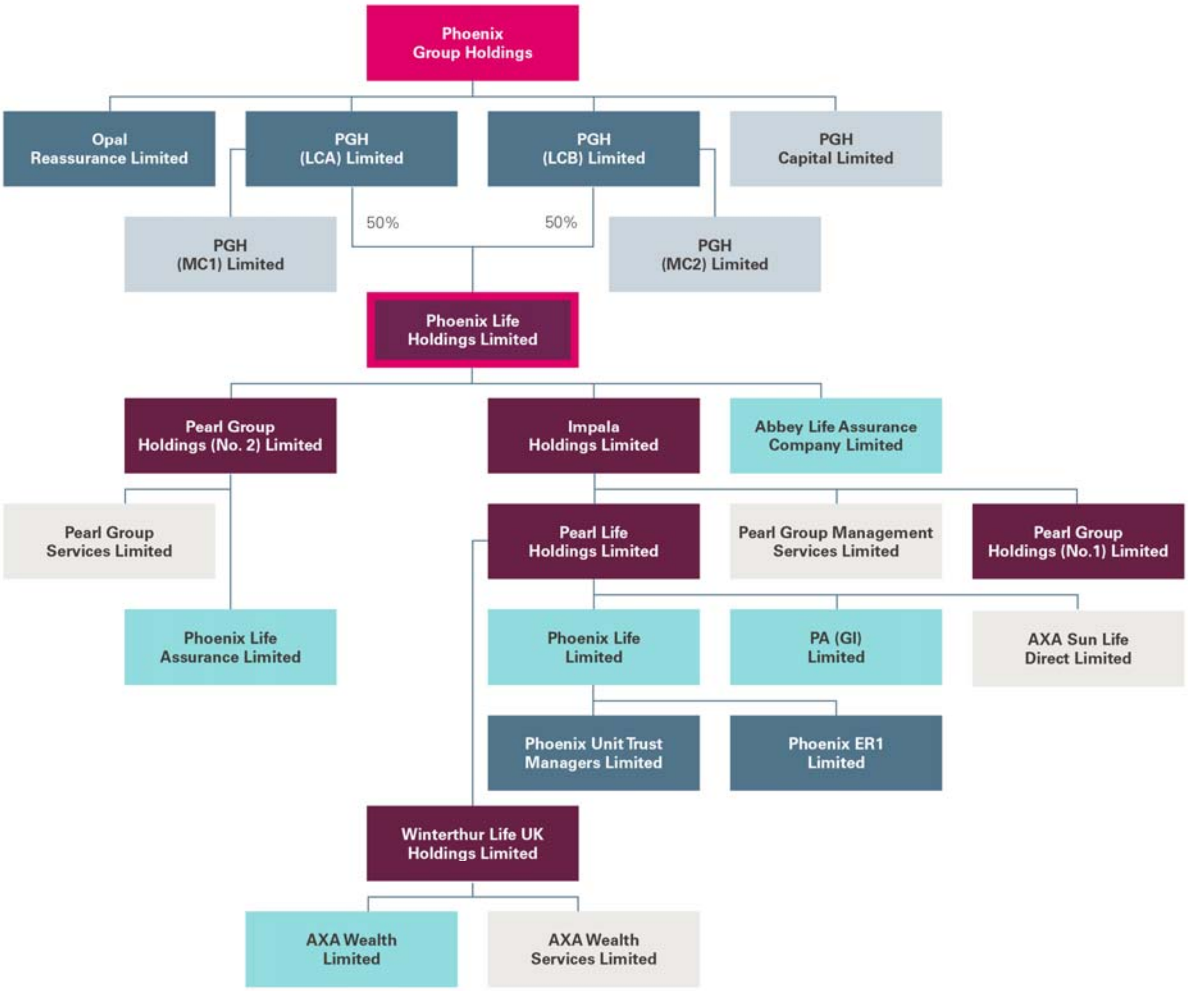
SECTION A
Continued

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



Key to structure

- Phoenix Life Holdings Limited – highest EEA insurance parent undertaking
- UK Solvency II regulated insurance companies
- PLHL Group corporate entities
- Management services
- Phoenix Group Holdings – the ultimate parent undertaking headquartered outside the EEA in Jersey
- Financial institutions
- Other companies

[1] A complete listing of all the entities in the Group is included in Appendix 1.6

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 LEGAL AND ORGANISATIONAL STRUCTURE OF THE GROUP CONTINUED

A.1.2.2 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.

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 (ultimate parent headquartered outside the EEA)	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	Financial institution	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 (*highest EEA*)	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
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
AXA Sun Life Direct Limited	Company limited by shares	Ancillary services undertaking	Pearl Life Holdings Limited	GB

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 LEGAL AND ORGANISATIONAL STRUCTURE OF THE GROUP CONTINUED

A.1.2.2 Material undertakings of the Group Continued

Entity name	Legal form	Type of undertaking[1]	Immediate parent undertaking	Country of incorporation[1]
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	Other related undertaking	Phoenix Life Limited	GB
AXA Wealth Limited	Company limited by shares	Life insurance undertaking	Winterthur Life UK Holdings Limited	GB
AXA Wealth Services Limited	Company limited by shares	Ancillary services undertaking	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).

A.1.2.3 Governance and organisation

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

The PLHL Board is responsible for managing the overall direction and performance of the PLHL 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 PLHL Board, as established within the 'Matters Reserved' by the PLHL Board.

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

A.1.2.4 Scope of consolidation

Consolidated financial statements are not prepared at the PLHL Group level as the Group is included in the consolidated financial statements of PGH. PLHL has availed the exemptions of paragraph 10 of IAS 27 Consolidated and Separate Financial Statements and section 401 of the Companies' Act not to present consolidated financial statements.

The main difference between the scope of the PLHL Group consolidated position under Solvency II and the consolidated financial statements prepared at PGH Group level is the exclusion of the Holding Companies outside of the PLHL Group.

Where disclosures in this SFCR are based on IFRS financial statements, the relevant amounts for the PLHL Group have been presented together with a reconciliation to disclosures made in the PGH Annual Report and Accounts for the year ended 31 December 2016.

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.

Reinsurance arrangements are in place with reinsurers external to the Phoenix Group to cover blocks of immediate annuities, some permanent health, critical illness and term assurance risks and some unitised with-profit contracts.

A.1.3.1 Insurance with-profit participation

The insurance with-profit participation Line of Business ('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.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.3 MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS CONTINUED

A.1.3.1 Insurance with-profit participation Continued

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.

The majority of the Group's with-profit funds are 90:10 funds, with a few 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 prices of their chosen fund.

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

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 protection 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 sums 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. 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 2016 and up to the date of this report.

A.1.4.1 Acquisition of AXA Wealth's pensions and protection business

The acquisition, which completed on 1 November 2016, comprises a pensions and investments business ('Embassy'), offering a range of propositions catering to both individual and corporate requirements and SunLife, a leader in the over 50s protection sector. The acquisition increased assets under management by £12 billion and added over 910,000 policies to the Group.

At 31 December 2016, the capital assessment of the acquired AXA business remained on a Standard Formula basis. On 10 March 2017, the Group obtained PRA approval to incorporate the acquired business into the Group's Internal Model. As the approval was obtained after the balance sheet date, the impact has been captured on a pro forma basis as if the approval was in place at 31 December 2016. See details in Appendix 2.

A.1.4.2 Acquisition of Abbey Life

Phoenix acquired Abbey Life from Deutsche Bank AG. Abbey Life predominantly comprises unit-linked life and pensions policies and annuities in payment and has been closed to new retail business since 2000. Abbey Life added 735,000 policyholders and £10 billion of assets under management to the Group.

At 31 December 2016, the capital assessment of the acquired Abbey Life business remained on a Standard Formula basis. Phoenix will apply to include Abbey Life within the scope of the Group's Internal Model in the second half of 2017.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.4 SIGNIFICANT BUSINESS AND OTHER EVENTS CONTINUED

A.1.4.3 Tier 3 bond issuance

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 of a £450 million subordinated Tier 3 bond in two tranches of £300 million in January 2017 and £150 million in May 2017. The bond, which matures in July 2022, provides the Group with additional Solvency II capital, assisting the rationalisation of the Group's Holding Company structure.

Consistent with the presentation in the PGH Annual Report and Accounts published in March 2017, the impact of the first tranche of £300 million has been reflected in the pro forma position as at 31 December 2016. See Appendix 2 for further details.

A.1.4.4 Longevity swap agreement

On 19 December 2016, the Group entered into a longevity swap agreement with Reinsurance Group of America ('RGA') in respect of a portfolio of in-force immediate annuities of £2.0 billion. The transaction reduces longevity risk capital required, thereby increasing the financial resilience of the Group.

A.1.4.5 Annuity liabilities transfer

On 31 July 2014, the Group entered into a reinsurance agreement, effective from 1 January 2014 to reinsure certain portfolios of the Group's annuity liabilities to ReAssure Life Limited in exchange for the transfer of financial assets of £1.8 billion. The annuity in-payment liabilities were held in the Group's with-profit funds. On 30 December 2016, the reinsurance agreement was replaced by a formal scheme under Part VII to transfer the annuity liabilities to ReAssure Limited, a fellow subsidiary of ReAssure Life Limited.

A.1.4.6 Pension buy-in

On 19 December 2016, PLL entered into a 'Buy-In' agreement with the Group's PGL Pension Scheme ('PGL Scheme'), which converted an existing longevity swap arrangement with the PGL Scheme into a bulk annuity contract. PLL assumed certain additional risks in respect of benefits payable to the beneficiaries covered by the longevity swap arrangement, including the investment risk associated with the assets covering those benefits.

A.1.4.7 Matching Adjustment portfolios

In December 2016, one of the Life Companies within the Group, PLL, obtained regulatory approval from the PRA to enable the scope of assets and liabilities in the Matching Adjustment portfolio to be extended.

A.1.4.8 Recalculation of Transitional Measures on Technical Provisions ('TMTP')

The TMTP allows insurers to recognise the impact of increased technical provisions calculated under the Solvency II regime compared to the previous regime on a gradual basis over 16 years. Further details are included in section D.2.7.2.

Initial approval for the use of TMTP for PLL and PLAL was granted by the PRA on 6 December 2015. The regulations require all firms to recalculate their TMTP every two years after 1 January 2016, or more frequently under circumstances where the risk profile of the business changes.

The Group has had two recalculation applications approved by the PRA during 2016:

– for both PLL and PLAL, a recalculation as at 30 June 2016, due to the material fall in yields over the first half of 2016; and

– for PLL only, a recalculation as at 1 November 2016 due to the reinsurance of the AWL business into PLL.

In March 2017, a further recalculation of TMTP for PLL (determined as at 31 December 2016) was approved by the PRA following the extension of PLL's Matching Adjustment portfolio and implementation of the longevity swap agreement (see section A.1.4.4 and A.1.4.7). Due to the timing of this approval, the impact of this latest recalculation has not been included in the actual Solvency II position as at 31 December 2016. Instead, the impact of the TMTP recalculation has been included as a pro forma adjustment to the actual Solvency II capital position on a basis that assumes that approval was in place at 31 December 2016. In addition, further adjustment has been made to reflect an anticipated recalculation of TMTP in PLAL, not yet subject to PRA approval.

Details of the pro forma capital position are included in Appendix 2.

ALAC and AWL do not apply TMTP.

A.1.4.9 IFRS reserving methodology

During 2016, changes have been made to the assumptions and estimates used in the valuation of IFRS insurance contract liabilities. The assumption changes have been made to more closely align the IFRS reserving methodology with the Solvency II requirements, removing the volatility that would otherwise arise from the use of reference rates that differ across reporting bases and aligning the calculation of liquidity premiums with that performed under Solvency II.
The changes have resulted in a favourable impact of £31 million to operating profit; however the impact varies by underlying LoB.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

The regulations require performance information in this section to be based on IFRS financial statements. As noted in section A.1.2.4, the PLHL Group does not prepare consolidated financial statements. As such, the consolidated measures of performance presented below have been reconciled to information disclosed in the consolidated financial statements of the PGH Group.

The Group's total performance is presented below.

Year ended 31 December 2016	Section reference	PLHL Group £m	Other[1] £m	PGH Group £m
Operating profit	**A.2.1**	**353**	**(2)**	**351**
Investment return variances and economic assumption changes:				
Investment return variances and economic assumption changes on long-term business	A.3.1	(204)	(3)	(207)
Variance on owners' funds	A.3.1	(7)	2	(5)
Total investment return variances and economic assumption changes	**A.3.1**	**(211)**	**(1)**	**(212)**
Other income and expense items:				
Amortisation of acquired-in-force business and other intangibles	A.4.1	(57)	(25)	(82)
Other non-operating items	A.4.1	(60)	(35)	(95)
Finance costs attributable to owners	A.4.1	(17)	(73)	(90)
Intra group interest	A.4.1	(28)	28	–
Total other income and expenses	**A.4.1**	**(162)**	**(105)**	**(267)**
IFRS loss before tax attributable to owners		**(20)**	**(108)**	**(128)**

[1] Other items comprise performance of entities outside of the PLHL 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.

Operating profit includes the effects of variances in experience for non-economic items such as mortality and expenses, and the effects 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.

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 the 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.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 ANALYSIS OF CURRENT PERIOD 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:

	%
Equities	5.8
Properties	4.8
Gilts	2.8
Other fixed interest	3.8

An analysis of the PLHL Group's operating profit split by material LoBs is presented below. All of the operating profit arises in the United Kingdom.

Year ended 31 December 2016	2016 £m	2015 £m
Insurance with-profit participation:		
Unsupported with-profit funds	81	92
With-profit funds where internal capital support is provided	(72)	84
Total insurance with-profit participation	9	176
Unit-linked and index-linked insurance	25	(2)
Health insurance	1	1
Other life insurance (predominantly annuities and protection business)	257	123
Impact of changes in IFRS reserving methodology	31	–
Long term return on owners' funds	7	8
Service Companies' operating profit	27	30
Holding Companies' costs	(4)	(9)
Total operating profit	**353**	**327**

The unsupported with-profit fund operating profit of £81 million (2015: £92 million) represents the shareholders' one-ninth share of the policyholder bonuses, and has reduced due to lower bonus rates.

The with-profit funds where internal capital support has been provided generated an operating loss of £72 million (2015: £84 million profit). The loss is principally driven by impact of strengthening 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. The 2015 comparative included the positive impact of actuarial modelling enhancements implemented in the year of £49 million.

The operating profit on unit-linked insurance of £25 million (2015: £2 million, loss) arises from margins earned on unit-linked business. The 2015 loss arose primarily due to adverse impacts of changes to the Management Services Agreements ('MSA') with the Service Companies and modelling and methodology changes.

The operating profit on other life insurance (predominantly annuities and protection business) increased to £257 million (2015: £123 million) primarily reflecting the outcomes of management actions of £117 million undertaken during the period, and positive experience which has more than offset some adverse one-off impacts of actuarial modelling enhancements undertaken in the period.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE CONTINUED

A.2.1 ANALYSIS OF CURRENT PERIOD OPERATING PROFIT CONTINUED

The implementation of the IFRS reserving methodology changes (see section A.1.4.9) resulted in an overall favourable impact of £31 million across the different LoBs.

The long-term return on owners' funds of £7 million (2015: £8 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The investment policy for managing these assets remains prudent.

The operating profit for the Service Companies of £27 million (2015: £30 million) comprises income from the Life Companies in accordance with the respective MSA less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period reflects the impact of Life Companies run-off and increased project costs incurred during the year.

Holding Companies' costs were £4 million (2015: £9 million). The reduction compared to prior year principally reflects an increased return on the higher opening pension scheme surplus on both the PGL Scheme and the Pearl Group Staff Pension Scheme ('Pearl Group Scheme').

SECTION A
Continued

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 2016	PLHL Group £m	Other[1] £m	PGH Group £m
Investment return variances and economic assumption changes on long-term funds	(204)	(3)	(207)
Variance on owners' funds	(7)	2	(5)
Total investment return variances and economic assumption changes	**(211)**	**(1)**	**(212)**

[1] Other items comprise performance of entities outside of the PLHL Group and impacts of consolidation at the PGH Group level.

The negative investment return variances and economic assumption changes on long-term business of £207 million are primarily driven by adverse market movements during the year. The majority of the negative variance is driven by the adverse impact of falling yields on the life funds which increased the margin held within insurance liabilities in respect of longevity risk. The investment return variances have also been adversely impacted by losses arising on equity hedging positions held by the life funds following equity market gains in the period. Equity market gains in the period have resulted in an unfavourable variance as the value of the hedging instruments fall without the corresponding benefit from future profits within the life funds being recognised.

The negative variance on owners' funds of £5 million is driven by losses from equity hedging positions held in the Group Holding Companies, offset by gains from interest rate hedging positions held in the Life Companies' shareholders' funds arising from falling yields.

A.3.2 INVESTMENT INCOME AND EXPENSES

The table below presents the actual investment income split by asset class and the component of such income. Expenses are shown in total as they all relate to investment management fees. As noted earlier, an expected investment return is included within operating profit and the difference between actual and expected investment return is accounted for outside of operating profit. In addition, the impact of changes in economic assumptions on the valuation of assets (including their corresponding impact on policyholder liabilities) is accounted for outside of operating profit.

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

	Investment income/(expense) components							
Year ended 31 December 2016	Interest £m	Dividend £m	Rent £m	Fair value gains and (losses) £m	Other £m	Total PLHL Group £m	Other (entities above PLHL) £m	Total PGH Group £m
Investment income by asset category:								
Fixed and variable rate income securities	504	–	–	1,461	–	**1,965**	6	**1,971**
Equities	–	10	–	108	3	**121**	–	**121**
Loans and receivables	16	–	–	28	–	**44**	–	**44**
Derivatives	–	–	–	1,131	–	**1,131**	–	**1,131**
Collective investment schemes	5	217	–	(80)	31	**173**	–	**173**
Participations	–	350	17	2,353	20	**2,740**	–	**2,740**
Investment property	–	–	21	35	–	**56**	–	**56**
Cash and deposits	7	–	–	–	1	**8**	–	**8**
Other assets	1	–	–	(7)	27	**21**	-	**21**
Investment return	**533**	**577**	**38**	**5,029**	**82**	**6,259**	**6**	**6,265**
Investment expenses						**(129)**	-	**(129)**
Net investment return after deduction of investment expenses						**6,130**	**6**	**6,136**

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE CONTINUED

A.3.2 INVESTMENT INCOME AND EXPENSES CONTINUED

The total investment return of £6,265 million at the PGH Group level reported above differs from the amount reported in the PGH Annual Report and Accounts as the amount disclosed above excludes the investment return attributable to minority interests in consolidated investment funds.

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

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 £772 million as at 31 December 2016. The total investment return on these investments is £72 million.

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.

SECTION A
Continued

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 2016	PLHL Group £m	Other[1] £m	PGH Group £m
Amortisation of acquired in-force business and other intangibles	(57)	(25)	(82)
Other non-operating items	(60)	(35)	(95)
Finance costs attributable to owners	(17)	(73)	(90)
Intra group interest	(28)	28	–
Total other income and expenses	**(162)**	**(105)**	**(267)**

[1] Other items comprise performance of entities outside of the PLHL Group and impacts of consolidation at the PGH Group.

Amortisation of acquired in-force business and other intangibles

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 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. The acquired in-force business is being amortised in line with the run-off of the Life Companies. Amortisation of acquired in-force business during the period totalled £68 million. Amortisation of other intangible assets totalled £14 million in the period.

Other non-operating items

Other non-operating items in connection with the PLHL Group of £(60) million include a £26 million gain on the implementation of a longevity swap agreement (see section A.1.4.4) and a £14 million gain as a result of a premium adjustment of the 2015 reassurance arrangement with RGA International following completion of a data review.

These items have been more than offset by:

- A provision for costs of £30 million associated with the integration and restructuring of the acquired AXA businesses;
- The costs of providing for claims and associated costs relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA (GI) Limited ('PA (GI)') of £33 million;
- Recognition of costs of £10 million associated with the introduction of regulations that cap early exit charges for pension customers aged over 55 at 1%, which will come into force from 2017;
- Costs of £6 million associated with the transfer of non-profit annuities from with-profit funds to non-profit Matching Adjustment funds;
- Costs of £4 million associated with the PGL Scheme buy-in; and
- Other corporate project costs of £19 million.

Other non-operating items for other entities above the PLHL Group of £(35) million predominantly comprise of acquisition costs of which £12 million is related to the acquisition of AXA Wealth's pensions and protection business and £19 million related to acquisition of Abbey Life.

Finance costs attributable to owners

The PLHL Group finance costs attributable to owners of £17 million primarily relates to PLL's unsecured subordinated notes.

Finance costs attributable to owners for entities above the PLHL Group of £73 million comprise of £16 million bank finance costs and £57 million for other finance costs in relation to the senior unsecured bonds and the Tier 2 bond.

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 has operating leases both as lessor and as lessee. The Group has no finance leases.

The Group 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. For the period ended 31 December 2016, rental income of £38 million is included in total investment return.

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. Operating lease rentals charged within administrative expenses amount to £6 million during the period.

SECTION A
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

IN THIS SECTION

SECTION B

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 PLHL Group and any material changes that have taken place over the reporting period. 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 PLHL Board and onwards to the Executive Committee ('ExCo') and divisional senior management.

There is a uniform model (of which AWL and ALAC are in the process of being integrated) 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:

- 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.1.4.4). 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.

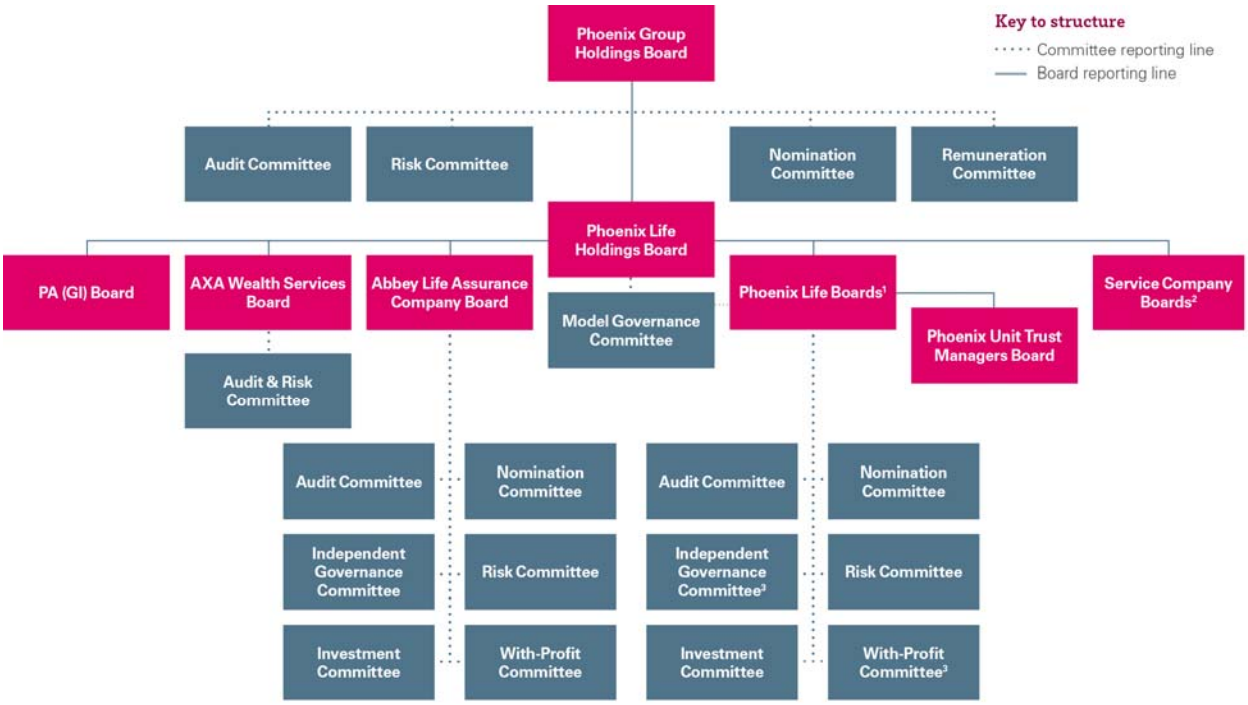
SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 BOARD AND COMMITTEE STRUCTURE

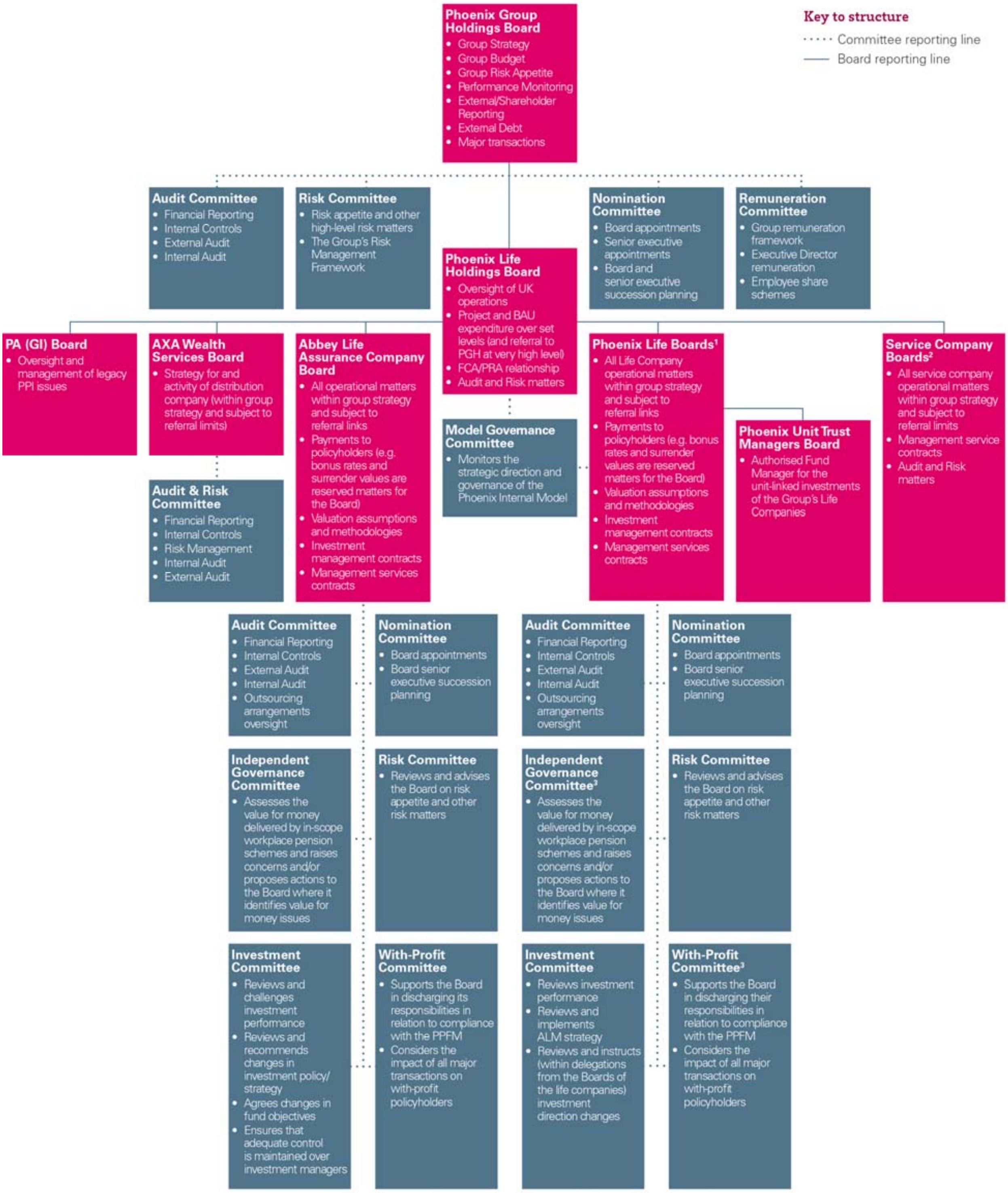
The chart below shows the operating Boards and Board Committee structure within the Group as at 31 December 2016. The second chart shows their high level responsibilities.



1 Covers AXA Wealth Limited, Phoenix Life Limited and Phoenix Life Assurance Limited.
2 Covers Pearl Group Management Services Limited and Pearl Group Services Limited.
3 Committee of the Board of Phoenix Life Limited and Phoenix Life Assurance Limited only.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.2 BOARD AND COMMITTEE STRUCTURE CONTINUED



1 Covers AXA Wealth Limited, Phoenix Life Limited and Phoenix Life Assurance Limited.
2 Covers Pearl Group Management Services Limited and Pearl Group Services Limited.
3 Committee of the Board of Phoenix Life Limited and Phoenix Life Assurance Limited only.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2. BOARD AND COMMITTEE STRUCTURE CONTINUED

During the period the principal change to the Group's system of governance was the creation of the Phoenix Life Nomination Committee in January 2016. This Committee leads the process for appointments to the Boards of PLL and PLAL and ensuring those Boards retain the appropriate balance of skills, knowledge, experience and diversity to support their strategic objectives through effective succession planning.

From the dates of their respective acquisitions AWL and ALAC transitioned to the Phoenix Group system of governance. Further details on the system of governance in place prior to the acquisitions are included in section B.1.3 of the AWL SFCR and B.1.3 of the ALAC SFCR.

B.1.3 PGH SYSTEM OF GOVERNANCE

B.1.3.1 Board responsibilities

PGH is listed on the London Stock Exchange and is registered in the Cayman Islands and is 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 meets in Jersey and met eight times during 2016 and is scheduled to meet seven times in 2017 including a two day strategy setting meeting. Additional meetings are held as required, and the NEDs hold meetings with the Chairman, without the Executive Directors being present, as they did on several occasions in 2016.

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 2016 (pages 47 to 57). The four committees which support the PGH Board are:

– Audit Committee;

– Risk Committee;

– Nomination Committee; and

– Remuneration Committee.

SECTION B
Continued

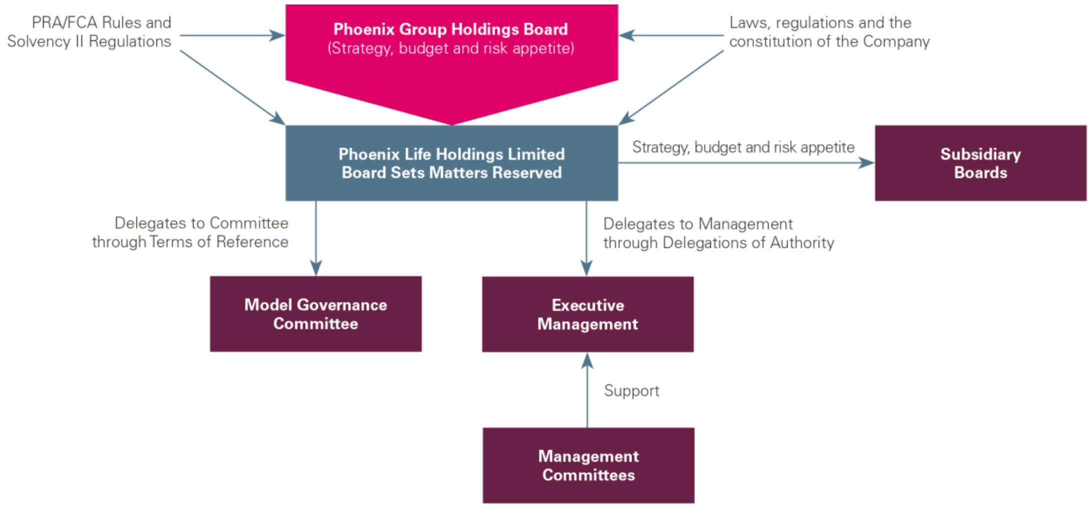
SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.4 PLHL SYSTEM OF GOVERNANCE

PLHL is a non-listed UK Holding Company, overseeing the operations of the UK Group and is the ultimate EEA Insurance Holding Company. It is also ultimately accountable for compliance with the Solvency II requirements. It must refer all highly material matters to the PGH Board in accordance with the PGH Board's Matters Reserved.

The Governance and delegation structure as at 31 December 2016 is summarised in the diagram below.



B.1.4.1 Board responsibilities

The PLHL Board is responsible for managing the overall direction and performance of the PLHL Group, including the performance of the subsidiary companies.

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

The day to day management of the PLHL Group is delegated to the Group Chief Executive Officer ('CEO').

B.1.4.2 Composition and running of the PLHL Board

The PLHL Board comprises five Directors including two Executive Directors and three independent NEDs. All Directors are also members of the PGH Board. Where required, the Directors have been duly approved under the SIMR.

The Directors of the PLHL Board as at 31 December 2016 are listed below, together with the date they were appointed. Changes to the Board since 31 December 2016 are also shown.

Name	Position	Date appointed	Date of resignation
Ian Cormack	Chairman	2 September 2009	31 December 2016
Clive Bannister	Group CEO	28 March 2011	
Alastair Barbour	Non-Executive Director	1 October 2013 1 January 2017 (Chairman)	
James McConville	Group Finance Director	28 June 2012	
David Woods	Non-Executive Director	18 February 2010	11 May 2017
New Board members appointed since 31 December 2016			
John Pollock	Non-Executive Director	1 January 2017	
Wendy Mayall	Non-Executive Director	11 May 2017	

The terms of appointment for the Directors state that they are expected to attend scheduled Board meetings in person (at least six per year) and any additional Board meetings when required, and to devote appropriate preparation time ahead of each meeting.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.4 PLHL SYSTEM OF GOVERNANCE CONTINUED
B.1.4.3 Roles of Directors

The PLHL Board deals with audit and risk matters at Board level and has one Board Committee being the Model Governance Committee ('MGC') which is a joint committee with the Life Company Boards.

The PLHL Board is able to place reliance on the Group's broader governance model which includes the Life Company Boards and the relevant Life Company management committees.

The Group CEO responsibilities include the following:

- Leads the development of the Group's strategy for agreement by the Board;
- Leads and directs the Group's businesses in delivery of the Group strategy and business plan;
- Leads the Group to safeguard returns for policyholders and grow shareholder value;
- Embeds a risk-conscious Group culture which recognises policyholder obligations in terms of service and security; and
- Manages the Group's key external stakeholders.

B.1.4.4 Role of Executive Management team

The Executive Management team is led by the Group CEO, who is supported by the ExCo. Their roles 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, PGH 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 – Maximises shareholder value through clear, rigorous assessment of business opportunities.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED
B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED
B.1.4 PLHL SYSTEM OF GOVERNANCE CONTINUED
B.1.4.4 Role of Executive Management team Continued

Name	Position	Roles and responsibilities
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.

B.1.5 MODEL GOVERNANCE COMMITTEE
B.1.5.1 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 Board on the ongoing appropriateness, performance and effectiveness of the Internal Model.

B.1.5.2 Composition and running of the MGC
The MGC is a committee of and supports the PLHL and Life Company Boards. MGC membership comprises of a Non-Executive Chairman, five Executive Directors and four 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 Life Company and PLHL 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.5 MODEL GOVERNANCE COMMITTEE CONTINUED

B.1.5.3 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 for 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.1.6 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 Board of the Group are provided in the sections which cover each function (see sections B.3. B.4, B.5 and B.6).

B.1.7 REMUNERATION POLICY

The Group has one consistent remuneration policy for all levels of employees and this policy 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 54 of the 2016 PGH Annual Report and Accounts for the year ended 31 December 2016 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.7 REMUNERATION POLICY CONTINUED

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.1.7.1 Variable remuneration plans

Annual Incentive Plan

All permanent members of staff participate in a Group-wide Annual Incentive Plan ('AIP'). 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 2016, 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 2016	
Operating companies' cash generation	50%
Operating profit	25%
Customer experience	25%

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 2017, the balance of Corporate performance measures have been revised so that operating profit is no longer included and operating companies' cash generation, represents the sole financial measure. Both the cash generation and customer experience weightings have been increased. For 2017, the selected performance measures for the Corporate element of the AIP are as follows:

Performance Metric	Weighting of measure
Corporate measures for AIP in 2017	
Operating companies' cash generation (increases from 50% in 2016)	71%
Customer experience (increases from 25% in 2016)	29%

The Personal element remains unchanged from 2016 and is determined by line managers in accordance with an established performance appraisal grading structure.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.7 REMUNERATION POLICY CONTINUED

B.1.7.1 Variable remuneration plans Continued

As for 2016, one-third of AIP outcomes for all senior management subject to the regulatory requirements are deferred for a period of three years under the Deferred Bonus Share Scheme. For 2017's AIP, the level of deferral increased to 40% of AIP outcomes for members of the ExCo.

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 2016 are summarised below. Each performance measure is assessed over the period of three financial years from 2016 to 2018.

Performance Measure	Weighting of Performance measure
Cumulative Cash Generation	50%
Total Shareholder Return ('TSR')	50%
Total	100%

All 2016 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group. This 'underpin' will be extended for 2017 LTIP awards to include 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.

The weightings for LTIP measures are unchanged for 2017 LTIP awards.

Abbey Life and AXA businesses

As companies within the Phoenix Group, the principles of the Phoenix Group-wide remuneration policy as set out at B.1.7 above applied to both the AWL and ALAC entities from their respective dates of joining the Phoenix Group in 2016.

In 2016, employees within the AXA businesses participated in their own AIP which was established before the Phoenix acquisition. The plan continued after the acquisition on 1 November 2016. The relevant performance measures related to the performance of the AWL businesses and personal performance during 2016, with AXA UK plc being responsible for funding 10/12ths of any bonus payments for 2016 and Phoenix having responsibility for 2/12ths of any such bonus payments.

A specific long-term plan was established for 17 employees of the AWL (SunLife) business which has the potential to reward these individuals for any increase in value of that business over a period of four years. This specific plan is designed to promote appropriate retention and incentivisation of the individuals, and will normally involve deferral of amounts that may be earned.

As ALAC was a member of the Phoenix Group for only two days in 2016, no employees within the business participated in Phoenix AIP or LTIP in 2016.

For 2017:

- ALAC employees will join the Group-wide AIP;
- AWL will have a discrete annual incentive, modelled on the Group-wide AIP which will have personal performance measures only (no corporate element); and
- SunLife will have discrete AIP modelled on the Group-wide AIP. Within this the corporate element will be based on SunLife metrics rather than Group-wide metrics.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.7 REMUNERATION POLICY CONTINUED

B.1.7.2 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.1.7.3 Material transactions with shareholders and the Board

There were no transactions with shareholders, members of the Boards or persons who exercise significant influence on the PLHL Group.

Details of remuneration of the members of the PLHL Board are set out in the Directors' remuneration report of PGH in the PGH Annual Report and Accounts for the year ended 31 December 2016 (see pages 58 to 84).

SECTION B
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

Following industry consultation, the UK Regulators introduced the SIMR, applicable to all PRA and dual regulated entities (i.e. PRA and FCA) in response to the Solvency II requirements, which came into effect on 1 January 2016.

The associated regulatory requirements of this regime 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 40 roles across the Group.

The Service Companies and 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 ensures 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 in respect of the Life Companies and/or PA (GI), 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 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.

SECTION B
Continued

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.

References in this section to 'Group' should be interpreted as referring to the PGH Group. The PGH Group Board is accountable for the Group's RMF which is implemented consistently across all Group subsidiaries, including PLHL and the Life Companies. Ultimate accountability for compliance with the regulations rests with the PLHL Board; however each Life Company 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, PLHL and Life Company Boards and the various committees (as detailed in section B.1) in meeting their risk management responsibilities.

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

Operational and regulatory risk: This team is responsible for oversight of operational risk within the Group. This includes regulatory responsibility for all the Group's authorised undertakings and accountability for the successful implementation of all compliance activities. This team is also responsible for 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 Outsourced Service Providers ('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, the Group continued to strengthen the RMF to meet the evolving regulatory requirements including Solvency II and the UK Corporate Governance Code.

The framework is embedded within the Group functions, PLL and PLAL and plans for the proportionate rollout across ALAC and AWL are being developed. Plans for the rollout of the RMF over the newly acquired business will, where relevant, take account of the plans for the integration of operations into the Phoenix business model and be the focus of activity in 2017.

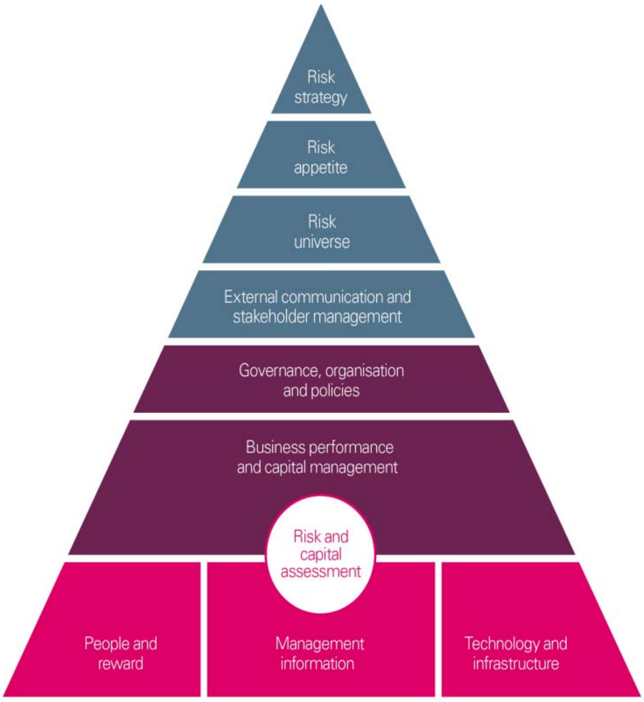
SECTION B
Continued

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 through 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.

SECTION B
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 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 and robust 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
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. 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 Life Companies 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
Continued

SYSTEM OF GOVERNANCE CONTINUED

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

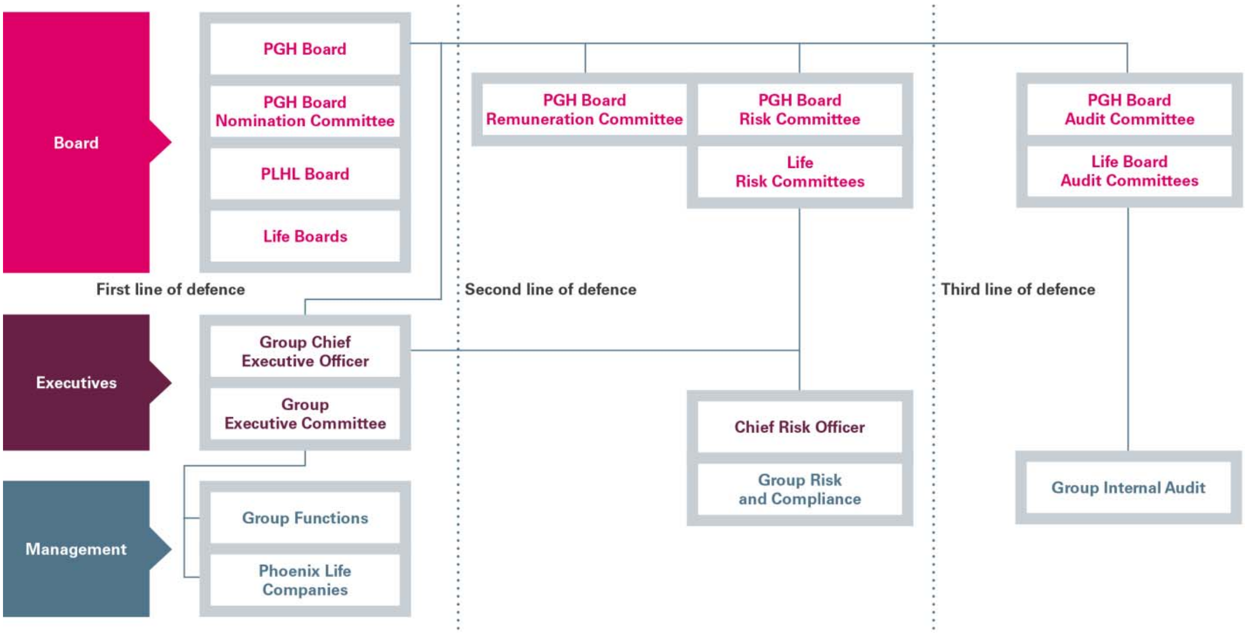
B.3.2 RISK MANAGEMENT FRAMEWORK CONTINUED

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 PLHL Board, Life Company 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, PUTM and the newly acquired business in ALAC and AWL. Life Boards refers to PLL, PLAL, AWL, ALAC and PA (GI) Boards.

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.

SECTION B
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

Policies

The Group policy framework comprises a set of 30 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.

Business performance and capital management

The Annual Operating Plan ('AOP') is assessed to ensure that the Group operates within the 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 it may be exposed to 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 the potential impact of these principal risks and uncertainties facing the Group.

Risk	Impact	Mitigation
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow obligations or may suffer a loss in value.	The emerging cash flows of the Group 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's capital position. Since the introduction of Solvency II and a swaps based discount rate, the Group is more sensitive to movements in swap yields, relative to gilts.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against unwanted customer and shareholder outcomes. The Group also maintains cash buffers in its Holding Companies to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed, particularly in the low interest rate environment.

SECTION B
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
Qualitative information on material risks Continued

Risk	Impact	Mitigation
Adverse changes in experience versus actuarial assumptions.	The Group has 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 undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.
Significant counterparty failure.	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. 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 is 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 regularly monitors its counterparty exposure and has 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.
Changes in the regulatory and legislative landscape may impact the financial position of the Group.	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 cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the Pensions Freedoms and taxation can also impact the Group's financial position.	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 change and the impact on our operations and lobbies where appropriate.
The Group fails to effectively integrate the acquired businesses.	The challenge of integrating two new businesses into the Group could introduce structural or operational inefficiencies that results in Phoenix failing to generate the expected outcomes for policyholders or value for shareholders.	The financial and operational risks of target businesses were assessed as part of the acquisition phase. Integration plans are developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations.

SECTION B
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

Qualitative information on material risks Continued

Risk	Impact	Mitigation
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 is considering options in respect of seeking to recover incurred costs from third parties.

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
Regulatory thematic reviews	The unknown consequences and the potential impact, including retrospective activity, as a result of Thematic Reviews conducted by the regulators.	Customer
Voluntary Charges Cap	The FCA has noted that they are seeking a 'voluntary solution' on exit charges for legacy products.	Customer
Political risk	Unexpected changes in the legislative environment and the impacts on financial markets driven by the political agenda following the UK's decision to leave the EU.	Strategic
Market Disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic

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 operation 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, PLHL 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. Both committees are also provided with regular reports on the activities of the Group Risk function.

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.

SECTION B
Continued

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

The Group carries out an Own Risk and Solvency Assessment ('ORSA') process which assesses the Group's 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 PLHL Group level or both.

Each Life Company and the PLHL Group produce an ORSA report. Each report is reviewed and approved by the Boards at least annually.

Such reporting includes an assessment of:

– The specific key risks to the business;

– The overall risk profile at any point in time;

– How that risk profile is expected to change over time (i.e. forward -looking perspective);

– The SCR, derived from the Group's approved Internal Model; and

– Whether triggers for an ad-hoc ORSA are likely to be hit within the short term, considering current capital positions and the risk profile outlook.

Each ORSA process has an agreed owner and governance route for review and/or approval of the output. The Group's policy for performing and documenting the ORSA is set out in the Group's ORSA Framework which is reviewed at least annually.

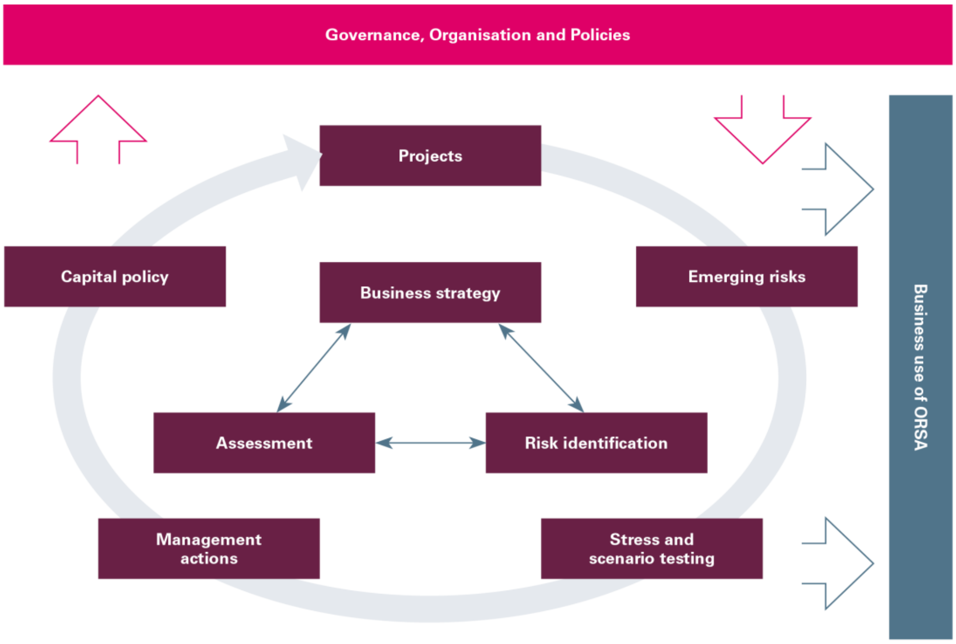
In producing the ORSA report, senior management consider risk, capital and return coherently within the context of the business strategy, on a forward-looking basis. The ORSA is a fundamental part of the strategic risk and capital management processes of the business to prompt consideration of management actions and help shape decision-making.

The ORSA results are reported through the Group's management committee structure in accordance with the agreed terms of reference.

The Group operates an Internal Model to calculate its capital requirement and hence its own solvency needs. The ORSA process runs alongside the Internal Model, and under these processes, capital is allocated across risks where capital is held as a mitigant.

B.3.3.1 ORSA process

The process followed in undertaking the ORSA is illustrated below.



Business strategy is at the core of the ORSA process. The Group holds 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 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.

SECTION B
Continued

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

B.3.3.1 ORSA process Continued

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.

Solvency is monitored regularly within the Life Companies. This is then collated to produce a weekly estimation of Group solvency and a quarterly evaluation of Own Funds and capital requirements.

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.

Analysis is also performed to understand the impact of any loss of Matching Adjustment and/or TMTP on technical provisions.

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.

The ORSA process is integrated to 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 PLHL and Life Companies' Boards (including ALAC and AWL during 2017) and supports the Boards in ensuring that they receive appropriate information 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 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

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

B.3.4 RISK MANAGEMENT SYSTEM AND INTERNAL MODEL GOVERNANCE CONTINUED

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

SECTION B
Continued

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
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 recommendations from the Committee on Internal Audit Guidance for Financial Services.

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, will be 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 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.

– Reporting results: PGIA's reporting to the Group BAC includes details of significant control weaknesses, root-cause analysis, themes and a view on the adequacy of 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.

– 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 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 the associated Risk, Control and Assurance standards).

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. 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION CONTINUED

B.5.4 INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT FUNCTION CONTINUED

- 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.

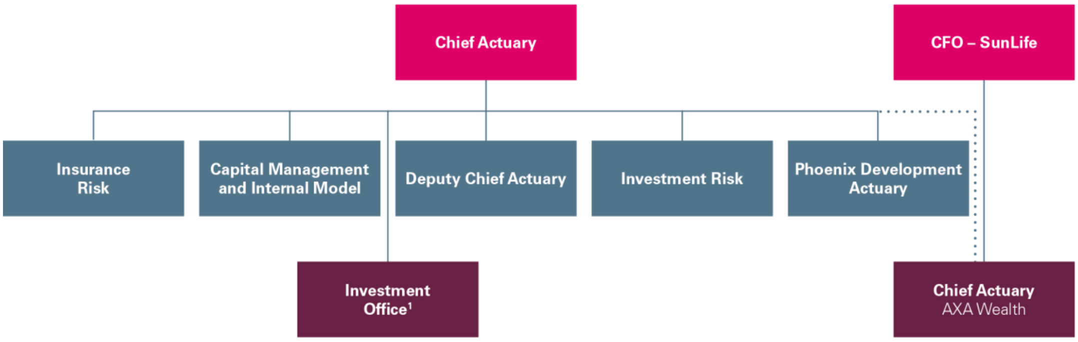
SECTION B
Continued

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, 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 Board(s) and management team(s) of the Life Companies, PA (GI), PLHL and PGH.

B.6.2 PHOENIX LIFE ACTUARIAL DEPARTMENT
A structure chart for the Phoenix Life Actuarial department[1] is provided below.



1. Investment Office responsibilities are primarily related to investment strategy and management of assets and not directly actuarial in nature. Further discussions of this team's 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.

The Chief Actuary of AWL reports to the Phoenix Life Chief Actuary, while also retaining direct accountability to the CFO of SunLife.

The ALAC Actuarial function is currently run as a separate stand-alone function, which is not under the leadership of the Phoenix Life Chief Actuary. The Chief Actuary of ALAC reports to the ALAC CFO. The ALAC Actuarial department 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 companies. 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 operates a daily solvency monitoring process which estimates how the solvency of the companies has changed since the last full valuation. These results are reported daily 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.

SECTION B
Continued

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. Where required, the team also co-ordinates any application required for recalculation of the TMTP.

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 Asset Liability Management ('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

The team lead and provide technical support for the planning and execution of a wide range of strategic projects to meet Life Company 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, sale of Life Company subsidiaries, developing new reassurance arrangements, and with-profit initiatives.

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

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 Board(s) for approval.

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.

SECTION B
Continued

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 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:

– 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[1] 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 Life Companies and Group by considering capital policy, asset/liability matching and investment strategy;

– Managing and monitoring the Life Company 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 (where necessary) of the Group’s risk management system.

[1] ‘Control reports’ formally document the key validations and checks performed in the technical provisions and SCR valuation process and outline issues identified and any mitigating actions and weaknesses and limitations.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 PHOENIX LIFE ACTUARIAL DEPARTMENT CONTINUED

B.6.2.6 Reporting of Actuarial department activities to the Boards

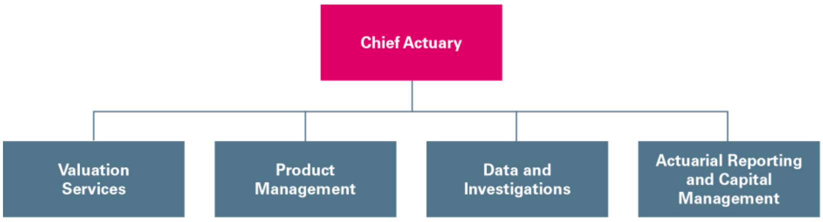
The key tasks undertaken by the Phoenix Life Actuarial department are reported to the Boards and other key stakeholders annually in the 'Actuarial Function Report'.

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.

B.6.3 ABBEY LIFE ACTUARIAL DEPARTMENT

The Abbey Life Actuarial function provides a range of actuarial services and advice to the ALAC Board and management team. The Actuarial function is headed up by the Abbey Life Chief Actuary who is a member of the Company's Management Board.

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 of each team within the Abbey Life Actuarial department is outlined below.

Actuarial Reporting and Capital Management

The Actuarial Reporting and Capital Management team is responsible for determining the technical provisions and confirming the reliability and accuracy of these to the ALAC Board. The appropriateness of the technical provisions is determined by carrying out a review of the technical provisions and producing the analysis of change. This activity is overseen and reviewed by the ALAC Chief Actuary. The team is responsible for ensuring all regulatory reporting timescales are met and that returns are made in a timely manner.

By accurate and timely reporting of the capital position, the team ensures appropriate levels of capital are held to achieve the following objectives:

- Provide appropriate security for policyholders and meet regulatory requirements;
- Ensure sufficient liquidity is held to meet obligations to policyholders and other creditors; and
- Meet the dividend expectations of the shareholder.

The Company maintains a capital management policy that aims to ensure these objectives can be met under a range of stress conditions.

The team also operates a regular solvency monitoring process to ensure these objectives can be met on a continuous basis.

Data and Investigations

The Data and Investigations team plays 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 are responsible for the data used within this process and maintain a data dictionary with an assessment of all items of data for accuracy and completeness. The best estimate assumptions are derived from experience investigations conducted by this team, with the results presented to the Actuarial Operating Committee for review and challenge before being presented to the Board for approval.

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

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 PHOENIX LIFE ACTUARIAL DEPARTMENT CONTINUED

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

Actuarial Services

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

Product Management

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

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. The report describes the results and outcomes of the key tasks performed by the Actuarial function, along with any material deficiencies arising from them, and provides recommendations as to how such deficiencies should be remedied.

B.6.4 GROUP ACTUARIAL DEPARTMENT

The Group Actuarial department supports the PA (GI), PLHL and PGH 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 in respect of actuarial activities that relate to the Life Companies, while maintaining oversight through membership on Governance committees and Boards.

Group Actuarial key activities are:

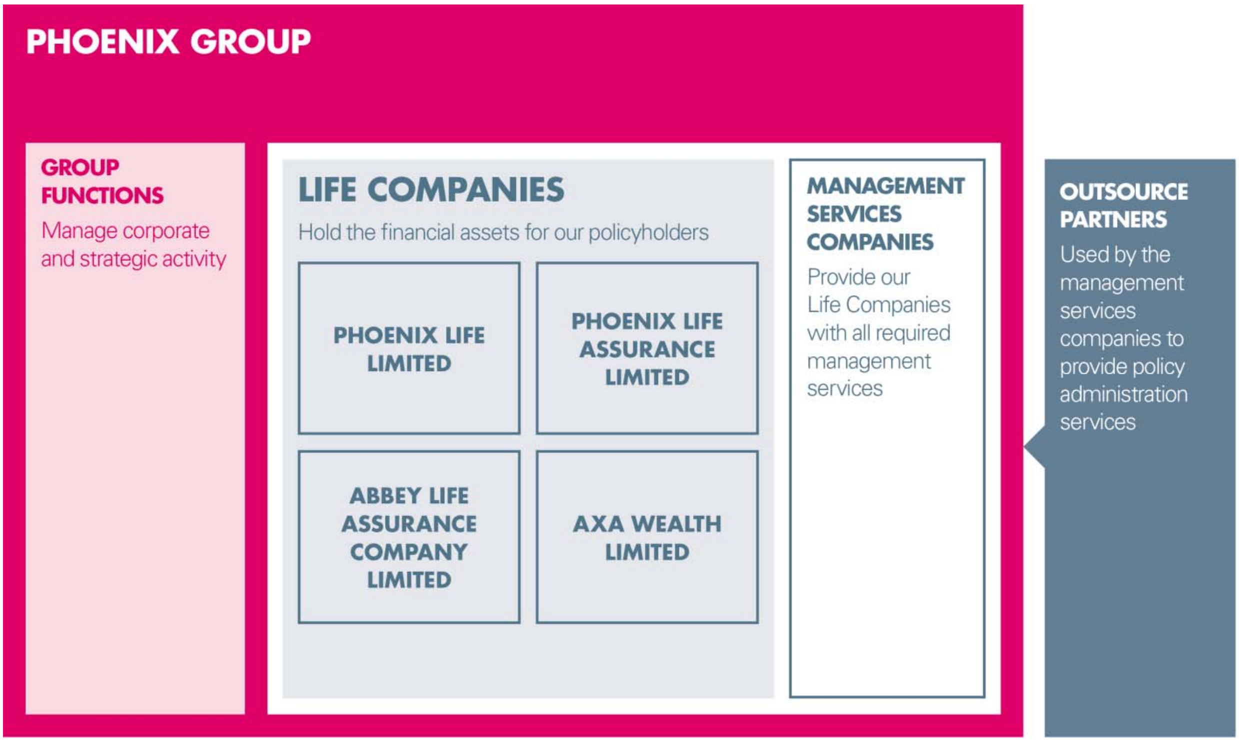
– Managing and monitoring the Group balance sheet and capital management policies;
– Management of the Group's pension schemes;
– Maintaining and developing the Group Internal Model, particularly in relation to PA (GI) and the staff pension schemes;
– Support on Group and Life Company projects;
– Pricing and assessment of potential acquisitions; and
– Development of the Group's investment strategy.

SECTION B
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.

SECTION B
Continued

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 Life Companies with all required management services. A key role of the Service Companies is the management of relationships with the outsource partners on behalf of the Life Companies. As the number of policies held by the Group gradually declines over time, the fixed cost base of our operations as a proportion of policies will increase. The risk is managed by putting in place long-term arrangements for third party policy administration. By paying a fixed price per policy to our outsource partners, we reduce this fixed cost element of our operations and convert 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 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, who still fall under FCA jurisdiction. The Group's OSPs of policy administration are listed below.

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 million live policyholders. In managing the Phoenix account, Diligenta operate out of two principal UK locations, Peterborough and Liverpool, 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 3 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 (150k live policyholders) who operate out of Romford, supported by overseas locations in India.

Internal Financial Data Services (IFDS)

A smaller, but critical, UK regulated business process service relationships (25k 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.

Investment, Fund Accounting and Custody Services are all operated by service providers who are UK based. The Group's OSPs of these services are listed below.

HSBC

Provide end-to-end securities services incorporating fund accounting and custody services to Phoenix Life. In managing the Phoenix account, HSBC operate out of one principal UK location, Glasgow.

Standard Life Investments

A leading investment management group providing services to Phoenix Life.

Henderson Global Investors

A global investment company, regulated by the FCA, providing services to Phoenix Life.

Architas

Part of the AXA Group, providing specialist investment management services to AWL.

SECTION B
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

Deutsche Asset Management (DAM)

Investment Manager managing a portfolio of non-linked and shareholder assets for ALAC on a non-discretionary basis,

Aberdeen Asset Management (AAI)

An international investment management group that manages all ALAC's unit-linked assets and a small number of non-linked portfolios on a discretionary basis.

State Street

Undertaking Custodian, Collateral and Investment Administration Services, for ALAC.

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.

SECTION B
Continued

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

IN THIS SECTION

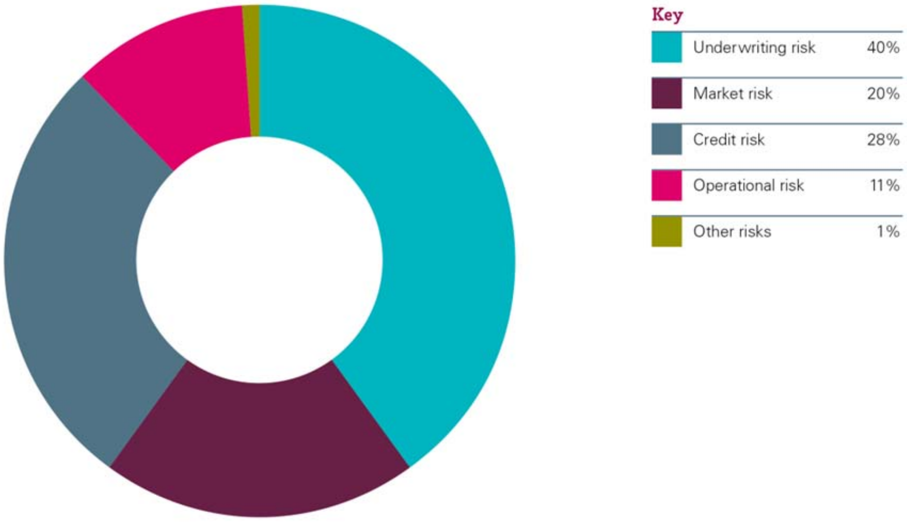
SECTION C

RISK PROFILE

Section B.3 sets out the risk management system including information on how the Risk Management function is implemented and integrated into the organisational structure and decision-making processes of the Group.

This section provides information on the risk profile of the Group, 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 PLHL Group undiversified SCR, calculated in accordance with the partial Internal Model as at 31 December 2016 (i.e. excluding the pro forma adjustments made to take into account 2017 actions).



More details regarding the SCR are set out in section E.1.

SECTION C
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 Life Companies 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.

In addition to exposure arising from contracts underwritten by the Life Companies, 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 2016, the key changes to the Group's exposure to underwriting risk include:

- An increase in mortality, lapse and persistency risk following the acquisition of AXA Wealth's pensions and protection businesses;
- Acceptance of new business underwriting risk from new business sold under the SunLife brand;
- Increase in longevity risk following the acquisition of Abbey Life, although most of this risk is reinsured externally;
- A reduction in longevity risk following the reinsurance of a block of immediate annuities to Reinsurance Group of America;
- A fall in interest rates leading to an increase in longevity and persistency risk, partially offset by the reinsurance noted above; and
- A reduction in expenses risk following the completion of a Part VII transfer of a block of with-profit annuities to ReAssure Life Limited.

C.1.2 RISK MEASUREMENT

The Group uses 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 2016, underwriting risk represented 40% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.1.3 RISK CONCENTRATION

The Group is 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 6.1 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 seeks to manage its 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 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 2016, the Group had £10.2 billion of reinsurance recoverables with the largest exposure being to Reinsurance Group of America. The majority of the underwriting risk that has been ceded is 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') and in the case of ALAC, the Actuarial Operating Committee ('AOC').

SECTION C
Continued

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 the Life Companies 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.
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, private equity vehicles, equity release mortgages, infrastructure loans, commercial mortgage loans, local authority loans and infrastructure investments.

Markets have seen increased volatility during 2016 reflecting the results of the referendum of the UK's membership of the EU and the outcome of the US presidential elections. Yields on UK government debt and swap rates fell markedly over the first half of 2016 and then rallied towards the end of the year. In response to the volatility, the Group reduced its residual exposure to further reductions in interest rates using a combination of interest rate swaps and swaptions. The position continues to be closely monitored and managed, particularly in the low interest rate environment.

C.2.2 RISK MEASUREMENT

The Group uses 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 2016, market risk represented 20% of the Groups total undiversified SCR as shown in the chart at the beginning of section C.

C.2.3 PRUDENT PERSON PRINCIPLE REQUIREMENTS

The policies and procedures in place for market risk include MCS which have been designed to ensure compliance with the Prudent Person Principle requirements of the regulations. 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 Standard Life Investments Limited and Aberdeen Asset Management, 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.

– 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 below in section C.2.5.

SECTION C
Continued

RISK PROFILE CONTINUED

C.2 MARKET RISK CONTINUED

C.2.4 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 Life Companies' Boards.

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

C.2.5 RISK MITIGATION

Interest rate risk

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 Life Companies within the Group maintain an appropriate mix of fixed and variable rate instruments (including cash and derivatives) according to the underlying insurance or investment contracts 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.

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 Life Companies' with-profit funds. 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'.

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 pensions schemes exposure to interest rates is largely hedged through the use of long dated gilts and interest rate swaps.

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.

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.

Equity risk within the Group's pension schemes is largely hedged.

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 Life Companies 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. The exposure to gilt-swap spread risk is managed to stay within the overall risk appetite of the Group.

SECTION C
Continued

RISK PROFILE CONTINUED

C.2 MARKET RISK CONTINUED

C.2.5 RISK MITIGATION CONTINUED

Currency risk

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

The Group has 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 Life Company. Fluctuations in exchange rates from certain holdings in overseas assets are hedged against currency risks.

Alternative assets risk

The Life Companies hold alternative assets as part of wider diversified portfolios investing in more conventional asset classes. The risks are managed in accordance with the ALM framework, taking into account the asset liability matching targets and risk appetite of the funds in question.

The Matching Adjustment portfolios include exposure to equity release mortgages. 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 ongoing effectiveness of market risk mitigation is monitored on an ongoing basis by the IMC.

SECTION C
Continued

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 Life Companies 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.
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 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 2016, the following are the key changes to the Group's exposure to credit risk:

- Exposure to reinsurance counterparties increased as the result of the longevity swap agreement with Reinsurance Group of America.
- Counterparty credit default risk decreased following the replacement of an existing reinsurance arrangement with a Part VII transfer of a block of with-profit annuities to ReAssure Life Limited.
- The Group acquired reinsurance contracts with a number of third insurers through the acquisition of AWL and ALAC.
- Exposure to fixed interest securities increased as a result of the acquisition of AWL and ALAC (although the overall increase when consolidated with PLL and PLAL is marginal).

C.3.2 RISK MEASUREMENT

The Group uses several methods 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 2016, credit risk represented 28% of the Group's total undiversified SCR as shown in the chart at the beginning of section C.

C.3.3 PRUDENT PERSON PRINCIPLE REQUIREMENTS

The Group's policies and procedures in place for credit risk include MCS designed to ensure compliance with the Prudent Person Principle requirements of the Solvency II Directive, and such compliance is monitored on an ongoing basis. Examples of MCS are set out in section C.2.3.

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.3.5.

SECTION C
Continued

RISK PROFILE CONTINUED
C.3 CREDIT RISK CONTINUED
C.3.4 RISK CONCENTRATION

Concentration of credit risk exists where the Group 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 Group's exposure to credit risk is the quality of its 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).

Rating	Market value £m	Percentage of Total %
AAA	1,444	8%
AA	10,936	60%
A	3,035	17%
BBB	2,083	11%
BB	134	1%
B and below	221	1%
Non-rated	314	2%
Total	**18,167**	**100%**

As at 31 December 2016, the largest counterparty exposures to a single name counterparty in the Group's direct holdings in the Group's asset portfolio were:

Top 10 single name credit exposures	Exposure £m
UK Government	9,904
European Investment Bank	691
Santander UK PLC	185
Barclays Bank PLC	167
HSBC Holdings PLC	159
Electricite De France SA	142
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	126
Heathrow Funding Ltd	124
KFW	123
AT&T INC	100

The Group is exposed to concentration risk in respect reinsurance ceded to external counterparties, although this is largely mitigated by collateral arrangements with the reinsurers.

The Group is 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.

SECTION C
Continued

RISK PROFILE CONTINUED

C.3 CREDIT RISK CONTINUED

C.3.5 RISK MITIGATION

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, and in the case of ALAC by the AOC.

Further specific mitigation techniques are set out below.

Matching Adjustment portfolio

The Group has 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 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, PLAL and AWL and in the case of ALAC, by the AOC.

Collateral

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

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).

SECTION C
Continued

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 Life Companies. The Group's Life Companies 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 does 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.

In March 2016, the Group agreed a revised £650 million unsecured revolving credit facility. A short-term debt facility in connection with the Abbey Life acquisition was refinanced into the £650 million unsecured revolving credit facility to create an enlarged revolving credit facility of £900 million maturing in June 2020. £850 million of this facility was drawn down as at 31 December 2016. There are no mandatory or target amortisation payments associated with the facility but prepayments are permissible. The new revolving credit facility provides the Group with greater flexibility in the management of its liquidity position.

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 Life Companies carry out a monthly forecast of liquidity resources and restrictions for the next 12 month period, and over the five-year planning horizon. Regular monitoring of ongoing compliance with cash buffers, with any appropriate corrective actions undertaken is reported to the relevant Boards. This measures the ability to provide a buffer to cover any short-term derivative collateral calls and any longer-term derivative collateral calls under a 1-in-10 likelihood market stress scenario.

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

Monitoring activities include a review of appropriate liquidity risk measures (for example VaR), as agreed by the PGH, the PLHL and Life Companies' Boards.

C.4.3 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 make 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 2016, the Group's total EPIFP was £382 million and is included as a component of the reconciliation reserve. This comprised mainly of future profits arising on protection and unit-linked business.

SECTION C
Continued

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 2016, the key changes to the Group's exposure to operational risk include:

– Reduction in Financial Crime (Anti Money Laundering) risk exposure, following improvement in the related control framework within the OSPs;

– Reduction in regulatory compliance exposure within OSPs following the steady reduction in the number of customer-related incidents outstanding;

– Ongoing uncertainty regarding customer treatment and regulatory compliance risk pending the publication of regulatory reviews/announcements and ongoing marketplace developments such as pension reforms; and

– 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.

C.5.2 RISK MEASUREMENT

The risk capital requirement for operational risk is assessed using the Group's PRA approved 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 operational risks for both the Group and Life Companies are regularly reported to management oversight committees and the MGC.

As at 31 December 2016, operational risk represented 11% 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 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.

SECTION C
Continued

RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

Other material risks which should be highlighted are summarised below. As at 31 December 2016, 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

Tax risk is defined as the risk of financial or reputational loss arising from lack of liquidity, funding or capital due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. 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. The Group's subsidiaries have exposure to tax risk through the annual statutory and regulatory reporting and through the processing of policyholder tax requirements.

C.6.2 GEOPOLITICAL INSTABILITY RISK

The business environment and capital markets are exposed to an increased risk of geopolitical instability due to uncertainty surrounding the UK's exit from the EU, the outcomes of the US elections, and the uncertain outcome of various European elections taking place in 2017. Given that risk capital is already held in respect of capital markets risks, the Group does not believe any additional risk capital needs to be held in respect of this geopolitical instability, however, the risks continue to be monitored closely.

C.6.3 CUSTOMER RISK

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.
- Inappropriate conduct or poor customer treatment or experience (including poor advice).

The FCA 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 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.

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.

C.6.4 STRATEGIC RISK

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.

From a Phoenix Group perspective, the challenge of integrating the two recently acquired businesses could introduce structural or operational inefficiencies that could result in the Group failing to generate the expected outcomes for policyholders or value for shareholders. The financial and operational risks of target businesses were assessed as part of the acquisition phase. Integration plans are being developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations. Failure to meet Group targets may lead to resource constraints that could impact on the delivery of integration plans within agreed timescales, and therefore reduce the expected outcomes for the Group.

SECTION C
Continued

RISK PROFILE CONTINUED

C.7 ANY OTHER INFORMATION

C.7.1 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.

The table below shows the effect of a change on key assumptions, with all other variables held constant, on the Group's Solvency II surplus:

	Solvency II surplus £m	Impact on the Solvency II surplus £m
Base: 1 January 2017[1]	**2,017**	
Following a 20% fall in equity markets	1,998	(19)
Following a 15% fall in property values	1,954	(63)
Following a 55bps interest rates rise[2]	2,335	318
Following a 80bps interest rates fall[2]	1,517	(500)
Following credit spread widening[3]	1,905	(112)
Following 6% decrease in annuitant mortality rates[4]	1,604	(413)
Following 10% increase in assurance mortality rates	1,917	(100)
Following a 10% change in lapse rates[5]	1,889	(128)

1 Assumes stress occurs on 1 January 2017.

2 Interest rate sensitivities do not assume a recalculation of TMTP.

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.

On operational risk, stress testing at the 99.5th percentile confidence level is used to determine the operational risk capital requirements, using the PRA approved 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 2016, the Group and the Life Companies were able to cover their capital requirements following a 1-in-10 event.

C.7.2 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Group's risk profile.

SECTION D

IN THIS SECTION

SECTION D

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. Their valuation is determined in line with the regulations. The Balance Sheet QRT S.02.01.02 is included at Appendix 1.1.

The valuation methods which are applied for valuing assets and liabilities at the Group and solo levels are consistent.

Section D.1.2 and D.3.2 provides separately for each material class of assets and liabilities (excluding technical provisions), 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. For PLHL, the statutory accounts are prepared on a stand-alone entity basis, as the undertaking is part of a larger group for which consolidated financial statements are prepared (PGH). In order to evidence the comparability of the financial information provided, given the requirement for the Solvency II assets and liabilities to be presented on a consolidated basis, the statutory accounts value column is completed by applying IFRS recognition and valuation criteria to the consolidated financial information for PLHL and its subsidiaries. Amounts presented in this column will therefore not agree to the statutory financial statements of PLHL.

Additionally, some reclassification of line items has taken place to align disclosures with the Solvency II presentation format.

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.

The table below summarises the Solvency II assets and liabilities compared to the 'Statutory accounts value' column, together with details of the section where further information can be found.

	Solvency II value £m	Statutory accounts value £m	Difference £m	Section
Total assets	81,798	83,759	(1,961)	D.1.1
Technical provisions	(69,016)	(73,498)	4,482	D.2.2
Total other liabilities	(5,768)	(6,426)	658	D.2.3
Excess of assets over liabilities	**7,014**	**3,835**	**3,179**	**E.1.4**

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

D.1.1 INTRODUCTION

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

The table below sets out the Solvency II value of the assets and the 'Statutory accounts value column'. Presentational adjustments have been made where necessary to enable comparison to the 'Solvency II value' column. Where relevant, any quantitative explanations provided below are between the 'Solvency II value' column and the 'Statutory accounts value' column.

Assets	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Goodwill	1	–	74	(74)
Intangible assets	2	–	1,076	(1,076)
Deferred tax assets	3	122	121	1
Pension benefit surplus	4	225	225	–
Property, plant and equipment held for own use	5	24	25	(1)
Investments (other than assets held for index-linked and unit-linked contracts)	6	**45,749**	**45,763**	**(14)**
Property (other than for own use)		431	431	–
Holdings in related undertakings, including participations		20,433	20,447	(14)
Equities		181	181	–
Bonds		18,739	18,739	–
Collective Investment Undertakings		2,963	2,963	–
Derivatives		2,912	2,912	–
Deposits other than cash equivalents		90	90	–
Assets held for index-linked and unit-linked contracts	7	23,897	23,906	(9)
Loans and mortgages	8	447	447	–
Reinsurance recoverables	9	10,206	10,984	(778)
Insurance and intermediaries receivables	10	29	29	–
Reinsurance receivables	10	37	37	–
Receivables (trade, not insurance)	11	565	575	(10)
Cash and cash equivalents	12	497	497	–
Total assets		**81,798**	**83,759**	**(1,961)**

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

The Group's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory accounts value column) the valuation methods included in 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 2016.

Note	Balance sheet item	Solvency II valuation principles for each material asset class
1	**Goodwill**	Goodwill is valued at zero. Under IFRS, goodwill is carried on the balance sheet at initially recognised amounts less accumulated impairment. For IFRS the value of goodwill is £74 million and as such, a £(74) million valuation difference exists compared to Solvency II.
2	**Intangible assets (other than goodwill)**	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 intangibles have been assessed as meeting this criteria and therefore these are valued at zero. Furthermore, any related deferred tax is disregarded. For IFRS, all intangible assets are measured on the balance sheet at cost less accumulated amortisation and any impairment loss recognised to date. This results in a £(1,076) million difference due to the different valuation basis used for Solvency II purposes and that used for IFRS.
3	**Deferred tax assets**	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. The differences can primarily be attributed to the different valuation methods applied under Solvency II and IFRS, and results in deferred tax assets that are £1 million higher on a Solvency II basis compared to IFRS. Further details on the origin of the deferred tax assets are provided in section D.1.3.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material asset class
4	**Pension benefit surplus**	PLHL 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. The Abbey Life Scheme is recognised within ALAC. Further details on the IAS19 valuation basis can be found on page 158 of the PGH Annual Report and Accounts for the year ended 2016. 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 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 reflects surplus arising from the PGH2 Pearl Group Scheme only. The value of the Abbey Life Scheme is included in 'pension benefit obligations' and section D.3.2 includes further details. Further details on all pension schemes can also be found in section D.3.4.
5	**Property, plant and equipment (held for own use)**	Owner-occupied properties are valued at economic value by an accredited independent valuer. Specifically, the Wythall Green site owned by PGMS and the Winterthur House property owned by AWL, are ascribed a value equal to the most recent external valuation, which is considered a suitable proxy to the Solvency II economic 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. As such, a £(1) million difference exists as a result of the different valuation used for Solvency II purposes compared to that used for IFRS.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material asset class
6	**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, estimated 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. The determination as to whether a market is active is based on the transactions for that asset taking place with sufficient frequency and volume to provide pricing information on an ongoing basis. It therefore considers factors such as the bid-offer spread and the market depth. Investment assets are shown inclusive of accrued interest, which is reclassified from ‘receivables (trade not insurance)’ in both columns. 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 has no material leasing arrangements.Further details are set out in section A.4.2.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material asset class
6	**Investments (other than assets held for index-linked and unit-linked contracts)** continued	***Holdings in related undertakings, including participations*** Holdings in related undertakings, including participations comprise of Collective Investment Undertakings where the Group 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 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 PLHL Group there are a number of 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. There is a £(14) million difference between IFRS and Solvency II, reflecting the difference in the IFRS net assets value of the ORRUs compared to their Solvency II excess of assets over liabilities using the adjusted equity method. ***Listed Equities*** Equity instruments listed on a recognised stock exchange are valued using quoted market prices. ***Unlisted Equities*** 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. ***Bonds*** **Government bonds** Government bonds are valued using quoted market prices at the period end provided by recognised pricing sources. **Corporate bonds** 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. **Structured notes** 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. **Collateralised securities** 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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.1 ASSETS CONTINUED
D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material asset class
6	**Investments (other than assets held for index-linked and unit-linked contracts)** continued	***Collective Investment Undertakings*** The Group receives valuations from the 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 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'. ***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.
7	**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'. The difference between the 'Solvency II value' and the 'Statutory accounts value' of £9 million represents unit-linked derivative liabilities and payables.
8	**Loan and mortgages**	Loans and mortgages are valued at fair value. This includes accrued interest reclassified from 'receivables (trade not insurance) in both columns. Loans and mortgages principally comprise Equity Release Mortgages ('ERM'), and Loans on policies. The ERM loans are valued using a discounted cash flow model of which further details are included in section D.4.1.
9	**Reinsurance recoverables**	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. To the extent to which 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. As such, there is a difference of £(778) million between Solvency II and IFRS. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.8.
10	**Insurance and intermediaries receivables** **Reinsurance receivables**	Given their short-term nature, the carrying amount per the financial statements is considered to represent the fair value for these assets.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material asset class
11	**Receivables (trade, not insurance)**	The receivables (trade, not insurance) balance principally comprises cash collateral pledged and prepayments, which are valued at fair value. Accrued income and interest in respect of investment assets and liabilities are reclassified accordingly in both columns. The 'statutory accounts value column' includes prepayments valued in line with IFRS principles. However, 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, which results in a £(10) million difference.
12	**Cash and cash equivalents**	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.

D.1.3 DEFERRED TAX ASSETS

The deferred tax asset on the Solvency II balance sheet of £122 million is valued by reference to expected future taxable profits and is comprised as shown in the table below. The deferred tax asset is treated as Tier 3 capital in Basic Own Funds. Further details are set out in section E.1.

Item	Solvency II £m	Statutory accounts value £m	Further details
Committed future pension contributions	47	47	The tax impact of the deduction of future contributions available which are expected to reverse over a period of five to ten years.
Trade losses carried forward	24	24	The tax impact of the offset of losses against future profits of the same trade which are expected to reverse over a period of one to four years.
Deferred interest payments	16	16	The tax impact of future interest deductions available which are expected to reverse over a period of two years.
Other timing differences	36	34	The tax impact of future taxable deductions and are expected to reverse over a period of one to five years.
Total deferred tax assets	**122**	**121**	

The Finance Act 2014 set the rate of corporation tax at 20% from 1 April 2015. The Finance (No 2) Act 2015 announced a reduction in the rate from 20% to 19% from 1 April 2017, with a further reduction from 19% to 18% from 1 April 2020. The Finance Act 2016, which was substantively enacted on 15 September 2016, announced a further reduction in the rate from 18% to 17% from 1 April 2020. Consequently, a blended rate of tax has been used for the purposes of providing for deferred tax, where appropriate.

The PLHL Group had excess tax losses in 2016 of £57 million on which a deferred tax asset of £11 million (included as part of 'trade losses carried forward' in the above table) is carried in both IFRS and Solvency II.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Deferred tax assets have not been recognised in respect of:	2016 £m
Tax losses carried forward	58
Provisions and other temporary differences	3
Deferred tax assets not recognised on capital losses	18

SECTION D
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 the Group are:

– Insurance with-profit participation;

– Index-linked and unit-linked insurance;

– Health insurance; and

– Other life insurance.

There is no non-life business.

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 technical provisions tables presented in this section are as at 31 December 2016.

Approval has been received from the PRA to apply TMTP and the Matching Adjustment, and as a result the technical provisions detailed in this section are inclusive of these.

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 allowed where material changes in risk profile have occurred. Further detail on the TMTP and any recalculations can be found in section D.2.7 and Appendix 2.

The MA is applied to the risk-free curve used for discounting liabilities in the Matching Adjustment portfolio only and has the effect of reducing technical provisions. Further detail 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.

D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS

This section provides technical provisions split by Solvency II LoB.

Table D.2.2a Technical provisions by Line of Business

The following table summarises the Group technical provisions at 31 December 2016 by Solvency II LoB, including the amount of the BEL and risk margin. It includes the TMTP recalculation as at 1 November 2016, but does not include any TMTP recalculation after 31 December 2016 (see section D.2.7.2).

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	Total technical provisions £m
Best Estimate Liabilities	24,461	30,541	158	15,175	**70,335**
Risk margin	752	147	13	983	**1,895**
Gross technical provisions pre TMTP	**25,213**	**30,688**	**171**	**16,158**	**72,230**
TMTP adjustment	(1,682)	(144)	(22)	(1,365)	**(3,213)**
Gross technical provisions post TMTP	**23,531**	**30,543**	**149**	**14,793**	**69,016**

The gross technical provisions shown here include BEL at a gross amount with a net of reinsurance risk margin. This is in line with the presentation in the QRTs.

The risk margin and TMTP adjustment within 'insurance with profit participation' above includes £400 million and £968 million respectively in relation to unsupported with-profit funds.

Table D.2.2b Material differences between IFRS and Solvency II technical provisions

The table below outlines separately for each LoB, material differences between the bases, methods and main assumptions used for Solvency II and those used for IFRS.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS CONTINUED
Table D.2.2b Material differences between IFRS and Solvency II technical provisions Continued

Technical provisions – IFRS to Solvency II reconciliation	Notes	Insurance with-profit participation £m	Index-linked and unit-linked insurance £m	Health insurance £m	Other life insurance £m	Total technical provisions £m
IFRS technical provisions – gross		**25,976**	**31,416**	**161**	**15,586**	**73,139**
Longevity derivative liabilities	1 & 2	–	–	–	272	272
Debt held at fair value	2	–	–	–	87	87
Statutory accounts value column technical provisions – gross		**25,976**	**31,416**	**161**	**15,945**	**73,498**
IFRS reinsurance		(7)	(6,952)	(81)	(3,513)	(10,553)
Longevity derivative assets	1	–	–	–	(52)	(52)
Loan held at fair value	2	–	–	–	(380)	(380)
IFRS technical provisions – net		**25,969**	**24,464**	**80**	**12,000**	**62,513**
Change to discount curve	3	381	14	1	131	527
Change in restriction for negative sterling reserves	4	(42)	(538)	–	–	(580)
Matching Adjustment on non-Matching Adjustment funds	5	–	–	–	83	83
Demographic margin	6	–	(137)	(4)	(537)	(678)
Annuity profit margin	7	104	–	–	10	114
Policyholders' share of estate	8	(1,694)	–	–	1	(1,693)
Prepayments	9	(107)	–	–	(36)	(143)
Other	10	(187)	(133)	(1)	306	(15)
Solvency II Best Estimate Liabilities – net		**24,424**	**23,670**	**76**	**11,958**	**60,128**
Add risk margin		752	147	13	983	1,895
Deduct transitional adjustments		(1,682)	(144)	(22)	(1,365)	(3,213)
Solvency II technical provisions – net		**23,494**	**23,673**	**67**	**11,576**	**58,810**
Solvency II reinsurance		37	6,870	82	3,217	10,206
Solvency II technical provisions – gross		**23,531**	**30,543**	**149**	**14,793**	**69,016**

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS CONTINUED

Table D.2.2b Material differences between IFRS and Solvency II technical provisions Continued

An explanation of the material changes between the IFRS valuation for technical provisions and that used for Solvency II is included below:

Note	Item	Description
1	**Longevity derivative assets and liabilities**	The Group has in place longevity arrangements with corporate pension schemes which do not meet the definition of insurance contracts under IFRS and are recognised as derivative financial instruments. Under these arrangements, the majority of the longevity risk has been passed to third parties. Derivative assets of £52 million and derivative liabilities of £18 million have been recognised in the IFRS results as at 31 December 2016. Under Solvency II, these longevity swap arrangements are classified as insurance contracts, and therefore the IFRS balances above have been presented within technical provisions in the statutory accounts value column to present more clearly the Solvency II valuation difference.
2	**Longevity derivative liabilities, loan and debts held at fair value**	The Group has 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 the insurance risk. Taken as a whole, this transaction does not give rise to the transfer of significant insurance risk to the Group and therefore does not meet the definition of an insurance contract under IFRS. The amount due from the cedant is recognised as a loan held at fair value of £380 million as at 31 December 2016. The amount due to the retrocessionaire is recognised as debt held at fair value of £87 million and a derivative liability of £254 million. Under Solvency II, these arrangements are classified as insurance contracts, and therefore the IFRS balances above have been presented within technical provisions in the statutory accounts value column to present more clearly the Solvency II valuation difference.
3	**Change to discount curve**	Liabilities are valued using a discount rate derived from the EIOPA swap curve with a credit risk adjustment of 17bps under Solvency II. For IFRS they are valued using a EIOPA swap +10bps curve.
4	**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.
5	**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 eligible assets, representing an estimate for the allowance of liquidity expected to be earned on such assets. This adjustment is not made under Solvency II.
6	**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.
7	**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 it is shown within unallocated surplus.
8	**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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS CONTINUED

Table D.2.2b Material differences between IFRS and Solvency II technical provisions Continued

Note	Item	Description
9	**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.
10	**Other**	The 'other' line is mainly comprised of the difference in value between IFRS and Solvency II of transactions recognised as derivatives, Debt held at fair value and Loan held at fair value under IFRS, but in technical provisions under Solvency II (see notes 1 and 2 above). It also includes the impact of reallocation of reserves in the with-profit funds between the two bases.

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 is to use BEL plus risk margin. The alternative 'Technical Provisions as a whole' approach to valuing 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 and adjustments are made.

D.2.3.1 Best Estimate Liability

BEL is calculated gross, without deduction for amounts recoverable on reinsurance contracts. Amounts 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 policies which have rider contracts (an additional provision attached to an insurance policy), these are separated from the main contract for valuation purposes. For example, a term assurance rider contract may be attached to a unit-linked pension policy. 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 their lifetime, 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 expenses, 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 exceed future claims and expense). 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 2016, the sterling credit risk adjustment was minus 17bps, and for euros minus 10bps at each duration. Also, for a significant proportion of the annuities within non-profit business, the discount rate is adjusted to include allowance for Matching Adjustment (see section D.2.7.1).

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3.3 Discount rates Continued

The vast majority of the Group's insurance obligations are denominated in sterling. The Group has some non-sterling currency exposure to euro denominated liabilities; however this exposure is not a material element of the Group's insurance obligations.

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 will drop to 19% and from 1 April 2020 it will drop to 18%.

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

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.

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 policy 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 added to 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 liabilities in the Matching Adjustment portfolio, a Matching Adjustment is added to the risk-free rates used for discounting liability cash flows.

For other business, BEL represents a realistic estimate of the present value of the difference between the projected claims, plus expenses and premium income.

D.2.4.3 Index-linked and unit-linked business

The BEL for unit-linked business are based on a realistic assessment of the present value of claim payments plus expenses, less future allocated premiums and related premium charges.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

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;
- Are in line with the Group's knowledge of the business and practices for managing the business; and
- Ensure appropriate allowance for anticipated trends or future changes in both the Group 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 (i.e. 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. Where relevant and credible, other industry data (e.g. industry trend data) may also be used to supplement the Group's experience data.

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 (using base table and future improvement rates);
2) Lapse rates;
3) Early 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.

D.2.5.1 Mortality

Base annuitant mortality

The base table mortality assumption review for annuitants is based on company 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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 DEMOGRAPHIC AND EXPENSE ASSUMPTIONS CONTINUED

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 whole of life and term assurance business within SunLife, a separate allowance for future improvements in mortality rates is made when calculating technical provisions.

Assumptions for future mortality improvements are analysed by comparing the number of expected deaths predicted by the latest industry projection models with those predicted by the current base assumptions.

When setting the assumption for future improvements in mortality rates homogeneous risk groups are used. These groupings appropriately balance the homogeneity and credibility of the available experience data. Expert judgement is applied to assess trends evident in the projected annual death rate.

The published projection model currently in use is the CMI 2014 Mortality Projections Model with some allowance for the lower level of future improvement suggested by the CMI 2015 model.

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 retirement rates

The assumption review is based on experience primarily over a five-year period. The criteria used to subdivide fund level data are product type and ex-entity.

In setting the assumptions, allowance is made for known or anticipated trends (e.g. changes in early retirement rates as a result of low interest rate environment or changes in pension's legislation from the Pensions' Freedoms Act).

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 GAO take-up rates have been reviewed for all funds. The assumed take-up rates across the different funds currently lie between 50% and 80%.

D.2.5.5 Expense assumptions

Future expense assumptions are set on a going concern basis, which assumes that new vesting annuity business will be written in future, but that other LoBs 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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

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 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).

D.2.7 SOLVENCY II LONG TERM GUARANTEE AND TRANSITIONAL MEASURES

Regulatory approval has been received from the PRA for the application of:

– Matching Adjustment to liabilities in the Matching Adjustment portfolio within the non-profit fund; and

– the TMTP.

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 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 the Group's Matching Adjustment portfolio asset and liability cash flows to generate the Matching Adjustment. The assets and liabilities in the Matching Adjustment portfolio meet the Matching Adjustment eligibility criteria as set out in the regulations.

Liabilities in the 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 and inflation linked benefits.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.7 SOLVENCY II LONG TERM GUARANTEE AND TRANSITIONAL MEASURES CONTINUED

D.2.7.1 Matching Adjustment Continued

At the current valuation date, the following asset types are held in the Matching Adjustment portfolio: fixed and index-linked government bonds, supranational bonds, corporate bonds, ERM notes issued by the ERM SPV, interest rate swaps, gilt total return swaps and cash. These are all Matching Adjustment eligible assets.

The impact of reducing the Matching Adjustment to zero on key metrics on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is shown in QRT S.22.01.22 in Appendix 1.5.

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 gradual 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 Solvency II 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 for Solvency II reporting whereas under Solvency I, the Group used 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 consistent with business run-off. 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 at least partly offset the impact of the run-off of the TMTP. One year's run-off of TMTP has been included as at 31 December 2016.

The regulations require all firms to recalculate their transitionals every two years after 1 January 2016 and to reflect this recalculation in the reported transitionals amount.

The regulations also permit, subject to regulatory approval, the initial TMTP to be recalculated more frequently under circumstances where the risk profile of the business changes materially.

The Group had two recalculation applications approved by the PRA during 2016 (as set out in section A.1.4.8).

These were:

– A recalculation for both PLL and PLAL as at 30 June 2016, due to a material fall in yields over the first half of 2016; and

– A recalculation as at 1 November 2016, due to the reinsurance of the AWL business into PLL .

During March 2017, a further recalculation of TMTP in PLL (determined as at 31 December 2016) was approved by the PRA following the approval of a further Matching Adjustment application and the transaction of a further longevity reinsurance agreement in respect of a portfolio of annuity business. Due to the timing of receipt of this approval, the impact of this latest recalculation has not been included within the QRTs or the SFCR for 31 December 2016. However, for information purposes, this impact is presented in Appendix 2 on a pro forma basis.

For presentational purposes, the TMTP was initially split between a deduction from BEL and a deduction from risk margin. Movements in TMTP will not necessarily match movements in BEL or risk margin, partly due to differences in the run-off pattern and partly due to TMTP being recalculated on an infrequent basis. Differences in movements between the risk margin and the TMTP allocated to risk margin have led to the post-transitional risk margin shown on the balance sheet being negative; this has largely been caused by movements in interest rates.

The impact of reducing the TMTP to zero on key metrics on the Solvency II balance sheet (including technical provisions, Own Funds and SCR) is shown in QRT S.22.01.22 in Appendix 1.5.

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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

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 expert judgement.

The proportion of gross BEL calculated using simplified methods was 5%.

D.2.10 UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS

The key sources and level of uncertainty associated with the BEL component of technical provisions are described below. The sources and level of uncertainty associated with the risk margin component are described in section D.2.11.3.

- 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.

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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.10 UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS CONTINUED

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 shows the increase in 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.

Assumption	Increase In Best Estimate Liability 1-in-10 probability level £m
Longevity (base table)	351
Longevity (future improvements)	831
Mortality	109
Lapses	572
Expenses	130

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.

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 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. This allocation makes allowance for the expected contribution of each LoB 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 entity risk margin is then the sum of the LoB risk margins across all funds.

SECTION D
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

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; and
- 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.

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 significant second order 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
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES

D.3.1 INTRODUCTION

This section covers the valuation of other liabilities on the Solvency II balance sheet. The valuation of technical provisions is covered in section D.2.

The table below sets out the Solvency II value of the liabilities and compares this to the 'statutory accounts value' column. Presentational adjustments have been made where necessary to enable comparison to the 'Solvency II value' column. Where relevant, any quantitative explanations provided below are between the 'Solvency II value' column and the 'statutory accounts value' column.

Liabilities	Note	Solvency II value £m	Statutory accounts value £m	Difference £m
Technical provisions (BEL plus risk margin less reinsurance)	1	69,016	73,498	(4,482)
Other technical provisions	2	–	879	(879)
Provisions other than technical provisions	3	109	109	–
Pension benefit obligations	4	87	87	–
Deposits from reinsurers	5	392	392	–
Deferred tax liabilities	6	372	349	23
Derivatives	7	1,239	1,245	(6)
Debts owed to credit institutions	8	1,807	1,807	–
Financial liabilities other than debts owed to credit institutions	9	150	150	–
Insurance and intermediaries payables	10	491	491	–
Reinsurance payables	10	20	20	–
Payables (trade, not insurance)	11	422	289	133
Subordinated liabilities (in Basic Own Funds)	12	679	608	71
Total liabilities		**74,784**	**79,924**	**(5,140)**

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 LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

Note	Balance sheet item	Solvency II valuation principles for each material liability class
1	**Technical provisions**	Details regarding the valuation of technical provisions are covered in section D.2.
2	**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 as such it forms part of Own Funds.
3	**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.
4	**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.3.4 for further information.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.2 LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material liability class
5	**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.
6	**Deferred tax liabilities**	Deferred tax is determined on temporary differences between the 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 that deferred tax is required to be provided on temporary differences between the IFRS and the Solvency II balance sheet. The valuation differences are identified between the IFRS and Solvency II balance sheets on a 'line by line' basis. Deferred tax is calculated, where required, on these differences. The differences can primarily be attributed to the different valuation methods applied under Solvency II and IFRS for Technical Provisions, and results in deferred tax liabilities that are £23 million higher on a Solvency II basis compared to IFRS.
7	**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. The difference between the 'Solvency II value' and the 'Statutory account value' of £6 million represents unit-linked derivative liabilities which are reported on their own line for IFRS, but under Solvency II, are included in 'Assets held for index-linked and unit-linked contracts'.
8	**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*** 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 receives 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*** 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*** Refinancing loans, related to property reversions held in 'property other than use' are held at fair value for both Solvency II and IFRS on the basis that they incorporate an embedded derivative. They are valued using a model which does not include any allowance for changes in OCS, as it has a variable rate of return.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.2 LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS CONTINUED

Note	Balance sheet item	Solvency II valuation principles for each material liability class
9	**Financial liabilities other than debts owed to credit institutions**	Financial liabilities other than debts owed to credit institutions are comprised of a £75 million loan with PGH (LCA) Limited and a £75 million loan with PGH (LCB) Limited which are external to the PLHL Group. The loans are valued consistently with IFRS, at fair value plus any allowance for changes in OCS.
10	**Insurance and intermediaries payables** **Reinsurance payables**	These are short term in nature and are valued at fair value, i.e. amounts payable on the balance sheet date.
11	**Payables (trade not insurance)**	The £133 million difference 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 with the consolidated Solvency II balance sheet, the deferred income liability is recognised at it economic value. .
12	**Subordinated liabilities (in Basic Own Funds)**	The subordinated liabilities comprise of £428 million Tier 2 instrument and £238 million for PLL subordinated loan notes. Further details on these instruments are provided in section E.1.The difference between Solvency II and IFRS is set out in the table below:

Instrument	Solvency II value £m	Statutory accounts value £m	Difference £m	Explanation
Tier 2 subordinated debt	441	428	13	Movement in OCS since inception.
PLL subordinated loan notes	238	180	58	This difference is comprised of £38 million in respect of OCS adjustment and £20 million for fair 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, after adjusting for the impact of change in OCS.
	679	**608**	**71**	

Subordinated loans classified as liabilities or equity in 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.

All instruments outlined above are added back as subordinated liabilities in Basic Own Funds, and further details can be found in section E.1.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.3 DEFERRED TAX LIABILITIES

The deferred tax liability on the Solvency II balance sheet of £372 million is valued by reference to forecast future taxable profits and is comprised as shown in the table below.

Item	Solvency II value £m	Statutory accounts value £m	Further details
Technical provisions	213	–	This liability relates to impact of differences arising on the valuation of technical provisions between Solvency II and IFRS, including TMTP and risk margin. Further details on the TMTP and risk margin are set out in sections D.2.7.2 and D.2.11 respectively.
Shareholder future bonus transfers	74	–	This liability relates to tax liabilities which will arise on the future shareholders share of bonuses from the with-profit funds.
IFRS transitional adjustments	48	48	The liability relates to profits still to be brought into tax following the change to the basis of taxation for Life Companies from the PRA Regulatory Return to the IFRS Accounts from 1 January 2013. The profits are brought into tax on a straight-line basis over a 10-year period ending in 2022.
Unrealised gains on investments	37	37	This liability relates to tax liabilities on capital gains.
Acquired on in-force business	–	250	This represents the future tax due on the difference between the fair value of contractual rights under insurance and investment contracts and the liability measured in accordance with the Group's accounting policies for such contracts.
Intangible assets	–	13	This relates to the tax liability due on vesting pension premiums.
Other temporary differences	–	1	The tax impact of future liabilities on the non-refundable pension scheme surplus and deferred income items.
Total deferred tax liabilities	**372**	**349**	

There are no unrecognised deferred tax liabilities at 31 December 2016.

D.3.4 PENSION SCHEMES

As detailed in section D.1.2, PLHL has three material defined benefit staff pension schemes. The Pearl Group Scheme and the PGL Scheme pension scheme obligations are valued within their respective Holding Companies, PGH2 and PGH1, and the Abbey Life Scheme is valued within ALAC. 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 2016, the value of the Pearl Group Scheme is £225 million and is shown as 'pension benefit surplus' on the Solvency II balance sheet.

At 31 December 2016 the value of the PGL Scheme in PGH1 is £326 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 2016, the value of the Abbey Life Scheme is £(87) million and shown in 'pension benefit obligations'.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.4 PENSION SCHEMES CONTINUED

D.3.4.1 Pearl Group Staff Pension Scheme

The Pearl Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members and since 1 July 2011 are closed to future accrual for active members.

Defined benefit obligation

The defined benefit obligation can be allocated to the scheme's members as follows:

– Deferred scheme members: 38%

– Pensioners: 62%

The weighted average duration of the defined benefit obligation at 31 December 2016 is 17 years.

Scheme assets

The distribution of the scheme assets for the Pearl Scheme as at 31 December 2016 was as follows:

	Pearl Scheme	
Pension scheme assets	Asset value £m	% of total scheme assets
Hedging portfolio[1]	1,106	41%
Equities	134	5%
Fixed interest gilts	129	5%
Other debt securities	958	36%
Properties	206	8%
Private equities	38	1%
Hedge funds	30	1%
Cash and other	84	3%
	2,685	**100%**

[1] Net of obligations for repayment of stock lending collateral received.

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out in the table below:

	2016 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.05
Rate of increase for deferred pensions ('CPI')	2.20
Discount rate	2.65
Inflation – RPI	3.20
Inflation – CPI	2.20

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme's liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from actual mortality experience in recent years based on the SAPS standard table for males and for females based on year of use. Future longevity improvements are based on CMI 2014 Core Projections and a long-term rate of improvement of 2% per annum up to and including age 75 then decreasing linearly to 0% per annum at age 100. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 31.0 years and 33.1 years for male and female members respectively.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.4 PENSION SCHEMES CONTINUED

D.3.4.2 PGL Pension Scheme

The PGL Scheme comprises a final salary section and a defined contribution section. The defined benefit section is a final salary arrangement which is closed to new entrants and has been closed to future accrual by active members since 1 July 2011.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme members as follows:

– Deferred scheme members: 39%

– Pensioners: 61%

The weighted average duration of the defined benefit obligation at 31 December 2016 is 19 years.

Scheme assets

The distribution of the scheme assets for the PGL Scheme as at 31 December 2016 was as follows:

	PGL Scheme	
Pension scheme assets	**Asset value £m**	**% of total scheme assets**
Fixed interest gilts	320	27%
Index-linked bonds	732	61%
Swaps	7	1%
Properties	104	9%
Hedge funds	85	7%
Corporate bonds	13	1%
Cash and other	29	2%
Obligations for repayment of stock lending collateral received	(95)	(8%)
Reported scheme assets	**1,195**	**100%**
Add back:		
Insurance policies eliminated on consolidation	913	
Amounts due from subsidiary eliminated on consolidation	6	
Economic value of assets	**2,114**	

Principal assumptions

The principal financial assumptions of the PGL Scheme are set out in the table below:

	2016 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	3.25
Rate of increase for deferred pensions ('CPI')	2.20
Discount rate	2.65
Inflation – RPI	3.20
Inflation – CPI	2.20

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the PGL Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with 86%/94% of S1PA base tables with future longevity improvements in line with CMI 2014 core projections and long-term rate of improvement of 2% per annum up to and including age 75 then decreasing linearly to 0% at age 100. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 27.7 years and 29.5 years for male and female members respectively.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.4 PENSION SCHEMES CONTINUED

D.3.4.3 Abbey Life Staff Pension Scheme

The Abbey Life Scheme is a defined benefit scheme which is currently open to future accrual and is a registered occupational pension scheme, set up under trust and legally separate from the employer Abbey Life.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme members as follows:

- Active scheme members: 5%
- Deferred scheme members: 59%
- Pensioners: 36%

The weighted average duration of the defined benefit obligation at 31 December 2016 is 18 years.

Scheme assets

The distribution of the scheme assets for the Abbey Life Scheme as at 31 December 2016 was as follows:

	Abbey Life Staff Pension Scheme	
Pension scheme assets	**Asset value £m**	**% of total scheme assets**
Equities – UK	25	10%
Fixed interest government bonds	115	49%
Corporate bonds	123	52%
Derivatives	(35)	(15%)
Cash and cash equivalents	9	4%
	237	**100%**

Principal assumptions

The principal financial assumptions of the Abbey Life Scheme are set out in the table below:

	2016 %
Rate of increase for pensions in payment	3.05
Rate of increase for deferred pensions ('CPI')	2.20
Discount rate	2.70
Inflation – RPI	3.20
Inflation – CPI	2.20
Rate of salary increases	4.20
Commutation of benefits to lump sums on retirement	15.00

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Abbey Life Scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experiences in recent years, performed as part of the actuarial funding valuation as at 31 March 2015, using SAPS S2 'Light' tables for males and for females based on year of use. Future longevity improvements are based on CMI 2015 Core Projections with long-term improvements of 1.25% per annum. Under these assumptions, the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.0 years and 27.2 years for males and female members respectively.

Further details on the pension schemes are available in note G6 of the PGH Annual Report and Accounts for the year ended 31 December 2016 which can be found on the Group's website.

SECTION D
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, the assumptions underlying this approach and an assessment of the valuation uncertainty.

There have been no significant changes in the recognition, estimations or valuation base methods used for financial assets and liabilities during the reporting period.

D.4.1 ALTERNATIVE VALUATION METHODS — ASSETS

Some of the Group's 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.

Asset	Solvency II value £m	Alternative valuation method	Assumption and assessment of valuation uncertainty
Assets held for index-linked and unit-linked contracts	352	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.	Various assumptions depending on equity investment, fund or property.
Property (other than for own use)	431	Royal Institution of Chartered Surveyors ('RICS') Appraisal and Valuation Manual and a discounted cash flow model.	As per RICS valuation manual and professional judgement of independent valuers; for the property reversionary loans, mortality rates, discount rate, future growth in house prices are used.
Holdings in related undertakings including participations	895	Net asset value of holdings in fellow Group entities.	Relevant assumptions applied to the net asset value of related undertakings.
Equities – listed	5	Quoted price, but low spread or depth of quote.	Relevant illiquidity adjustment made to the quoted price.
Equities – unlisted	26	Broker quotes; company financial statements.	Various assumptions depending on the broker quote.
Corporate bonds	509	Price available from a recognised pricing source, but with high bid-offer spread, or low depth of quote.	Various assumptions depending on bond.
Government bonds	420	Combination of observable and non-observable market inputs including modelling.	Relevant illiquidity adjustment made to the quoted price. Comparable gilt, and spread applied.
Structured notes	2	Price available from a recognised pricing source, but with high bid-offer spread, or low depth of quote.	Relevant illiquidity adjustment made to the quoted price.
Collateralised securities	49	Price available from a recognised pricing source, but with high bid-offer spread, or low depth of quote.	Relevant illiquidity adjustment made to the quoted price.
Collective Investment Undertakings	456	Non-observable market input, primarily net asset value statements.	Relevant assumptions applied to the net asset value of related undertakings.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED
D.4.1 ALTERNATIVE VALUATION METHODS – ASSETS CONTINUED

Asset	Solvency II value £m	Alternative valuation method	Assumption and assessment of valuation uncertainty
Derivatives	2,844	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	447	ERM: Internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible. Other loans: Income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value shall reflect 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. Other loans (i.e. policy loans): Various assumptions depending on loan, including yields, house price index and repayment rates.

In relation to investments in hedge funds and private equity investments (which are included within the table above in holdings in related undertakings including participations, collective investment undertakings and 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.

D.4.2 FINANCIAL INSTRUMENT SENSITIVITIES

Further details regarding the impact of significant changes in valuation inputs, including a sensitivity analysis showing how these changes affect the assets, are set out below. All figures quoted reflect the impact to both the assets valuation and the Basic Own Funds of the sensitivity being applied.

Equities and collectives

Certain investments in equities (including private equity) and collective investment schemes (including hedge funds) are valued using net asset statements provided by independent third parties and therefore no sensitivity analysis has been prepared.

Government bonds

The Group has investments in local authority loans with a value of £46 million. The valuation is based on the value of comparable gilts. An additional spread is applied in order to reflect investment duration/credit risk. This additional spread is based on monthly market data for a local authority loan, which is applied across the portfolio using gilt of matching duration. An increase in the spread of 25bps would decrease the valuation by £1 million. A decrease in the spread of 25bps would not significantly increase the valuation.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED

D.4.2 FINANCIAL INSTRUMENT SENSITIVITIES CONTINUED

Loans and mortgages

Within loans and mortgages there are two portfolios of ERMs with a fair value of £433 million. These are valued using a discounted cash flow model, the key inputs of which include demographic assumptions, economic assumptions (including house prices index) and the use of the Black-Scholes model for valuation of the no negative equity guarantee. The valuation is sensitive to movement in the swap curve. An increase in yields of 100bps would decrease the value by £42 million. A decrease in yields of 100bps would increase the value by £47 million. An increase of 1% in the inflation rate would increase the value by £3 million and a decrease of 1% would decrease the value by £4 million. An increase of 10% in house prices would increase the value by £1 million and a decrease of 10% would decrease the value by £1 million.

Investment properties

The fair value measurement of investment properties (included in property (other than for own use)) uses alternative valuation methods based on the inputs to the valuation techniques used. The following table shows the valuation techniques used in measuring the fair value of the investment properties, the significant non-observable inputs used, the inter-relationship between the key non-observable inputs and the fair value measurement of the investment properties:

Description	Valuation techniques	Significant non-observable inputs	Range (weighted average)
Commercial investment property (held by Life Companies)	RICS valuation	Expected income per sq.ft.	£4.91–£99.97 (£22.62)
		Capitalisation rate	4.72%–9.96% (6.12%)
Residential property reversions (held by Life Companies)	DCF model and RICS valuation	Mortality	130% IFL92C15 – Female
			130% IML92C15 – Male
		Future growth in-house prices	5-year RPI estimate + 1% margin
		Discount rates	5-year Gilt Spot Rate + 1.7% margin

The residential property reversions, interests in customers' properties that the Group will realise upon their death, are valued using a DCF model bases on the Group's proportion of the current open market value, discounted for the expected lifetime of the policyholder. The open market value is measured by independent local property surveyors having appropriate recognised professional qualifications with reference to the condition of the property and local market conditions. The individual properties are valued internally and indexed using regional house price indices to the balance sheet date. The discount rate is a risk-free rate appropriate for the duration of the asset, adjusted for liquidity and mortality risk. Assumptions are also made in the valuation for future movements in property prices. The treatment of the related refinancing loan is set out in section D.4.3.

The estimated fair value of the commercial properties held by the Life Companies would increase (decrease) if:

- The expected income were to be higher (lower); or
- The capitalisation rate were to be lower (higher).

The fair value of the residential property reversions would increase (decrease) if the market value of the property was to be higher (lower) or the life expectancy of the policyholders were to increase (decrease). Under the sensitivity to mortality rates going down (effectively longer life expectancy) the value of the fixed and shared reversion reserves increases, increasing the asset value. The fair value is also sensitive to discount rate and house prices as follows:

- An increase of 1% in the house price inflation rate would increase the fair value by £11 million;
- A decrease of 1% in the house price inflation rate would decrease the fair value by £10 million;
- An increase of 1% in the discount rate would decrease the fair value by £10 million; and
- A decrease of 1% in the discount rate would increase the fair value by £10 million.

Derivatives

Derivative positions are valued using standard valuation models, combining observable and non-observable market inputs. They are subject to price verification against independent sources. They are not subject to sensitivity analysis.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.4 ALTERNATIVE METHODS FOR VALUATION CONTINUED
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.

Liabilities	Solvency II value £m	Alternative valuation method	Assumption and assessment of valuation uncertainty
Deposits from reinsurers	392	DCF approach, using a market observable discount rate.	Contractual cash flows discounted using a swaps-based risk-free curve.
Derivatives	1,219	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.
Debts owed to credit institutions	267	Refinancing loan: Internally developed model using a combination of observable and non-observable market inputs.	Various assumptions including discount rate (based on asset duration, adjusted for liquidity/mortality risk) and house price inflation (regional indices).
Subordinated liabilities in Basic Own Funds	238	DCF approach, using a market observable discount rate adjusted to exclude the effect of changes in OCS.	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.
Subordinated liabilities in Basic Own Funds	441	DCF approach, using a market observable discount rate adjusted to exclude the effect of changes in OCS.	Contractual cash flows. Discounted using a swap rate. Changes in OCS are excluded by reference to the swap rate at issue.

The valuation of property reversion loans is sensitive to key assumptions of the discount rate and the house price inflation rate, as follows:

- An increase of 1% in the discount rate would decrease the fair value by £5 million;
- A decrease of 1% in the discount rate would increase the fair value by £5 million;
- An increase of 1% in the house price inflation rate would increase the fair value by £6 million; and
- A decrease of 1% in the house price inflation rate would decrease the fair value by £6 million.

SECTION D
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

IN THIS SECTION

SECTION E

CAPITAL MANAGEMENT

E.1 OWN FUNDS

This section provides information on the Group's Own Funds, including changes over the reporting period, the consolidated Group SCR and explanation of material differences between net assets under IFRS and the Solvency II excess of assets over liabilities.

E.1.1 MANAGEMENT OF OWN FUNDS

Following the implementation of the Solvency II Directive from 1 January 2016, the Group's capital is managed on a Solvency II basis.

A Solvency II capital assessment involves valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's SCR. Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The Group holds 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 the Group to fail the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

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 operates 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 Board 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 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 Board and monitored by management regularly, to ensure there is sufficient capital to meet the SCR under a range of stress conditions at a 1-in-10 level. The capital policy is managed according to the risk profile and financial strength of the Group.

The Group's future capital position is projected over a five-year planning horizon as part of the AOP process.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS

The table below summarises PLHL Group's solvency position at 31 December 2016. The Own Funds QRT S.23.01.22 can also be found in Appendix 1.4.

Description	Section reference	Tier 1 unrestricted £m	Tier 2 £m	Tier 3 £m	Total £m
Ordinary share capital	E.1.2.3	806	–	–	**806**
Surplus funds	E.1.2.3	2,414	–	–	**2,414**
Reconciliation reserve (pre availability restrictions)	E.1.2.3	3,672	–	–	**3,672**
Deferred tax assets	E.1.2.3	–	–	122	**122**
Excess of assets over liabilities		**6,892**	**–**	**122**	**7,014**
Subordinated liabilities	E.1.2.3	–	679	–	**679**
Total Basic and Available Own Funds		**6,892**	**679**	**122**	**7,693**
Availability restrictions	E.1.2.4	(580)	–	–	**(580)**
Tier 2 bonds held internally	E.1.2.4	–	(33)	–	**(33)**
Eligible Own Funds to meet SCR		**6,312**	**646**	**122**	**7,080**
Consolidated Group SCR	E.1.2.5				**(5,063)**
Solvency II surplus	E.1.2.1				**2,017**
Ratio of Eligible Own Funds to SCR					**140%**
Shareholder capital coverage ratio					**170%**

As shown in the above table 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, as one of the key features that support its use is the volume and value of intra-group transactions across the Group.

All intra-group balances within the PLHL Group are eliminated on consolidation (including internal subordinated debt balances) and therefore the position presented above reflects the Own Funds net of any intra-group transactions (including reinsurance).

E.1.2.1 Overview of solvency position

As at 31 December 2016, the Group's Solvency II surplus over the Consolidated Group SCR is £2,017 million, with a ratio of Eligible Own Funds to SCR of 140%.

89% of the Group's Eligible Own Funds are unrestricted Tier 1, and are principally comprised of 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 does not have any Ancillary Own Funds.

All the required SCR quantitative limits have been complied with and result in no restrictions nor are any Own Funds required to be relegated to lower tiers.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED

E.1.2.2 Shareholder Capital coverage ratio

In the calculation of the Group's Solvency II surplus, the SCR of unsupported with-profit funds and the 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 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 unsupported Group pension schemes.

Excluding the SCR and Own Funds relating to unsupported with-profit funds and Group pension schemes, the Solvency II Shareholder Capital coverage ratio is 170% as at 31 December 2016.

E.1.2.3 Basic Own Funds

The PLHL Group Basic Own Funds total £7,693 million and comprise of 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 of £806 million is treated as Tier 1 unrestricted Own Funds. The Articles of Association of PLHL include the right to cancel and withhold dividends at any time prior to payment.

Surplus funds

Surplus funds represent accumulated profits within a with-profit fund which have not yet been made available for distribution to policyholders or other beneficiaries and which satisfy the criteria for Tier 1.

The Group Basic Own Funds include surplus funds of £2,414 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.1.2.4).

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds and is calculated as follows:

Reconciliation Reserve as at 31 December 2016	£m
Excess of assets over liabilities	7,014
Deduct other Basic Own Funds items:	
Ordinary share capital	(806)
Surplus funds	(2,414)
Deferred tax asset – Tier 3	(122)
Reconciliation reserve pre availability restrictions	**3,672**
Adjustment for restricted Own Funds items in respect of RFF (see section E.1.2.4)	(228)
Non-available Own Funds – pension scheme surplus (see section E.1.2.4)	(170)
Non-available Own Funds – diversification benefits (see section E.1.2.4)	(98)
Non-available Own Funds – restriction to regulatory return (see section E.1.2.4)	(6)
Non-available Own Funds – PLL availability restriction (see section E.1.2.4)	(79)
Total non-available Own Funds	**(580)**
Reconciliation reserve total (as shown on Own funds QRT)	**3,092**

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.1.2.2.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED
E.1.2.3 Basic Own Funds Continued

Deferred tax assets

A deferred tax asset of £122 million is included as Tier 3 Own Funds. Further details regarding the composition of the deferred tax asset is included in section D.1.3.

Subordinated Liabilities

Details on the Group's subordinated liabilities are shown in the table below:

Note	Instrument description	Issuer	Tier of capital	Solvency II Value (pre-restriction) £m	Transitional Provisions apply
A	£428m Subordinated debt	PLHL	Tier 2	441	No
B	£200m Subordinated loan notes	PLL	Tier 2	238	Yes
				679	

The regulations include transitional arrangements for Own Funds items which allowed certain subordinated liabilities to be included in Tier 1 Own Funds for up to ten years after 1 January 2016 provided the items were issued before the regulations came into force on 17 January 2015. See note B below.

Notes

A: Subordinated debt – Tier 2

During 2015, PGH Capital Limited ('PGHC') issued £428 million of subordinated notes with a maturity date of 18 December 2025, the terms and conditions of which would allow the instrument to be treated as Tier 2 capital under the regulations. As PGHC is an entity above PLHL in the PGH Group organisational structure, a new loan was put in place between PGHC and PLHL that is a similarly Solvency II compliant Tier 2 instrument which is recognised as capital.

Holdings valued at £33 million in the instrument issued by PGHC were held by PLHL Group companies as at 31 December 2016. Accordingly a restriction of the same amount is applied to the Group Own Funds. These Group holdings have subsequently been disposed of during January 2017.

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 shareholders 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 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 to eliminate the impact of any change in OCS since inception from their fair value under IFRS, which results in £238 million contributing to Tier 2 Group Own Funds as at 31 December 2016.

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 2016, no restriction to the loan notes is required.

As all subordinated debt is classified as Tier 2 at 31 December 2016, further details regarding the principal loss absorbency mechanism complying with Article 71(1)(e) of the Commission Delegated Regulation (EU) 2015/35 has not been included as this Article relates to paid in subordinated liabilities classified as Tier 1 only.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED
E.1.2.3 Basic Own Funds Continued
Changes to subordinated liabilities

The table below outlines the changes in subordinated liabilities during the year.

Movement in subordinated liabilities	£m
At 1 January 2016	722
Redemption of balancing instrument [1]	(75)
Movements in valuation [2]	32
Closing 31 December 2016 subordinated debt	**679**

Notes:

[1] PLHL had issued a balancing instrument under which notes with a principal amount of £75m were issued to PGH. The instrument was fully repaid in April 2016.

[2] Excludes the impact of changes in OCS as detailed in section D.3.2.

E.1.2.4 Availability restrictions
As shown in the reconciliation reserve table above, the total non-available Group Own Funds are £580 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/ 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 2016.

The RFF deduction of £228 million comprises £60 million from PLL RFFs and £168 million from PLAL RFFs.

The excess of assets over liabilities across the PLHL Group for the RFF and Matching Adjustment Portfolios are £3,629 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 2016, £170 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 PGH1's contribution to the Group SCR.

No restriction exists for the Pearl Group Scheme as at 31 December 2016, as the surplus is less than PGH2's contribution to the Group SCR.

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 £98 million to Own Funds has been recognised as at 31 December 2016 reflecting the SCR Group diversification benefits allocated to the Group's Life Companies.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED

E.1.2.4 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

AXA Wealth Services ('AWS'). 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 AWS has been compared to its surplus in the RMAR regulatory return. As the surplus reported in this return is less than the AWS contribution to the Group, a £6 million restriction has been applied.

PLL availability restriction

The contribution of each entity to the PLHL 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.

As set out in section A.1.4.6 PLL entered into a 'buy-in' agreement with the Group's PGL Scheme. Following the elimination of intra-group amounts in relation to this transaction, the contribution of PLL to the PLHL Group Solvency II surplus exceeded its solo Solvency II surplus by £79m. Accordingly, a restriction of the same amount has been applied to the Group Own Funds.

Tier 2 subordinated debt held internally

As discussed in section E.1.2.3 the full value of the £428 million Tier 2 instrument issued by PLHL to PGHC is not recognised as capital, as a portion of the instrument has been funded via holdings in a PGHC instrument held by undertakings internal to the PLHL Group. As a result, a restriction of £33 million has been applied for the internal amount as at 31 December 2016. As previously noted, these Group holdings have subsequently been disposed of during January 2017.

E.1.2.5 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 2016 is £5,063 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 PLHL 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 PLHL Group are within the scope of the Group Internal Model. Those life insurance entities which are outside of the scope of the Internal Model are assessed using the Standard Formula. Phoenix uses 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	5,113	(653)	(98)	**4,362**
Insurance Holding Companies	477	–	(170)	**307**
Service Companies	25	–	(3)	**22**
UCITS management company	3	–	–	**3**
Other entities	229	138	–	**367**
Total SCR	**5,847**	**(513)**	**(271)**	**5,063**

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 £653 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. 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.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED

E.1.2.5 Consolidated Group SCR Continued

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.1.2.4 SCR Group diversification benefits are restricted.

E.1.2.6 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 is analysed as follows at 31 December 2016.

Entity	Minimum Capital Requirement £m
PLL	705
PLAL	434
AWL	12
ALAC	121
PA (GI)	8
Total MGSCR	**1,280**

Further details regarding the calculation of MCRs are set out in section E.2.3.

E.1.2.7 Excess of Own Funds over MGSCR

The MGSCR has also been assessed and is comfortably met with an excess over MGSCR of £5,288 million, with a ratio of Eligible Own Funds to MGSCR of 513%.

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 2016 result in a £390 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	Total £m
Available Own Funds to meet Minimum Group SCR ('MGSCR')	6.312	646	–	6,958
Eligibility restrictions MGSCR	–	(390)	–	(390)
Eligible Own Funds to meet Minimum Group SCR	**6,312**	**256**	**–**	**6,568**
Minimum Group SCR				(1,280)
Excess over Minimum Group SCR				**5,288**
Ratio of Eligible Own Funds to Minimum Group SCR				**513%**

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 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, Group SCR and Solvency II surplus.

Analysis of movement in Group solvency position (£m)	Notes	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 2016		**6,296**	**5,721**	**(4,399)**	**1,322**
Management actions	1	250	250	213	463
Expected run-off	2	(243)	(18)	263	245
Demographic experience variances (including changes to assumptions)	3	(268)	(152)	19	(133)
Economic variances on long-term business and movement in risk margin and TMTP	4	617	496	(540)	(44)
Impact of acquisition of AXA businesses	5	261	261	(264)	(3)
Impact of ALAC acquisition	6	828	828	(484)	344
Financing costs	7	(103)	(103)	–	(103)
Change in Group Own Funds restrictions and impact of other Group adjustments	8	55	(203)	129	(74)
Closing position at 31 December 2016		**7,693**	**7,080**	**(5,063)**	**2,017**

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.3 ANALYSIS OF MOVEMENT IN CAPITAL POSITION CONTINUED

Note	Item	Information
1	**Management actions**	Management actions throughout the year have increased the Solvency II surplus by £463 million. Significant items include the implementation of a longevity swap on a portfolio of annuity liabilities, the impact of economic hedging activity undertaken in the period, the extension of the Matching Adjustment to further qualifying asset classes and a reduction in future expenses due to a change to the service agreement between the Life Companies and the Service Companies.
2	**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 £184 million. Expected run-off also includes distribution to policyholders of the inherited estate from the with-profit funds which has increased the Solvency II surplus by £61 million due to the associated amounts attributable to shareholders.
3	**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. Coupled with experience variances observed in the year, and model and methodology changes implemented in the actuarial models this has resulted in a £133 million decrease in the Solvency II surplus.
4	**Economic variances on long-term business and movement in risk margin and TMTP**	Economic variances on long-term business decreased the Solvency II surplus by £307 million over the year primarily as a result of falling yields in the period. This has been offset by changes in the risk margin and TMTP which increased the Solvency II surplus by £263 million principally reflecting the approval granted by the PRA to recalculate TMTP for PLL and PLAL as at 30 June 2016 due to the material fall in yields over the first half of 2016. A recalculation as at 1 November 2016 due to the reinsurance of the AWL business into PLL was also approved during the year, the benefit of which is included as part of the impact of the acquired AXA businesses. The TMTP has also been reduced by $1/16^{th}$ in respect of the 16-year run-off period specified in the EIOPA requirements. The value of risk margin and TMTP as at 31 December 2016 are shown in section D.2.2. During March 2017, a further recalculation of TMTP in PLL was approved by the PRA on the basis of a significant change in that entity's risk profile. In addition, a further adjustment is made to reflect an anticipated recalculation of TMTP in PLAL, not yet subject to PRA approval. For both entities, the recalculation was reported in the PGH 2016 Report and Accounts at 31 December 2016 Appendix 2 sets out in detail the impact of this recalculation, which reduced the benefit of TMTP by £276 million.
5	**Impact of acquisition of AXA businesses**	As set out in section A.1.4.1, the Group acquired the AXA Wealth pension and protection business. The impact was to reduce the Solvency II surplus by £3 million. At 31 December 2016, the capital assessment of the acquired AXA business remained on a Standard Formula basis. During 2017, the Group received approval from the PRA to incorporate the acquired business in the Group's Internal Model. Appendix 2 sets out in detail the benefit to the Group of this approval, which was reported in the PGH Annual Report and Accounts for the year ended 2016.
6	**Impact of ALAC acquisition**	As set out in section A.1.4.2, the Group acquired Abbey Life, increasing the Solvency II surplus by £344 million.
7	**Financing costs**	Financing costs decreased Solvency II surplus by £103 million. PLHL had issued a balancing instrument under which notes with a principal amount of £75 million were issued to PGH. The instrument was fully repaid in April 2016. Additionally, there was £28 million for interest payments on the Tier 2 loan notes. Further details are included in section E.1.2.3.
8	**Change in Group Own Funds restrictions and impact of other Group adjustments**	The decrease in Solvency II surplus of £74 million is due to an increase in restrictions applied to Group Own Funds during the year and other Group consolidation adjustments offset by for non life earnings including profits arising in the Group's Service Companies and movements in the Group's pension schemes.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED
E.1 OWN FUNDS CONTINUED
E.1.4 RECONCILIATION OF IFRS NET ASSETS TO EXCESS OF ASSETS OVER LIABILITIES UNDER SOLVENCY II

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.

	Section	31 December 2016 £m
Total consolidated equity per IFRS[1]		**3,835**
Valuation differences:		
Assets increase/(decrease):	D.1.1	
Goodwill	D.1.2	(74)
Intangible assets (other than goodwill)	D.1.2	(1,076)
Deferred tax assets	D.1.2	1
Property, plant and equipment held for own use	D.1.2	(1)
Participations	D.1.2	(15)
Assets held for index-linked and unit-linked	D.1.2	(9)
Reinsurance recoverables	D.1.2	(778)
Receivables (Prepayments)	D.1.2	(10)
Total asset valuation differences	**D.1.1**	**(1,961)**
Liabilities (increase)/decrease:	**D.3.1**	
Technical provisions	D.2.2	4,482
Other technical provisions (unallocated surplus)	D.2.2	879
Deferred tax liabilities	D.3.2	(23)
Derivatives	D.3.2	6
Payables	D.3.2	(133)
Subordinated liabilities	D.3.2	(71)
Total liability valuation differences	**D.3.1**	**5,140**
Excess of assets over liabilities	E.1.2	**7,014**

[1] The IFRS equity has been determined on a consolidated basis for the PLHL Group of companies. As consolidated statutory financial statements are not prepared for PLHL, the IFRS equity will not agree to that reported in the standalone PLHL financial statements. Further details are included in Section D.1.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.4 RECONCILIATION OF IFRS NET ASSETS TO EXCESS OF ASSETS OVER LIABILITIES UNDER SOLVENCY II CONTINUED

Reconciliation of IFRS equity to Own Funds – PLHL Group Continued

A reconciliation of the consolidated IFRS equity for the PLHL Group to that included in the PGH Annual Report and Accounts for the year ended 31 December 2016 is set out below:

	31 December 2016 £m
Total consolidated equity per IFRS – PLHL Group	**3,835**
Elimination of intra-group balances with entities above PLHL Group	177
Assets in entities above PLHL Group	72
£900 million unsecured revolving credit facility	(843)
£300 million senior unsecured bond	(298)
Revaluation of intangibles at PGH consolidated level (net of tax)	390
Total consolidated equity per IFRS – PGH Group	**3,333**

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT

The Group's SCR at 31 December 2016 is presented below:

Analysis of SCR – 31 December 2016	Note	Partial Internal Model £m	Percentage of undiversified SCR %
Risk categories			
Underwriting risk (i.e. insurance risk)	1	2,962	40%
Market risk	2	1,479	20%
Credit risk	3	2,092	28%
Liquidity risk	4	–	–
Operational risk	5	775	11%
Other risks	6	95	1%
Total undiversified SCR		**7,403**	**100%**
Diversification benefits	7	(2,086)	
Non-linearity	8	47	
Management actions	9	(177)	
Loss absorbing capacity of deferred tax ('LACDT')	10	(263)	
Subsidiary risk capital	11	3	
Consolidation adjustments	12	136	
Group SCR		**5,063**	

The final amount of 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.

SECTION E
Continued

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 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. A simplified method is used to calculate the counterparty default adjustment as part of the Standard Formula credit risk calculation for ALAC. 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.
4	**Liquidity risk**	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 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 cashflow 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, a subsidiary of PLL (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 PLHL Group level.

SECTION E
Continued

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 2016 is £1,280 million.

The MCR for each Life Company is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or EUR 3.7million, 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 2016.

The components of the overall calculation of the MCR as at 31 December 2016 are:

Calculation of MCR – 31 December 2016	PLL £m	PLAL £m	PA (GI) £m	AWL £m	ALAC £m	PLHL £m
MCR before the application of floors and caps	209	174	–	42	101	
MCR cap (45% of SCR)	1,269	781	14	12	218	
MCR floor (higher of 25% of SCR or EUR 3.7m)	705	434	8	7	121	
MCR (post application of floors and caps)	**705**	**434**	**8**	**12**	**121**	**1,280**

The changes in MCR during the reporting period are set out below:

Analysis of change in MCR	PLL £m	PLAL £m	PA (GI) £m	AWL £m	ALAC £m	NPLL £m	PLHL £m
1 January 2016	639	436	3	–	–	3	**1,080**
31 December 2016	705	434	8	12	121	–	**1,280**
Movement in MCR	**66**	**(2)**	**5**	**12**	**121**	**(3)**	**200**

The MCR at both 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
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 equity risk sub-module in the calculation of the SCR.

SECTION E
Continued

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.

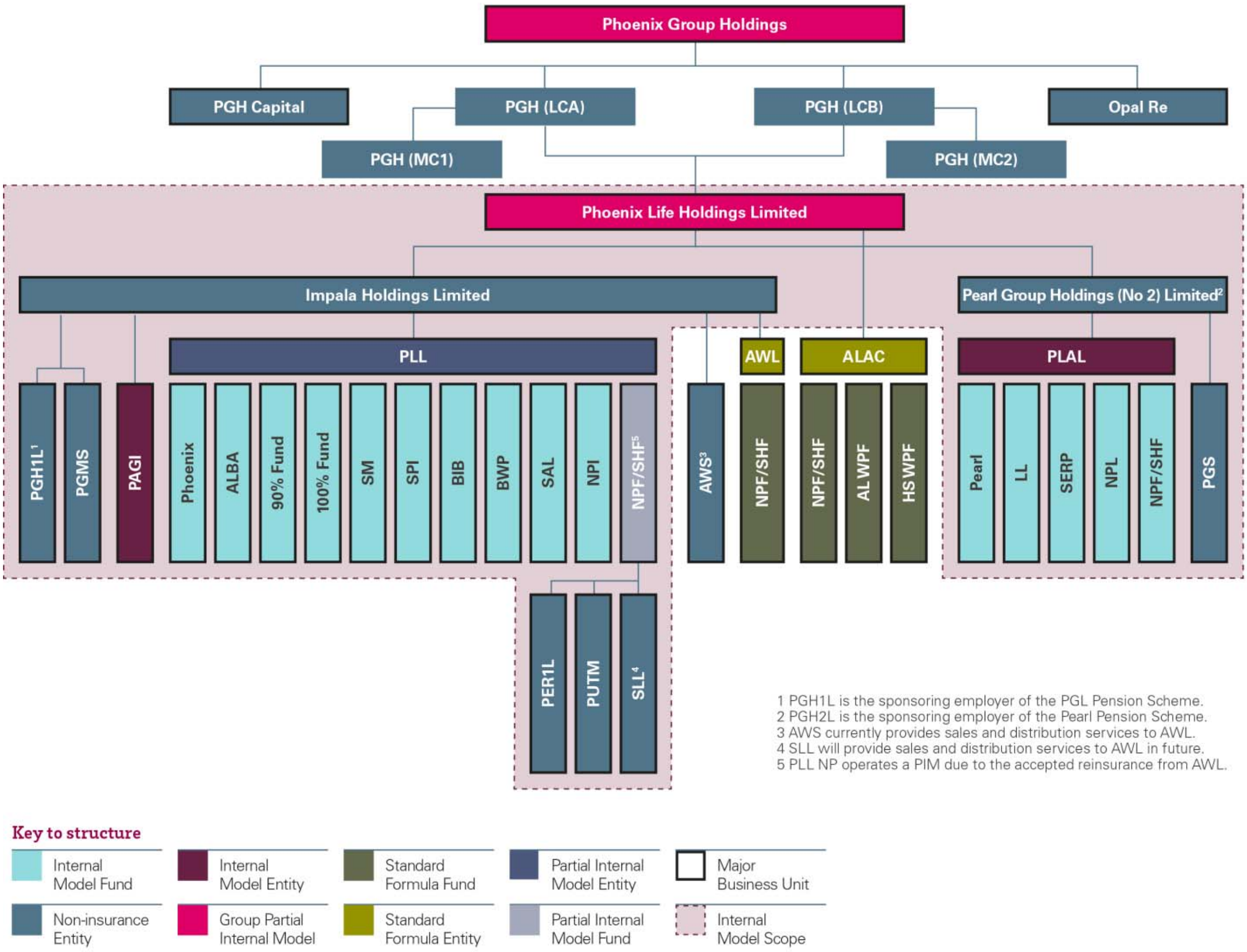
E.4.1 SCOPE OF INTERNAL MODEL

Coverage

Prior to the acquisition of the AXA Wealth and Abbey Life businesses during Q4 2016, the Group operated on an approved full Internal Model basis. As both the AXA Wealth and Abbey Life businesses operated on a Standard Formula basis immediately post acquisition, the Group moved to a partial Internal Model for 31 December 2016.

As a result all significant entities within the Group are currently modelled using the approved Internal Model, with the exception of the AXA Wealth business (now reinsured into PLL) and the Abbey Life business.

The diagram below sets out a simplified view of the current PLHL Group structure, which details the entities and funds within the scope of the Internal Model as at 31 December 2016.



In March 2017, the Group received PRA approval to include the acquired AXA businesses within the scope of the Group's Internal Model. In order to illustrate the impact of this, pro forma adjustments have been made to the 31 December 2016 results on a basis that assumes these actions took place on 31 December 2016. This is set out in Appendix 2.

SECTION E
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

The assessment of risk capital for 31 December 2016 for each Life Company is summarised in the table below.

Life Company	31 December 2016 Status	Reason
PLL	Partial Internal Model	Risk capital for AWL reinsured business is required to be determined on a Standard Formula basis. Risk capital for all other business determined on an Internal Model basis.
PLAL	Full Internal Model	Full Internal Model as no risks related to the acquired businesses have been transferred to PLAL.
AWL	Standard Formula	Standard Formula applies for 31 December 2016 as Internal Model approval not received from the PRA until March 2017.
ALAC	Standard Formula	Standard Formula applies. Intention to apply for Internal Model approval during Q4 2017.

All non-insurance entities (staff pension schemes, Service Companies, group Holding Companies and other financial institutions) are included within the scope of the Internal Model following the approval received from the PRA in March 2017.

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 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 periodically 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 which 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.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.2 USES OF THE INTERNAL MODEL CONTINUED

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.

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 2016.

The Partial Internal Model SCR calculation for the Group requires combining the Standard Formula SCR component with the Internal Model SCR component. The chosen integration approach simply involves summing the Standard Formula and Internal Model components of the SCR, without allowing for any diversification between the two components. This is a prudent approach.

The chosen Partial Internal Model aggregation technique is commonly known as the 'two worlds' approach, and is set out in the regulations. The use of this aggregation technique has been approved by the MGC.

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.

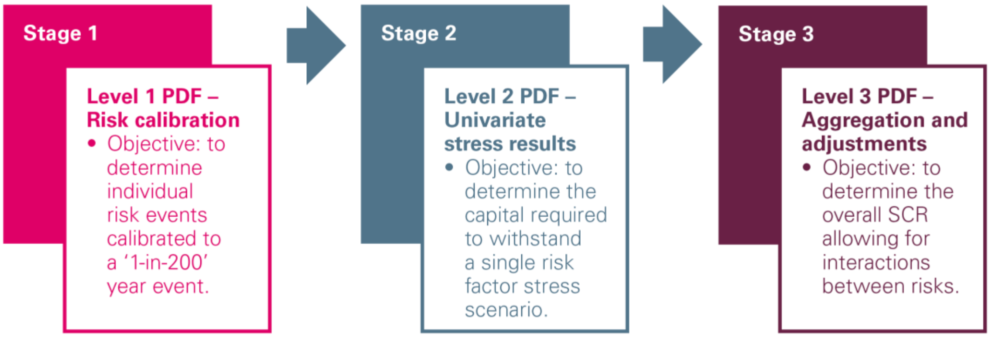
For example, the risk capital for equity risk, property risk and longevity risk are firstly determined in isolation using the Level 1 and Level 2 PDFs for each risk. The risk capital determined from the Level 2 PDF for each of these risks is then combined with the risk capital for all other risks via the correlation matrix in order to determine the overall SCR, which is determined from the Level 3 PDF.

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

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 PDF's 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.

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).

SECTION E
Continued

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 3 – Level 3 PDF – Aggregation and adjustments

As the Group is exposed to a large number of risks, a correlation matrix approach is used to aggregate the univariate risks, while allowing for dependencies between risks. The aggregated SCR is then further adjusted to allow for the following features:

- 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;
- The LACDT: and
- Other post-diversification adjustments.

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.

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.

2. Differences in the nature of risks considered and application of the stress

The main differences 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.

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.

SECTION E
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

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. Real yields are stressed separately (see inflation risk below).	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.
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.
Currency risk	This stress considers the most onerous impact of an upwards and downwards movement in foreign currency exchange rates.	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.
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.

SECTION E
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

2. Differences in the nature of risks considered and application of the stress Continued

Market risk Continued

Univariate stress	Internal Model	Standard Formula	Main differences
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.
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.	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.

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 there is no allowance for risk mitigation benefits. Outsourcer default risk is a bespoke calculation recognising the importance and the stability of the outsourcer concerned.	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.

SECTION E
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

2. Differences in the nature of risks considered and application of the stress Continued

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.	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).
Lapse risk	Two separate lapse stress components are considered: (i) Each product is assessed as being exposed to either an increase or decrease in lapse rates, together with an increase in GAO take-up rates; and (ii) 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.
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.

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.

SECTION E
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

2. Differences in the nature of risks considered and application of the stress Continued

Customer risk

Feature	Internal Model	Standard Formula	Main differences
Customer risk	Scenario approach focused around workshops with subject matter experts. Customer risk SCR is aggregated within Operational risk SCR.	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.

Operational Risk

Feature	Internal Model	Standard Formula	Main differences
Operational risk	For Life Company model risk, a frequency/severity approach is used to assess risk capital. For other sub-risks 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.

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.
Diversification between funds	No diversification is allowed for with strong ring-fenced funds. However, diversification is permitted between Matching Adjustment portfolios are other non-ring-fenced funds and entities. For non-ring-fenced funds 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 ring-fenced funds and with Matching Adjustment portfolios. The directional choice of each risk driver depends on the most onerous risk at an Entity or Group level.

4. Management actions

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 reversionary 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 changes may be increased to levels above those assumed in the base technical provisions.

SECTION E
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

4. Management actions Continued

The management actions methodology in the Internal Model and Standard Formula are summarised in the table below

Feature	Internal Model	Standard Formula
SCR/Own Capital Assessment ('OCA') 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. 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').

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.

SECTION E
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

4. Management actions Continued

Feature	Internal Model	Standard Formula
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.	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.

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.
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.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.7 NATURE AND APPROPRIATENESS OF DATA CONTINUED

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.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The PLHL Group, the Life Companies and PA (GI) 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 PLHL and PGH Boards and reflects the risk profile and financial strength of the Group. 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 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 to RST at least annually. The RST exercise provides an assessment of policyholder security by testing the combined strength of the funds available to the Group to enable regulatory capital requirements under stress conditions to be met.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.6 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Group's Own Funds and SCR.

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

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.

APPENDIX AND ADDITIONAL INFORMATION
Continued

GLOSSARY CONTINUED

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.
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 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016)

This report has been prepared in conjunction with the following QRTs, which are included below:

- S.02.01.02 Balance sheet;
- S.05.01.02 Premiums, claims and expenses by line of business;
- S.22.01.22 Impact of long term guarantees and transitional measures;
- S.23.01.22 Own Funds;
- S.25.02.22 Solvency Capital Requirement – for undertakings on a Partial Internal Model; and
- 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 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) CONTINUED

APPENDIX 1.1 — S.02.01.02 BALANCE SHEET QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	122,306
Pension benefit surplus	R0050	225,240
Property, plant & equipment held for own use	R0060	24,300
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	45,748,497
Property (other than for own use)	R0080	431,344
Holdings in related undertakings, including participations	R0090	20,432,534
Equities	R0100	181,396
Equities – listed	R0110	155,282
Equities – unlisted	R0120	26,114
Bonds	R0130	18,738,725
Government Bonds	R0140	11,369,142
Corporate Bonds	R0150	6,799,389
Structured notes	R0160	1,721
Collateralised securities	R0170	568,473
Collective Investments Undertakings	R0180	2,962,663
Derivatives	R0190	2,911,705
Deposits other than cash equivalents	R0200	90,130
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	23,897,199
Loans and mortgages	R0230	446,928
Loans on policies	R0240	10,629
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	436,299
Reinsurance recoverables from:	R0270	10,206,191
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	3,336,101
Health similar to life	R0320	81,582
Life excluding health and index-linked and unit-linked	R0330	3,254,518
Life index-linked and unit-linked	R0340	6,870,090
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	28,980
Reinsurance receivables	R0370	36,548
Receivables (trade, not insurance)	R0380	565,003
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	497,052
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	81,798,243

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	38,472,469
Technical provisions – health (similar to life)	R0610	148,914
TP calculated as a whole	R0620	
Best estimate	R0630	155,913
Risk margin	R0640	(6,998)
TP – life (excluding health and index-linked and unit-linked)	R0650	38,323,555
TP calculated as a whole	R0660	
Best estimate	R0670	38,539,581
Risk margin	R0680	(216,026)
TP – index-linked and unit-linked	R0690	30,543,574
TP calculated as a whole	R0700	
Best estimate	R0710	30,459,667
Risk margin	R0720	83,907
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	108,742
Pension benefit obligations	R0760	87,234
Deposits from reinsurers	R0770	391,937
Deferred tax liabilities	R0780	371,678
Derivatives	R0790	1,238,727
Debts owed to credit institutions	R0800	1,806,960
Financial liabilities other than debts owed to credit institutions	R0810	150,151
Insurance & intermediaries payables	R0820	490,921
Reinsurance payables	R0830	20,352
Payables (trade, not insurance)	R0840	422,740
Subordinated liabilities	R0850	678,618
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	678,618
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	74,784,103
Excess of assets over liabilities	R1000	7,014,141

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	13,207	164,702	157,105	663,486				264	998,764
Reinsurers' share	R1420	661	4,839	60,118	9,160					74,778
Net	R1500	12,546	159,863	96,987	654,326				264	923,986
Premiums earned										
Gross	R1510	13,207	164,702	157,105	663,486				264	998,764
Reinsurers' share	R1520	661	4,839	60,118	9,160					74,778
Net	R1600	12,546	159,863	96,987	654,326				264	923,986
Claims incurred										
Gross	R1610	19,968	2,231,353	727,714	716,947				30,365	3,726,348
Reinsurers' share	R1620	10,621	186,427	168,993	90,346					456,386
Net	R1700	9,347	2,044,927	558,722	626,601				30,365	3,269,962
Changes in other technical provisions										
Gross	R1710									0.00
Reinsurers' share	R1720									0.00
Net	R1800									0.00
Expenses incurred	R1900	496	136,696	47,403	201,342				15,342	401,279
Other expenses	R2500									
Total expenses	R2600									401,279

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	69,016,043	3,213,630			992,081
Basic own funds	R0020	7,080,268	(2,767,818)			(937,913)
Eligible own funds to meet Solvency Capital Requirement	R0050	7,079,883	(2,767,818)			(937,913)
Solvency Capital Requirement	R0090	5,063,312	(436,710)			841,029

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	806,000	806,000			
Non-available called but not paid in ordinary share capital at group level	R0020					
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					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070	2,413,553	2,413,553			
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	3,092,285	3,092,285			
Subordinated liabilities	R0140	678,618			678,618	
Non-available subordinated liabilities at group level	R0150	32,879			32,879	
An amount equal to the value of net deferred tax assets	R0160	122,306				122,306
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	(385)	(385)			
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	32,879			32,879	
Total deductions	R0280	32,494	(385)		32,879	
Total basic own funds after deductions	R0290	7,080,268	6,312,223		645,739	122,306

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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					
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						
Reconciliation reserve	R0410	(385)	(385)			
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430					
Total own funds of other financial sectors	R0440	(385)	(385)			
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	7,080,268	6,312,223		645,739	122,306
Total available own funds to meet the minimum consolidated group SCR	R0530	6,957,962	6,312,223		645,739	
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	7,080,268	6,312,223		645,739	122,306
Total eligible own funds to meet the minimum consolidated group SCR	R0570	6,568,309	6,312,223		256,086	
Minimum consolidated Group SCR	R0610	1,280,431				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	513%				
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	7,079,883	6,311,838		645,739	122,306
Group SCR	R0680	5,063,312				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	140%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	7,014,141
Own shares (included as assets on the balance sheet)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	3,341,859
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	227,990
Other non available own funds	R0750	352,007
Reconciliation reserve before deduction for participations in other financial sector	R0760	3,092,285
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	381,559
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total EPIFP	R0790	381,559

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	1,721,931	1,721,931		
10700P	Market Spread Risk (pension scheme)	148,814	148,814		
11000I	Market risk excluding spread risk	1,344,814	1,344,814		
11000P	Market risk excluding spread risk (pension scheme)	304,459	304,459		
19900I	Diversification within Market Risk	(274,965)	(274,965)		
20000I	Counterparty Risk	112,878	112,878		
20000P	Counterparty Risk (pension scheme)				
30000I	Life Underwriting Risk	2,693,224	2,693,224		
30000P	Life Underwriting Risk (pension scheme)	209,552	209,552		
40000I	Health Underwriting Risk	706	706		
70100I	Operational Risk	703,013	703,013		
70100P	Operational Risk (pension scheme)	24,909	24,909		
80150I	Other Risks - Strategic Risk	35,614	35,614		
80150P	Other Risks - Strategic Risk (pension scheme)				
80190I	Other Risks - Financial Soundness Risk	59,333	59,333		
80190P	Other Risks - Financial Soundness Risk (pension scheme)				
80200I	Non-dynamic management actions	(176,846)	(176,846)		
80300I	Loss-absorbing capacity of deferred tax	(263,587)	(263,587)		
80400I	Other Adjustments	57,078	57,078		
80400P	Other Adjustments (pension scheme)				

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	6,700,927
Diversification	R0060	(2,008,764)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	4,692,163
Capital add-on already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	5,063,312
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(2,128,099)
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(263,587)
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	2,004,182
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	2,687,980
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	1,137,485
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	1,280,431
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	3,226
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	3,226
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	367,924
Overall SCR		
SCR for undertakings included via D and A	R0560	
Solvency capital requirement	R0570	5,063,312

APPENDIX AND ADDITIONAL INFORMATION
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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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 or by guarantee or unlimited	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	54930005FMXD1D7H5U38	1 – LEI	Abbey Life Assurance Company Limited	1 – Life insurance undertaking	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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	AXA Sun Life Direct Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		1 – Method 1: Full consolidation
GB	213800IHCXV68Y68RU96	1 – LEI	AXA Trustee Services Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	AXA Wealth Limited	1 – Life insurance undertaking	Company limited by shares or by guarantee or unlimited	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	AXA Wealth Services Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	Bradford Insurance Company Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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
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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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
JE	213800HH4EBMNEMZ7F92	1 – LEI	ILC1 (Jersey) Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	635400GBPN5HTTIVVH83	1 – LEI	Mutual Securitisation Plc	99 – Other	Company limited by shares or by guarantee or unlimited	1 – Mutual		0.00%	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		4 – Method 1: Sectoral rules
GB	213800PO6LOTMSXHAP71	1 – LEI	Pearl Group Holdings (No.1) Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		1 – Method 1: Full consolidation

APPENDIX AND ADDITIONAL INFORMATION
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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	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	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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) Ltd	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	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	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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	PGS2 Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	2 – Non-mutual		0.00%	0.00%	0.00%			0.00%	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	2138002CJZVH844BO431	1 – LEI	Pearl PLP Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		3 – Method 1: Adjusted equity method

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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	213800F9J1GCM4FMTU87	1 – LEI	Pearl Customer Care Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	213800O1YBZJ7WJK2567	1 – LEI	SL Liverpool PLC	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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	213800ZILLOABHU4ZT66	1 – LEI	Scottish Mutual Assurance Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	Winterthur Life UK Holdings Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	213800JGHD8XCIYNWU64	1 – LEI	PUTM Bothwell Global Credit Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.99%	99.99%	99.99%		1 – Dominant	99.99%	1– Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION
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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	213800VU8M72BGVW2T34	1 – LEI	PUTM Bothwell Fixed Abs Sterling Hedged Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.27%	99.27%	99.27%		1 – Dominant	99.27%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800A36R1Z1S85RR19	1 – LEI	PUTM Bothwell Emerging Market Debt Unconstrained Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.88%	99.88%	99.88%		1 – Dominant	99.88%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800882SVHV1XPLA47	1 – LEI	PUTM Bothwell European Credit Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		85.51%	85.51%	85.51%		1 – Dominant	85.51%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800P8QDZ2EUITVU80	1 – LEI	PUTM Bothwell Europe Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		98.23%	98.23%	98.23%		1 – Dominant	98.23%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138001KPRR6P5IG1960	1 – LEI	PUTM Bothwell Credit Financials Sterling Hedged Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.73%	99.73%	99.73%		1 – Dominant	99.73%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800W3AMX9O6QS6F82	1 – LEI	PUTM Bothwell Sub-Sovereign Bond Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800XBTJGEIJPJIT08	1 – LEI	Phoenix ER2 Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.52%	99.52%	99.52%		1 – Dominant	99.52%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KH7K7YYQ7LLG85	1 – LEI	PUTM Bothwell Uk Equity Income Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800KPZ3IYLLF4UT85	1 – LEI	PUTM Uk All-Share Index Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.97%	99.97%	99.97%		1 – Dominant	99.97%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800DN8K9C4SHNSO89	1 – LEI	PUTM Cautious Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.04%	99.04%	99.04%		1 – Dominant	99.04%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800XLPB31C21BK654	1 – LEI	PUTM European Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.49%	99.49%	99.49%		1 – Dominant	99.49%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138004HI8MR9C7M4110	1 – LEI	PUTM Far Eastern Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.74%	99.74%	99.74%		1 – Dominant	99.74%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800R93551HXPTCO23	1 – LEI	PUTM International Growth Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.47%	99.47%	99.47%		1 – Dominant	99.47%	1– Included in the scope		3 – Method 1: Adjusted equity method

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APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	213800KD7U6UFS4ED527	1 – LEI	PUTM North American Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.07%	99.07%	99.07%		1 – Dominant	99.07%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800D2NQORX8CJQZ25	1 – LEI	PUTM Bothwell Global Equity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		97.46%	97.46%	97.46%		1 – Dominant	97.46%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800FOR1Z8YSVHSW15	1 – LEI	PUTM Bothwell Index-Linked Sterling Hedged Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800IH74PGGQ7I4488	1 – LEI	PUTM Bothwell Japan Equity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.45%	99.45%	99.45%		1 – Dominant	99.45%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800KHXBLNLCG65816	1 – LEI	PUTM Bothwell Long Gilt Sterling Hedged Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.27%	99.27%	99.27%		1 – Dominant	99.27%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800QZTKMAJY8XSB43	1 – LEI	PUTM Bothwell Credit Non Financials Sterling Hedged Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.65%	99.65%	99.65%		1 – Dominant	99.65%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800FHKCOXS82HQG65	1 – LEI	PUTM Bothwell Sterling Government Bond Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		98.88%	98.88%	98.88%		1 – Dominant	98.88%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800T31U3W79HGRH81	1 – LEI	PUTM Bothwell Euro Sovereign Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800TRPZOHA5CTQT96	1 – LEI	PUTM Bothwell Sterling Credit Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		97.66%	97.66%	97.66%		1 – Dominant	97.66%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TGH1B5H3CCKM64	1 – LEI	PUTM Opportunity Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	213800R4RZSQBOAMVN21	1 – LEI	PUTM Uk Stock Market Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800P3GNH79HH17J98	1 – LEI	PUTM Uk Equity Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.85%	99.85%	99.85%		1 – Dominant	99.85%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007MBUBP1DYEF454	1 – LEI	PUTM Growth Unit Trust	99 – Other	Company limited by shares or by guarantee or unlimited	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 Liquidity Fund plc - Sterling Liquidity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		45.59%	45.59%	45.59%		2 – Significant	45.59%	1– Included in the scope		3 – Method 1: Adjusted equity method
IE	213800F18AWU4JY7PV04	1 – LEI	Standard Life Investments Liquidity Fund plc - Sterling Short Duration Managed Liquidity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		94.74%	94.74%	94.74%		1 – Dominant	94.74%	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 or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		3 – Method 1: Adjusted equity method

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APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	213800QSPR2LRLU34T67	1 – LEI	Abbey Life Trustee Services Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	372EHZXZC4FO1JPGOK71	1 – LEI	Aberdeen Investment Funds UK ICVC II - Aberdeen Financial Equity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		85.61%	85.61%	85.61%		1 – Dominant	85.61%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	549300G9T4G15WXCD957	1 – LEI	Scottish Widows UK and Income Investment Funds ICVC - Ethical Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		23.73%	23.73%	23.73%		2 – Significant	23.73%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	549300S31L6C8BSM2G23	1 – LEI	Scottish Widows Tracker and Specialist Investment Funds ICVC - International Bond Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		29.89%	29.89%	29.89%		2 – Significant	29.89%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	5493007Y7ZYJQ7UM7O14	1 – LEI	AB SICAV I – Global Factor Portfolio	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		52.90%	52.90%	52.90%		1 – Dominant	52.90%	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		57.80%	57.80%	57.80%		1 – Dominant	57.80%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	549300Y1874OGLBYCG21	1 – LEI	Black Rock LBG DC A Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		96.30%	96.30%	96.30%		1 – Dominant	96.30%	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 or by guarantee or unlimited	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	PG Dormant No. 1 Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	Phoenix Annuities Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		0.00%	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 or by guarantee or unlimited	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 shares or by guarantee or unlimited	2 – Non-mutual		0.00%	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 or by guarantee or unlimited	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	2138009BU7B91VZP2M65	1 – LEI	Pearl MG Birmingham Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	213800JH8I75Q3WBIX59	1 – LEI	Pearl (Martineau Phase 1) Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1– Included in the scope		3 – Method 1: Adjusted equity method

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APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES (31 DECEMBER 2016) 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	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of group supervision: Yes/No	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
IE	213800SH4MG4MNVECA61	1 – LEI	Ignis Strategic Solutions Funds Plc – Fundamental Strategies Fund	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	E94CEN8GRVRVB6UU0N08	1 – LEI	Henderson Global Funds – Henderson World Select Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		29.66%	29.66%	29.66%		2 – Significant	29.66%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138004YB2HUL6PHSQ91	1 – LEI	Henderson Global Care Funds – Henderson Institutional Global Care Managed Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		62.79%	62.79%	62.79%		2 – Significant	62.79%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800BJNPIRCWGSEF97	1 – LEI	Henderson Institutional High Alpha UK Equity Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		34.72%	34.72%	34.72%		2 – Significant	34.72%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	21380011W681SRN4QP87	1 – LEI	Henderson Uk & Europe Funds – Henderson Institutional Uk Gilt Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		69.89%	69.89%	69.89%		2 – Significant	69.89%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	GB00BYPHPK88	2 – Specific code	Standard Life UK Real Estate Income Feeder Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		37.57%	37.57%	37.57%		2 – Significant	37.57%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	5493005Q5UD09XMDS126	1 – LEI	Aberdeen capital trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.48%	99.48%	99.48%		1 – Dominant	99.48%	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	Pearl BULA Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 shares or by guarantee or unlimited	2 – Non-mutual		0.00%	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 shares or by guarantee or unlimited	2 – Non-mutual		0.00%	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 2016) 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	213800VG1BZO9WR4I941	1 – LEI	Henderson Diversified Growth	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		79.85%	79.85%	79.85%		1 – Dominant	79.85%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	21380067JPI4ENNTAD73	1 – LEI	Henderson Institutional Credit Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		99.96%	99.96%	99.96%		1 – Dominant	99.96%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800PZXIJUMYOXDN27	1 – LEI	Henderson Global Funds – Henderson Institutional Overseas Bond Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		98.40%	98.40%	98.40%		1 – Dominant	98.40%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800TQYSHLWYSUR685	1 – LEI	Henderson Institutional UK Index Opportunities Trust	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		73.19%	73.19%	73.19%		2 – Significant	73.19%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800IJ3HKI1OZKQ289	1 – LEI	Henderson Institutional Mainstream Uk Equity Trust	99 – Other	Company limited by shares or by guarantee or unlimited	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	Henderson Strategic Investment Funds - Henderson Institutional European Index Opportunities Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		77.93%	77.93%	77.93%		1 – Dominant	77.93%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800GCSPYUX5TO2V30	1 – LEI	Henderson Strategic Investment Funds - Henderson Institutional Japan Index Opportunities Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		66.21%	66.21%	66.21%		1 – Dominant	66.21%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138007DWD6A7X7FL923	1 – LEI	Henderson Strategic Investment Funds - Henderson Institutional North American Index Opportunities Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		85.20%	85.20%	85.20%		1 – Dominant	85.20%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	2138006CHW6K23X8BM02	1 – LEI	Henderson Strategic Investment Funds- Henderson Institutional Asia Pacific Ex Japan Index Opportunities Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		72.32%	72.32%	72.32%		1 – Dominant	72.32%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800I7IK5UQW1RAB89	1 – LEI	Henderson UK & Europe Funds - Henderson Institutional Short Duration Bond Fund	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		80.20%	80.20%	80.20%		1 – Dominant	80.20%	1– Included in the scope		3 – Method 1: Adjusted equity method
GB	213800SPJ66CK3GEGF30	1 – LEI	Henderson Institutional Uk Equity Tracker Trust	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 2016) 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	2138001CFOTDN3U7BM31	1 – LEI	Pearl (Chiswick House) Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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	2138005OLWBASFXB7S08	1 – LEI	Pearl (Stockley Park) Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	213800GRORRHUWA5C435	1 – LEI	Alba LAS Pensions Management Limited	99 – Other	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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 or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	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	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		47.87%	47.87%	47.87%		2 – Significant	47.87%	1– Included in the scope		3 – Method 1: Adjusted equity method
US	549300NE2XVZGCQKUV36	1 – LEI	Castle Hill Asset Management LLC	99 – Other	Company limited by shares or by guarantee or unlimited	2 – Non-mutual		40.00%	40.00%	40.00%		2 – Significant	40.00%	1– Included in the scope		3 – Method 1: Adjusted equity method

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 2 – PRO FORMA INFORMATION REFLECTING CHANGES SINCE 31 DECEMBER 2016

Since the end of 2016, certain actions have been undertaken which have had a significant impact on the Group's Solvency II position. These comprise:

- The issuance in January 2017, of a £300 million subordinated Tier 3 bond that qualifies as Solvency II capital;
- The recalculation of TMTP as at 31 December 2016 in PLL following the PRA's approval in March 2017; and
- Receipt of the PRA's approval in March 2017 to include the acquired AXA businesses within the scope of the Group's Solvency II Internal Model.

In order to illustrate the impacts of the above, pro forma adjustments have been made to the actual Solvency II metrics on a basis that assumes that these actions took place on 31 December 2016. In addition, a further adjustment is made to reflect an anticipated recalculation of TMTP in PLAL, not yet subject to PRA approval. This pro forma position is considered to provide a more appropriate analysis of the Group's capital position consistent with the basis by which solvency is being managed by the Group.

As previously set out, all information contained throughout the QRTs set out in Appendix 1 and the various sections of the SFCR excludes these pro forma adjustments, unless expressly specified. This section sets out the impact of these adjustments to all the relevant sections of the SFCR.

Issuance of £300 million subordinated Tier 3 bond

On 20 January 2017, PGHC issued £300 million of subordinated notes due 2022 at a coupon of 4.125% that qualifies as Solvency II Tier 3 capital. The proceeds from this issuance have been used to fund an equivalent PLHL £300 million Tier 3 instrument. Following issuance of the PLHL instrument, PLHL repaid a £150 million loan to its immediate parent companies, and also paid a dividend of £150 million. The net impact of all of these transactions has been reflected in a pro forma adjustment that increases Group Own Funds by £150 million.

Recalculation of TMTP

As described in section D.2.7.2, the Group has the PRA's approval to apply TMTP. This allows for a deduction from the amount of Solvency II technical provisions, of the difference between the net technical provisions calculated in accordance with the Solvency II rules and the net technical provisions calculated in accordance with the previous Solvency I regime. The deduction is expected to decrease over 16 years from 1 January 2016 to 1 January 2032 in line with business run-off. The regulations require all insurers to recalculate TMTP every two years after 1 January 2016. In addition, the regulations permit the initial TMTP to be recalculated more frequently under circumstances where the risk profile of the business changes. Such a recalculation requires PRA approval.

During March 2017, a further recalculation of TMTP in PLL (determined as at 31 December 2016) was approved by the PRA on the basis a significant change in that entity's risk profile. This arose as a result of the approval of a further MA application and the transaction of a further longevity reinsurance agreement in respect of a portfolio of annuity business. Due to the timing of receipt of this approval, the impact of this recalculation has not been included within the QRTs or the SFCR for 31 December 2016. However, the impact has been presented below as part of the pro forma positon.

In addition, a further adjustment is made to reflect an anticipated recalculation of TMTP in PLAL, not yet subject to PRA approval.

The recalculation pf TMTP impacts both the technical provisions and the SCR. This is due to the impact of the change in TMTP on the LACDT and the additional management actions applied in the SCR calculation, which can be used to reduce losses under stressed conditions.

The adjustments made to reflect the impact of the recalculation of TMTP on a pro forma basis have an impact of £(276) million on the Solvency II surplus as at 31 December 2016.

Internal Model approval

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. The capital assessment of the acquired AWL and ALAC businesses remained on a Standard Formula basis as at 31 December 2016. Therefore, the actual Solvency II position of the Group as at that date is based partially on the Internal Model and partially on Standard Formula. In March 2017, the PRA approved the Internal Model application for the AWL business reinsured into PLL. The adjustments made to reflect the impact of the Internal Model approval (together with an anticipated recalculation of TMTP) on a pro forma basis have an impact of £113 million on the Solvency II surplus as at 31 December 2016.

SECTION A: BUSINESS AND PERFORMANCE

The pro forma adjustments made since 31 December 2016 do not impact the information set out in section A.

SECTION B: SYSTEM OF GOVERNANCE

As set out in section B.1.5, the MGC is a Committee of the Group's Board. Its terms of reference have been extended to include the acquired AWL business and also PGH, to address matters pertinent to the extension of the Internal Model to cover the entire PGH Group. This change to the Terms of Reference allow the MGC to approve PGH methodology, consider the results of validation/independent validation at the PGH level and consider the PGH major model change application.

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 2 – PRO FORMA INFORMATION REFLECTING CHANGES SINCE 31 DECEMBER 2016 CONTINUED

SECTION C: RISK PROFILE

The table below sets out the changes to the risk categories of the Group, as a result of applying the pro forma adjustments.

Analysis of SCR – 31 December 2016	31 December 2016 actual £m	% of total undiversified SCR	Impact of TMTP recalculation £m	AWL business approved Internal Model £m	Change in Life Company diversification benefits and group consolidation adjustments £m	Total SCR on a pro forma basis £m	% of total undiversified SCR pro forma
Risk categories							
Underwriting risk (i.e. insurance risk)	2,962	40%	–	(154)	–	2,808	38%
Market risk	1,479	20%	–	38	–	1,517	21%
Credit risk	2,092	28%	–	(10)	–	2,082	29%
Liquidity risk	–	–	–	–	–	–	–
Operational risk	775	11%	–	16	–	791	11%
Other risks	95	1%	–	2	–	97	1%
Total undiversified risks	**7,403**	**100%**	**–**	**(108)**	**–**	**7,295**	**100%**
Diversification benefits	(2,086)		(14)	5	54	(2,041)	
Non-linearity	47		–	–	–	47	
Management actions	(177)		(127)	(7)	–	(311)	
Loss absorbing capacity of deferred tax ('LACDT')	(263)		43	(3)	–	(223)	
Subsidiary risk capital	3		–	–	–	3	
Consolidation adjustments	136		–	8	–	144	
Group SCR	**5,063**		**(98)**	**(105)**	**54**	**4,914**	

SECTION D: VALUATION FOR SOLVENCY PURPOSES

The assets and liabilities for the Group are set out in sections D.1.1 and D.2.1 respectively. The table below shows the impact of the pro forma adjustments on the 31 December 2016 balance sheet.

	31 December 2016 actual £m	Impact of TMTP recalculation £m	AXA business approved Internal Model £m	Issuance of Tier 3 bond £m	Total balance sheet on a pro forma basis £m
Assets	**81,798**	–	–	**(150)**	**81,648**
Best Estimate Liabilities	70,335	–	–	–	70,335
Risk margin	1,895	–	(67)	–	1,828
TMTP	(3,213)	463	60	–	(2,690)
Other liabilities	5,767	(42)	–	–	5,725
Liabilities	**74,784**	**421**	**(7)**	**–**	**75,198**
Excess of assets over liabilities	**7,014**	**(421)**	**7**	**(150)**	**6,450**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 2 – PRO FORMA INFORMATION REFLECTING CHANGES SINCE 31 DECEMBER 2016 CONTINUED

SECTION D: VALUATION FOR SOLVENCY PURPOSES CONTINUED

Further analysis of the composition of the TMTP and the risk margin is presented below:

	TMTP		Risk margin	
	Actual £m	Pro forma £m	Actual £m	Pro forma £m
PLL	2,268	1,813	1,168	1,101
PLAL	945	877	539	539
ALAC	–	–	177	177
AWL	–	–	11	11
PLHL Group	**3,213**	**2,690**	**1,895**	**1,828**
Unsupported with-profit funds	(968)	(826)	(400)	(400)
PLHL Group (excluding the unsupported with-profit funds)	**2,245**	**1,864**[1]	**1,495**	**1,428**[1]

[1] The amounts of TMTP and risk margin reported in the PGH Annual Report and Accounts for the year ended 31 December 2016, published in March 2017 were £1.9 billion and £1.3 billion respectively. The risk margin reported excluded the amounts in relation to ALAC and AWL.

The impact of the reduction in the Solvency II surplus of the Group is set out in further detail in section E below.

SECTION E: CAPITAL MANAGEMENT

The table below sets out the pro forma Solvency II capital position of the Group as at 31 December 2016, after allowing for the impact of the pro forma adjustments.

	31 December 2016 actual £m	Impact of TMTP recalculation (Tier 1) £m	AXA business approved Internal Model (Tier 1) £m	Issuance of Tier 3 bond (Tier 3) £m	Change in restriction for other non available items £m	Total capital position on a pro forma basis £m
Excess of assets over liabilities	**7,014**	**(421)**	**7**	**(150)**	**–**	**6,450**
Subordinated liabilities	679	–	–	300	–	979
Total Basic and Available Own Funds before deductions	**7,693**	**(421)**	**7**	**150**	**–**	**7,429**
Ring fenced fund restriction	(228)	47	1	–	–	(180)
Restriction for other non-available items	(352)	–	–	–	62	(290)
Tier 2 bonds held internally	(33)	–	–	–	–	(33)
Eligible Own Funds to meet SCR after deductions	**7,080**	**(374)**	**8**	**150**	**62**	**6,926**
SCR	(5,063)	98	105	–	(54)	(4,914)
Solvency II surplus	**2,017**	**(276)**	**113**	**150**	**8**	**2,012**
Ratio of Eligible Own Funds to SCR	**140%**					**141%**
Shareholder capital coverage ratio	**170%**					**171%**

On a pro forma basis, the Solvency II surplus is £2,012 million, with a ratio of Eligible Own Funds to SCR of 141%.

As a result of applying the pro forma adjustments, the Group's Tier 1 capital reduces, with 85% of the Eligible Own Funds after deductions being Tier 1, compared to 89% on the actual positon.

The change in the restriction for other non-available items of £62 million reflects a reduction in the restriction for non-available diversification benefits (see section E.1.2.4) of £54 million and £8 million for a reduction in the PLL availability restriction (see section E.1.2.4) due to changes in the intercompany amounts eliminated on consolidation.

All required SCR quantitative limits continue to be complied with, without restriction, and no Own Funds required to be relegated to lower tiers.

In light of the headroom on the MCR solvency calculations, further details on applying the pro forma adjustments to that calculation have not been included in this section.

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 2 – PRO FORMA INFORMATION REFLECTING CHANGES SINCE 31 DECEMBER 2016 CONTINUED

SECTION E: CAPITAL MANAGEMENT CONTINUED

The shareholders' Eligible Own Funds and SCR (after adjusting to exclude the Own Funds and SCR of the unsupported with-profit funds and the unsupported Group Pension schemes) is £4,851 million and £2,839 million respectively, which equates to a shareholder capital coverage ratio of 171% on a pro forma basis.

As set out in section C, as part of the Group's internal risk management processes, the regulatory capital requirements under Solvency II are tested against a number of financial scenarios. The results of such stress testing are provided below and demonstrate the resilience of the Group's pro forma Solvency II surplus.

	Solvency II surplus (pro forma) £m
Base: 1 January 2017[1]	**2,012**
Following a 20% fall in equity markets	1,992
Following a 15% fall in property values	1,947
Following a 55bps interest rate rise[2]	2,134
Following a 80bps interest rate fall[2]	1,894
Following credit spread widening[3]	1,901
Following a 6% decrease in annuitant mortality rates[4]	1,625
Following a 10% increase in assurance mortality rates	1,909
Following a 10% change in lapse rates[5]	1,887

[1] Assumes stress occurs on 1 January 2017.

[2] Assumes recalculation of transitionals.

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

[4] Equivalent of six months' 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.

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