PHOENIX GROUP

SOLVENCY AND FINANCIAL CONDITION REPORT

AXA Wealth Limited
For the year ended 31 December 2016

CONTENTS

SUMMARY

INTRODUCTION AND BACKGROUND

AXA Wealth Limited ('AWL' or 'the Company') is an insurance undertaking and a private company limited by shares, incorporated, registered and domiciled in the United Kingdom ('UK'). The principal activity of the Company is the transaction of life insurance and pension business, which, with the exception of corporate pension business and protection business under the 'SunLife' brand, is largely in run off.

The Company is authorised by the Prudential Regulation Authority ('PRA') and is regulated by the Financial Conduct Authority ('FCA') and PRA.

The Company is an indirect subsidiary of Phoenix Life Holdings Limited ('PLHL'), which is the highest European Economic Area ('EEA') insurance holding company of the Phoenix Group. The ultimate parent undertaking is Phoenix Group Holdings ('PGH') which is registered in the Cayman Islands and has its principal place of business in Jersey, therefore outside the EEA and listed on the London Stock Exchange. Unless otherwise specified references to 'Group' or 'PLHL Group' mean PLHL and all its subsidiary undertakings which include the Company, and reference to 'Phoenix' or 'Phoenix Group' means PGH and all its subsidiary undertakings. Reference to 'Phoenix Life' or the 'Life Companies' means Phoenix Life Limited ('PLL'), Phoenix Life Assurance Limited ('PLAL') and AWL. A simplified Phoenix Group structure chart is presented in Section A.1.2.1.

Following the implementation of Solvency II on 1 January 2016, this is the Company's first Solvency and Financial Condition Report ('SFCR') in accordance with the regulations. The SFCR and the accompanying Quantitative Reporting Templates ('QRTs') provide detailed information of the Company's business performance, governance, risk profile and capital position.

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'.

Certain sections of the SFCR require information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles ('GAAP') as presented in the financial statements. The Company's financial statements are prepared in accordance with UK GAAP.

The SFCR is presented in pound sterling ('£') rounded to the nearest thousand, which is consistent with the presentation in the Company's UK GAAP financial statements.

The SFCR excludes disclosures required by the regulations which are not applicable to the Company; these include, but are not limited to:

– information on non-life business;

– information on Solvency II insurance Special Purpose Vehicles ('SPVs');

– information on the Volatility Adjustment and transitional measures on risk-free interest rates;

– Transitional Measure for calculation of Technical Provisions ('TMTP');

– Matching Adjustment ('MA');

– information on significant branches within the meaning of the regulations;

– information regarding the equity risk sub-module in the calculation of the Solvency Capital Requirement ('SCR'); and

Partial Internal Model ('PIM') and full Internal Model ('IM') QRTs and related disclosures as the Company's SCR at 31 December 2016 was calculated on a Standard Formula 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.

SUMMARY
Continued

2016 KEY PERFORMANCE INDICATORS

The Company's 2016 key performance indicators ('KPI') are set out below.

As the Company operated a Standard Formula model as at 31 December 2016, the SFCR and attached QRTs have been prepared on this basis.

In March 2017, the PRA approved the IM in connection with the Company. Such approval has had little impact on the Company's capital position, which is illustrated on a pro forma basis below. This pro forma basis provides a more appropriate analysis of the Company's capital position consistent with the basis by which solvency in managed for the Company.

	31 December 2016 (actuals)	31 December 2016 (pro forma, as above)
Solvency II surplus	£22,287k	£19,950k
Ratio of Eligible Own Funds to Solvency Capital Requirement	181%	170%

Solvency II surplus is defined as Eligible Own Funds in excess of the SCR.

The Company made a UK GAAP profit before tax for the year of £126 million. The profit includes a one-off benefit of £127 million following the inception of reinsurance agreements with PLL, a fellow undertaking of the Phoenix Group. Further details are included in section A.2.

STRATEGY AND BUSINESS MODEL

Phoenix Group is the largest UK consolidator of closed Life assurance funds with assets under management of £76 billion and more than 6 million policyholders. Phoenix Group aims to be recognised as the 'industry solution' for the safe, innovative and profitable decommissioning of closed life funds.

The Company has two divisions: a specialist investment and pension business which operates under the 'AXA Wealth' brand and SunLife, which manufactures direct to consumer, Life assurance products. The AXA Wealth division is largely closed to new business, but also includes the Corporate Trustees Investment Plan ('cTIP') business, which continues to be written offering investment solutions to corporate clients. The protection business under the SunLife brand continues to be open to new business.

Key strategic areas of focus are to:

– Manage capital through effective management of risks and allocation of capital against them, with robust capital policies.

– Drive value through management actions in order to increase value or accelerate the release of capital.

– Improve customer outcomes in terms of value, service and security.

The Company operates two material Solvency II lines of life insurance business based on the characteristics of the different products administered: unit-linked pensions and savings policies under the 'AXA Wealth' brand, and, direct to consumer life protection products under the SunLife brand. Further details on these lines of business are included in section A.1.3; all of which are underwritten in the UK.

On 1 November 2016, AWL was acquired by the Phoenix Group. On completion of the acquisition, the individual unit-linked business was closed to new business, but remains open to increments from existing policyholders. The SunLife business remains open to new business. On 8 November 2016, reinsurance agreements were put in place, transferring substantially all of the risks and rewards of the existing and new business to PLL effective from 1 November 2016.

The Company also has reinsurance arrangements external to the Phoenix Group.

SUMMARY
Continued

GOVERNANCE

The Board is responsible for managing the overall direction and performance of the Company. It is also ultimately accountable for compliance with the Solvency II requirements.

The Board is committed to high standards of corporate governance and is supported by the appropriate Board committees and management committees. Further details on the governance structure of the Board and its committees are included in section B.1.2.2.

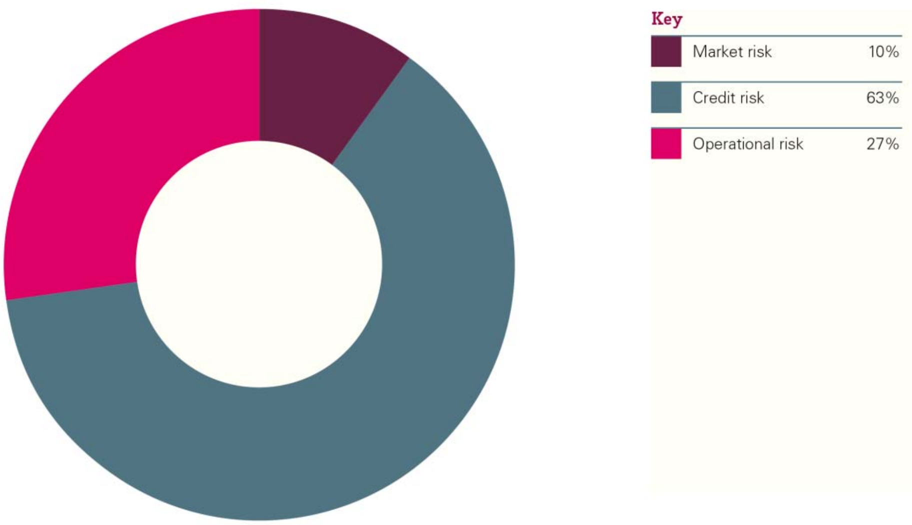
Prior to the acquisition by the Phoenix Group, the Company operated under governance arrangements in line with those operated by the AXA Group. In particular up until 1 November 2016, the Company was operating an IM as part of the wider AXA Group Solvency II approved IM. Following acquisition by Phoenix Group, the Company started monitoring its capital under the Standard Formula model.

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 framework 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.

SOLVENCY CAPITAL REQUIREMENT BY RISK CATEGORY

The following chart shows the composition of the undiversified Standard Formula net of reinsurance SCR as at 31 December 2016. See section E.2.1.



As earlier noted, the reinsurance agreements with PLL substantially transferred the risks and rewards of the existing and new business of the Company. A few quantified risks remain in the Company: operational risk, market risk and exposure to external reinsurance counterparties.

CAPITAL POSITION

Following the implementation of Solvency II on 1 January 2016, the Company's capital is managed on a Solvency II basis. The Company's Own Funds, SCR and Solvency II surplus are further explained in section E.1.

QUALITY OF OWN FUNDS

All the Company's Eligible Own Funds are unrestricted Tier 1, and principally comprise of ordinary share capital, surplus funds and the reconciliation reserve.

The Company does not apply TMTP, Volatility Adjustment or MA.

SOLVENCY CAPITAL REQUIREMENT

As noted above, the SCR as at 31 December 2016 was calculated using the Standard Formula. The SCR by key risk categories is set out in the chart above.

SOLVENCY II SURPLUS

Solvency II surplus is the excess of Eligible Own Funds over the SCR.

As noted above, a pro forma adjustment has been applied to the actual position to include the impacts of IM approval as at 31 December 2016.

SUMMARY
Continued

CAPITAL POSITION CONTINUED

SOLVENCY II SURPLUS CONTINUED

The Company's capital position as at 31 December 2016 is presented below:

	Own Funds £000	Solvency Capital Requirement £000	Surplus £000
Actual position reported in Own Funds Quantitative Reporting Templates	49,763	(27,476)	22,287
Impact of IM approval	(1,416)	(921)	(2,337)
Pro forma capital position at 31 December 2016	**48,347**	**(28,397)**	**19,950**

FUTURE DEVELOPMENTS

During 2017, the Phoenix Group is focused on the smooth transition and efficient integration of the acquired AWL business into its operating platform that will deliver planned synergies whilst providing high quality of service to policyholders.

There is always the risk that the Company will be impacted by macroeconomic uncertainty or the evolving regulatory environment. The Company will continue to identify and implement new management actions to enhance and maintain a robust capital position, whilst enhancing value for both policyholders and shareholders.

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT

AXA WEALTH 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 SFCR in all material respects in accordance with the regulations.

We are satisfied that:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II regulations as applicable to the Company; and

b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

Andrew Moss

Director and Chief Executive Officer

For and on behalf of the Board of Directors

Date: 16 May 2017

AUDITOR'S REPORT

AUDITOR'S REPORT

Report of the external independent auditor to the Directors of AXA Wealth 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 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 Solvency and Financial Condition Report of the Company as at 31 December 2016 ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('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 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:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S05.01.02; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the 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 Solvency and Financial Condition Report of AXA Wealth 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.
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 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 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 Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the 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 twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosure sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The 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 its intended users include but are not limited to the PRA. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

AUDITOR'S REPORT
Continued

AUDITOR'S REPORT CONTINUED

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

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the 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 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 Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such inconsistencies or misstatements we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a 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 Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR 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 SFCR 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 Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the Company's 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 our audit of the Solvency and Financial Condition Report.

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 required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP

London

17 May 2017

The maintenance and integrity of the PLL 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 web site.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

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

- The following elements of template S.12.01.02
  - Rows R0110 to R0130
  - Amount of transitional measure on technical provisions.
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

SECTION A

IN THIS SECTION

SECTION A

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 INFORMATION REGARDING THE UNDERTAKING

The Company is a private company limited by shares, incorporated, registered and domiciled in the UK.

The Company is regulated by the PRA and the FCA. The contact details for the PRA and FCA are:

Bank of England Prudential Regulation Authority 20 Moorgate London EC2R 6DA	Financial Conduct Authority 25 The North Colonnade London E14 5HS

The Company is an indirect insurance subsidiary of PLHL, the highest EEA insurance holding company which has its head office in the UK. The PLHL Group is also regulated by the PRA and FCA.

The name and contact details of the Company's external auditor are:

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

The persons who were direct or indirect holders of qualifying holdings (i.e. where a shareholder has 10% of more of voting rights) in the Company at any time during the reporting period and at 31 December 2016 were:

Winterthur Life UK Holdings Limited

From 1 January 2016 to 31 December 2016, Winterthur Life UK Holdings Limited held 100% of the issued share capital of the Company and was entitled to exercise 100% of the voting power at any general meeting of the Company.

Pearl Life Holdings Limited

On 1 November 2016, Pearl Life Holdings Limited ('PeLHL') acquired 100% of the issued share capital of Winterthur Life UK Holdings Limited and from this date was entitled to exercise 100% of the voting power at any general meeting of the Company. Prior to 1 November 2016, Winterthur Life UK Holdings Limited was owned by AXA UK plc which held 100% of the issued share capital and was entitled to exercise 100% of the voting power at any general meeting of the Company.

Impala Holdings Limited

From 1 January 2016 to 31 December 2016, Impala Holdings Limited held 100% of the issued share capital of PeLHL and was entitled to exercise 100% of the voting power at any general meeting of PeLHL.

Phoenix Life Holdings Limited

From 1 January 2016 to 31 December 2016, PLHL held 100% of the issued share capital of Impala Holdings Limited and was entitled to exercise 100% of the voting power at any general meeting of Impala Holdings Limited.

PGH (LCA) Limited

From 1 January 2016 to 31 December 2016, PGH (LCA) Limited held 50% of the issued share capital of PLHL and was entitled to exercise 50% of the voting power at any general meeting of PLHL.

PGH (LCB) Limited

From 1 January 2016 to 31 December 2016, PGH (LCB) Limited held 50% of the issued share capital of PLHL and was entitled to exercise 50% of the voting power at any general meeting of PLHL.

Phoenix Group Holdings

From 1 January 2016 to 31 December 2016, PGH held 100% of the issued share capital of PGH (LCA) Limited and PGH (LCB) Limited, which between them held 100% of the shares of PLHL, a company of which the Company is an indirect subsidiary undertaking at the reporting date. During the year, PGH was entitled to exercise 100% of the voting power at any general meeting of PGH (LCA) Limited and PGH (LCB). There are no qualifying holdings in PGH and hence no further qualifying holdings in the Company.

All of the above are incorporated, registered and domiciled in the UK, except for PGH, which is incorporated in the Cayman Islands, and registered and domiciled in Jersey.

SECTION A
Continued

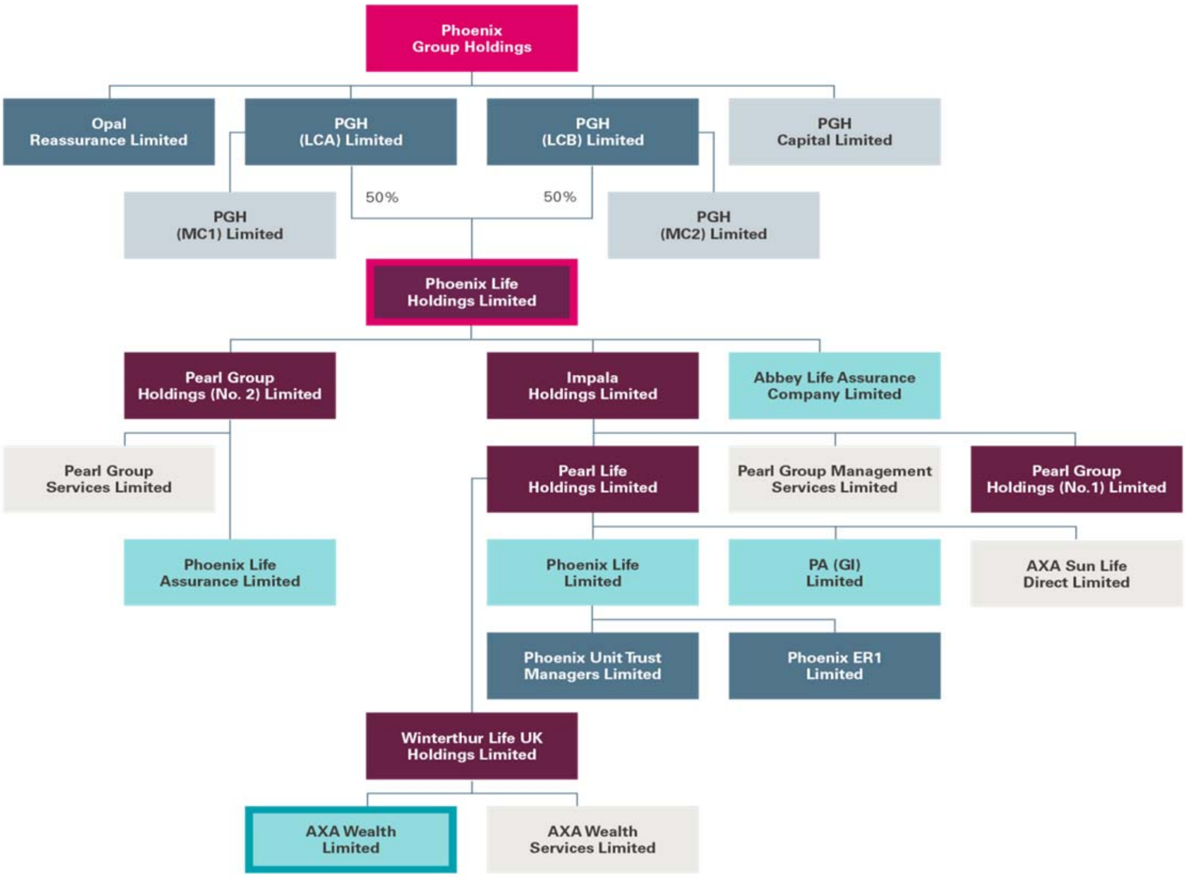
BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 LEGAL AND ORGANISATIONAL STRUCTURE OF THE GROUP CONTINUED

A.1.2.1 Legal structure Continued

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



Key to structure

- Phoenix Life Holdings Limited – highest EEA insurance parent undertaking
- AXA Wealth Limited
- 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

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 related undertakings of the Company

There are no material related undertakings of the Company.

A.1.3 MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

The Company has two divisions selling and administering insurance products: a specialist investment and pension unit-linked business (including the cTIP offering investment solutions to corporate clients) which operates under the 'AXA Wealth' brand, and SunLife which manufactures direct to consumer Life assurance products. The Company operates two material lines of insurance business, described below, based on the characteristics of the different products administered.

All business is underwritten in the UK.

A.1.3.1 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 in an 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 funds.

The Company's unit-linked business does not include options and guarantees that generate a liability for the Company.

A.1.3.2 Other life insurance

The majority of business included in this Line of Business ('LoB') is the SunLife branded whole of life protection products.

The SunLife business continues to offer customers, aged 50 and over, straightforward and affordable protection products. SunLife offers guaranteed acceptance, whole of life cover direct to customers 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

On 1 November 2016, the Company was acquired through the purchase of its parent company, Winterthur Life UK Holdings Limited, by the Phoenix Group. On completion of the acquisition, the individual unit-linked business was closed to new business, but remains open for increments for existing business. Following the acquisition, substantially all of the risks and rewards of the existing and new business of the Company (that was not subject to existing reassurance arrangements) was reinsured to PLL under two reinsurance agreements. The economic value of the existing reserves reinsured were negative and as a result, on inception of the reinsurance agreements, PLL paid an advance claim amount of £283 million to the Company based on the expected risks and future profits of the existing in-scope business.

Subsequent to these reinsurance transactions, the Company enacted a capital reduction on 22 December 2016, reducing its share capital by £388 million to £20 million. The Company then paid a dividend of £339 million to Winterthur Life UK Holdings Ltd on 31 December 2016.

A Third Party Service Agreement ('TSA') was entered into with AXA UK plc for IT and finance services for 18 months from the date of acquisition.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

A summary of the Company's performance during the year ended 31 December 2016 is presented below and in sections A.3 and A.4. This information is presented on UK GAAP basis in line with the Company's financial statements.

Year ended 31 December 2016	Section reference	£000
Balance on the long-term business technical account:		
Underwriting performance	A.2.1	(3,022)
Other income and expense items	A.4.1	127,499
Balance on the long-term business technical account before tax		**124,477**
Investment return in the non-technical account	A.3.1	1,099
Profit on ordinary activities before tax		**125,576**

The long-term business technical account comprises all transactions attributable to the long-term insurance business of the Company. With the exception of the impact of the inception of reinsurance agreements with another Group company, PLL, the technical account represents the underwriting performance of the Company. The inception of reinsurance agreements with PLL led to a one-off benefit in the profit before tax of £127 million detailed in section A.4.1.

A.2.1 ANALYSIS OF CURRENT PERIOD UNDERWRITING PERFORMANCE

The Company's underwriting performance represents £3 million loss before tax for the year ended 31 December 2016.

Information on premiums, claims and expenses is not used as a primary measure of underwriting performance by the Company; however such relevant information split by LoB is presented in the QRT S.05.01 included in Appendix 1.2.

An analysis of the current period underwriting performance split by material LoB is presented below. All profits/(losses) arise in the UK.

Year ended 31 December 2016	£000
Unit-linked insurance	(7,878)
Other life insurance (predominantly protection business)	4,856
Total underwriting performance by Line of Business	**(3,022)**

The result of £(8) million for unit-linked business reflects that the costs including acquisition costs for new business and overheads exceeded the level of charges on the business during the year.

The profit on other life insurance of £5 million is generated from underwriting profitable SunLife protection products.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

A.3.1 ANALYSIS OF INVESTMENT PERFORMANCE

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

Investment return in the non-technical account of £1 million comprises investment return not attributable to insurance operations.

A.3.2 INVESTMENT INCOME AND EXPENSES

The table below presents the actual investment income split by asset class and the components of such income.

	Investment income/(expenses) components			
Year ended 31 December 2016	**Interest £000**	**Dividend £000**	**Fair value gains & losses £000**	**Total £000**
Investment income by asset category:				
Fixed and variable rate income securities	166	–	574	740
Collective investment schemes	–	84,152	1,458,193	1,542,345
Cash and deposits	20	–	–	20
Net investment return	**186**	**84,152**	**1,458,767**	**1,543,105**

All investment gains and losses are recognised in the profit and loss account. There are no amounts recognised directly in equity.

The majority of the investment return is included within underwriting performance as detailed in section A.2.1.

A.3.3 INFORMATION ON SECURITISATION

The Company has no direct or indirect investments in securitisation as at 31 December 2016.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 OTHER MATERIAL INCOME AND EXPENSES

Upon inception of the reinsurance agreements with PLL (described in section A.1.4), the Company received an advance claim amount of £283 million based on the expected risks and future profits of the existing in scope business. The Company subsequently recognised income and expenses of £69 million and £237 million respectively that had been previously deferred as all future risks and benefits transferred to PLL. The Company also recognised a reinsurance asset of £12 million against the reinsured business' UK GAAP technical provisions. As a result, the Company made a one-off profit on inception of the reinsurance of £127 million, as shown in the table below:

Year ended 31 December 2016	**£000**
Advance claim amount received	283,200
Acquisition costs and origination costs previously deferred	(236,979)
Front end fees previously deferred	69,378
Change to reinsurers' share of long term business provision	11,900
Profit on inception of reinsurance	**127,499**

A.4.2 LEASING ARRANGEMENTS

The Company has no material leasing arrangements.

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 within the Company and any material changes that have taken place during the reporting period.

Details of the structure of the Board is provided, with a description of its 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.

Until 1 November 2016, the Company was a wholly-owned subsidiary of AXA UK plc and the Company was governed in a manner consistent with AXA Group's policies and procedures.

Following completion of the acquisition of the Company's immediate parent company by PeLHL, a wholly-owned subsidiary of PGH, the system of governance of the Company has been transitioned to that operated by the Life Companies in the Phoenix Group.

B.1.1 SYSTEM OF GOVERNANCE

The objective of the Company's governance model is to ensure that management is empowered to run the business on a day-to-day basis in accordance with the authority delegated by the Board, whilst ensuring that Directors are able to discharge their statutory and regulatory responsibilities, and that the Board has appropriate oversight and supervision of the Company's business.

The approach adopted is that:

– The Board has the power to manage the Company in accordance with laws and regulations;

– The Board sets 'Matters Reserved' which are matters which must be submitted to the Board for approval;

– The Board delegates authority to committees of the Board through the approval of the terms of reference of these committees;

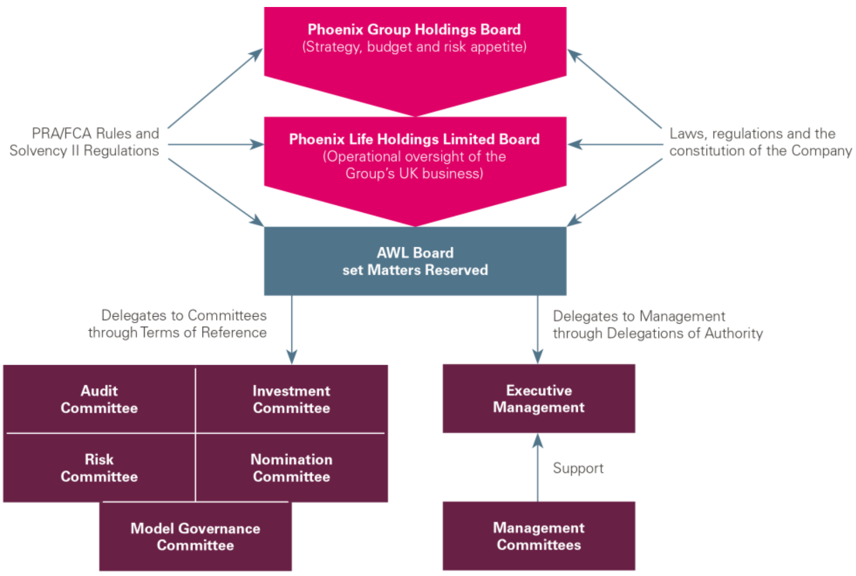
– The Board delegates powers to management through delegations of authority;

– Management committees support executive management in making decisions pursuant to the authority they have been delegated (and are also used to review proposals before they are presented to the Board or its committees); and

– A system of Solvency II key functions (Actuarial, Internal Audit, Risk and Compliance) operates within the Company. Their duties and responsibilities are allocated, segregated and co-ordinated in line with Phoenix Group policies. In addition, the Internal Audit function reports directly to the Board Audit Committee for the Company. Further details about the roles and responsibilities of the key functions are provided later in this section (see sections B.3.1, B.4.2, B.5. and B.6). There are also a number of other key functions in the Group including Group Finance, Treasury, Group Tax, Legal Services, Human Resources, Corporate Communications, Strategy and Corporate Development, Investor Relations and Company Secretariat.

B.1.2 BOARD AND COMMITTEE STRUCTURE

The diagram below summarises the governance and delegation structure of the Company that was put in place following the acquisition of the Company's parent company by Pearl Life Holdings Limited on 1 November 2016.



The principal change to the Company's system of governance during the period was the alignment, following acquisition, to the Phoenix Group system of governance.

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

B.1.2.1 Role and responsibilities of the Board

The role of the Board is to:

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

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

B.1.2.2 Composition of the Board

As at 31 December 2016, there were nine Board members (five Non-Executive Directors ('NEDs') including the Chairman of the Board and four Executive Directors).

The names of the individuals who were appointed as Directors of the Company following the acquisition of the Company's parent company by PeLHL on 1 November 2016 are shown below:

Name	Position	Date of appointment
Mike Urmston	Chairman, Non–Executive Director	1 November 2016
Stephen Clarke	Non–Executive Director	1 November 2016
John Lister	Non–Executive Director	1 November 2016
Diana Miller	Senior Independent Director	1 November 2016
Shamira Mohammed	Executive Director	1 November 2016
Andrew Moss	Executive Director	1 November 2016
Nicholas Poyntz-Wright	Non–Executive Director	1 November 2016
Wayne Snow	Executive Director	1 November 2016
Simon True	Executive Director	1 November 2016

B.1.2.3 Committee framework

The Board has established and delegated specific responsibilities to the following standing committees of the Board:

- Audit Committee;
- Investment Committee;
- Model Governance Committee ('MGC');
- Nomination Committee; and
- Risk Committee.

Each committee is chaired by a NED.

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

B.1.2.3 Committee Framework Continued

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

Committee	Composition	Role, duties and responsibilities
Audit Committee	Non-Executive Chairman Non-Executive Directors (2) At least one member of the Committee must be determined by the Board to have recent and relevant financial experience. Meetings are held at least four times a year at appropriate times in the reporting cycle or more frequently as circumstances require. At least once a year, without the presence of executive management, the Committee meets separately with each of the external auditors, the head of Internal Audit, the Chief Executive Officer ('CEO'), Chief Risk Officer ('CRO') and the Finance Director to discuss matters relating to its remit and any issues arising from the audit. The Committee Chairman reports formally to the Board on proceedings after each meeting, on all matters within its duties and responsibilities.	– Monitor the overall integrity of financial reporting. – Review the overall effectiveness of the Company's internal control and risk management system and the Internal Audit function. – Agree the nature and scope of external audits and to oversee the relationship with the external auditors. – Monitor and review the effectiveness of the Finance function and the integrity of financial reporting. – Approve the remit of the Group Internal Audit ('GIA') function.
Investment Committee	Non-Executive Chairman Non-Executive Directors (2) Executive members (7) Meetings are held at least four times a year or more frequently as circumstances require and reports on the key activities of the Committee are provided to the Board and other committees of the Board as required.	– Establish and implement investment strategy and to regularly review investment and Asset Liability Management ('ALM') strategy whilst ensuring customers are treated fairly. – Initiate or review proposals for material changes in investment direction, and to approve such changes. – Review relative investment performance and to oversee the governance of the relationships between the Company and all investment managers, including oversight and review of fees, fee structures and Service Level Agreements ('SLAs'). – Have oversight and review the appropriateness of investment mandates. – Liaise with management committees which have responsibility for the shareholder impact of investment matters which has responsibility for the policyholder impact of investment matters.

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

B.1.2.3 Committee Framework Continued

Committee	Composition	Roles, duties and responsibilities
Model Governance Committee	Non-Executive Chairman Non-Executive Directors (2) Executive members (6) Meetings are held 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 Board on proceedings after each meeting on all matters within the Committee's duties and responsibilities.	– Monitor the strategic direction and overall governance of the IM used by the Company. – Provide assurance to the Board on the ongoing appropriateness, performance and effectiveness of the IM.
Nomination Committee	Non-Executive Chairman Senior Independent Director (1) Chief Executive (1) Meetings are held at least at least twice a year and at such other times as the Committee Chairman shall require. The Committee Chairman reports formally to the Board on proceedings after each meeting, on all matters within the Committee's duties and responsibilities.	– Lead the process for appointments to Board and ensure that the Board retains an appropriate balance of skills, knowledge, experience and diversity to support the strategic objectives of the Company. – Ensure there is a formal, rigorous and transparent approach to the appointment of Directors including maintaining an effective framework for succession planning. – Approve proposals for the appointment or removal of Directors to/from the Board; – Regularly review the structure, size and composition of the Board and make recommendations with regard to any changes that are deemed necessary. – Identify and nominate candidates to fill Board vacancies as and when they arise, and give consideration to succession planning. – Review annually the time required from NEDs and recommend the re-appointment to the Board of any NED at the end of their specified term of office.
Risk Committee	Non-Executive Chairman Non-Executive Directors (4) Meetings are held at least three times a year at appropriate times or more frequently as circumstances require. At least once a year, without the presence of Executive Management, the Committee meets the CRO. The Committee Chairman reports formally to the Board on proceedings after each meeting, on all matters within the Committee's duties and responsibilities.	– Advise the Board on all risk matters including risk appetite and tolerance in setting the future strategy. – Maintain the RMF reviewing the risk appetite framework and limits. – Approve the overall risk management strategy and principal risk policies including monitoring compliance. – Oversight of the design and execution of the stress and scenario testing framework, and also ensuring that risks to the business plan are adequately identified and assessed through stress testing and scenario analysis.

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

B.1.2.3 Committee Framework Continued

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 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 and the Group Risk and GIA functions.

In their role as the first line of defence, the Finance and Actuarial departments have delegated responsibility for:

– design, implementation, operation and use of the IM;

– operation of the validation framework in line with the requirements set by the Risk Management function;

– documenting the IM process and any subsequent changes; and

– informing the Board about the performance of the IM, its limitations, areas needing improvement, and the status of activity to address previously identified weaknesses.

In its role as second line of defence, the Risk function has delegated responsibility for governance and oversight of the IM, including but not limited to:

– sponsorship of the model governance policy;

– ownership of the IM validation framework;

– independent validation of the design, implementation and operation of the IM, including compliance with the model governance policy; and

– in relation to independent validation activity performed and summary reports produced, informing the Board about the performance of the IM, suggesting areas needing improvement, and providing a review of the Finance and Actuarial departments' reporting in relation to weaknesses and limitations of the IM, and the activity to improve previously identified weaknesses.

B.1.3 PRE-ACQUISITION BOARD AND COMMITTEE STRUCTURE

Prior to acquisition of the Company's parent company by PeLHL on 1 November 2016, the Company had established and delegated specific responsibilities to a standing committee of the Board known as the Risk Committee. The Board approved the appointment of new members to and the adoption of new terms of reference for this committee on 1 November 2016.

B.1.3.1 Pre-acquisition composition of the Board

The names of the individuals who served as Directors of the Company prior to completion of the acquisition are shown below:

Name	Position	Date of appointment	Date of Resignation
Andrew Purvis	Executive Director	22 December 2006	1 November 2016
Bertrand Poupart-Lafarge	Executive Director	25 October 2014	1 November 2016
Michael Kellard	Executive Director	21 March 2002	1 November 2016
Keith Gibbs	Executive Director	23 September 2014	1 November 2016
David Cheeseman	Executive Director	23 July 2008	1 November 2016
Paul Evans	Chairman, Executive Director	22 December 2006	1 November 2016
Peter Hazell	Non-Executive Director	23 September 2014	1 November 2016

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 PRE-ACQUISITION BOARD AND COMMITTEE STRUCTURE CONTINUED

B.1.3.2 Pre-acquisition committee framework

Details of the composition and a brief summary of roles/duties of the pre-acquisition Risk Committee which was a committee of the Board of a number of companies in the AXA UK group are outlined below:

Committee	Composition	Roles, duties and responsibilities
Risk Committee	Non-Executive Chairman Executive Directors (2) Meetings are held not less than four times a year and at the request of the Chairman, member of the Committee or Director of AXA Wealth legal entities The Committee reports relevant issues to the Board, as appropriate	– Oversight of the Company's risk management arrangements ensuring that risk appetite/strategy is appropriate and adhered to, that key risks are identified/managed and that risk policies are set and monitored.

The Board approved the adoption of new terms of reference for this Committee on 1 November 2016 following the acquisition.

B.1.4 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.3.1 for further details);
- Compliance function (see section B.4.2 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 co-ordinated in line with Phoenix Group Policies and are reflected in their descriptions of tasks and responsibilities. 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 and how they report to and advise the Board of the Group are detailed in the sections which cover each function (see sections B.3.1, B.4, B.5 and B.6).

B.1.5 REMUNERATION POLICY

As a company within the Phoenix Group, the principles of the Phoenix Group-wide remuneration policy as set out at below applied to the Company from its date of joining the Phoenix Group in 2016.

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 in 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 and on the governance pages of the PGH website.

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.1.5 REMUNERATION POLICY CONTINUED

The key principles of the remuneration policy which apply 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 Group** – 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 'Identified Staff' subject to the regulatory requirements (further details on whom 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.1.5.1 Variable remuneration plans

Annual incentive plan

2016 performance year

Executive Directors of the Company are also employees of PGH and thus participate in a Group-wide annual incentive plan ('AIP') as described below.

The AIP is subject to a mixture of corporate and personal performance measures for all staff. This represents a balanced scorecard which includes a basket of 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 are 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%

Employees within the AWL businesses participated in their own AIP which was established before Phoenix acquired the AWL businesses. 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.

One-third of AIP outcomes for all material risk-takers subject to the regulatory requirements were deferred for a period of three years under the Deferred Bonus Share Scheme.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.5 REMUNERATION POLICY CONTINUED

B.1.5.1 Variable remuneration plans Continued

***2016 performance year** Continued*

For 2017, the balance of corporate performance measures will be revised so that IFRS operating earnings no longer applies and the sole financial measure is operating companies' cash generation. Both the cash generation and customer experience weightings will be increased. The personal element remains unchanged from 2016. 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	71%
Customer experience	29%

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

As for 2016, one-third of AIP outcomes for all material risk-takers 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 will increase to 40% of AIP outcomes for members of the Executive Committee ('ExCo') of PGH.

Long-term Incentive Plan

Only the Executive Directors of the Company participate in an long-term incentive plan ('LTIP'). These individuals are also employees of PGH and thus participate in a Group-wide LTIP for selected senior members of staff as described below.

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 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 will be unchanged for 2017 LTIP awards.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.6 OTHER ARRANGEMENTS AND MATERIAL TRANSACTIONS

B.1.6.1 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. 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.1.6.2 Material transactions with shareholders and the Board

Details of the dividend paid to the Company's parent company are included in section A.1.4. There were no other transactions with shareholders, members of the Boards or persons who exercise significant influence on the Company.

B.2 FIT AND PROPER REQUIREMENTS

This section provides information on the specific requirements concerning skills, knowledge and expertise applicable 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 Senior Insurance Managers Regime ('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 (including the Company) 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 Phoenix Management Board ('PMB'), Approved Persons and the NEDs. In total, this equates to c.40 roles across the Group.

The Company 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 Functions (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 are subject to the Group's annual performance management process in addition to the annual fit and proper process, implemented for all Approved Persons, Senior Insurance Manager Functions and key function holders.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.2 FIT AND PROPER REQUIREMENTS CONTINUED

B.2.2 PROCESS FOR ASSESSING FITNESS AND PROPRIETY

The Group has a number of policies and processes established which apply to all regulated entities, and provide appropriate guidance and governance to ensure that those effectively running the Company 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 on-going 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.

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

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

The PGH Group Board is accountable for the Group's RMF, which is implemented consistently across all Group subsidiaries, including the Company.

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 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.1.2.2) 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 IM continues to meet the regulatory requirements, 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

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

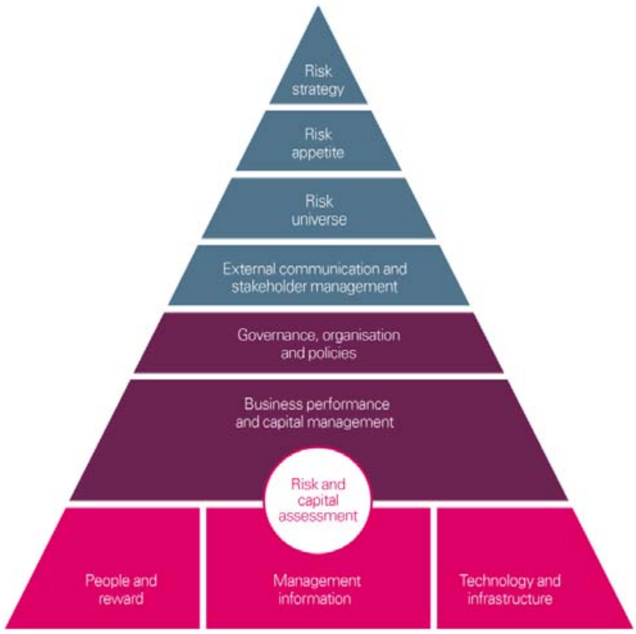
B.3.2 RISK MANAGEMENT FRAMEWORK

The Group has developed a RMF which seeks to establish a coherent and interactive set of arrangements and processes to support the effective management of risk 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 has been embedded within the Group functions and Phoenix Life and plans for the proportionate roll-out across the Company are being developed. Prior to the acquisition of the Company by Phoenix Group the risk management structure of AXA Group applied, with a detailed gap analysis having been performed ahead of the sale completion.

The rigour of the AXA RMF enabled it to continue to be used by the Company as a proxy following the sale. Plans for the rollout of the full RMF (including the closing of areas for potential improvements in incident management and control self-assessment) over the newly acquired business will, where relevant, take account of the plans for the integration of operations into the Phoenix Life business model, and be the focus of risk management activity in 2017.

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.

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.

Section C of this SFCR contains a summary of the risk profile of the Company. The summary in section C is structured in accordance with the risk categories of the regulations, which are 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 new business pricing 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.

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

EXTERNAL COMMUNICATION AND STAKEHOLDER MANAGEMENT

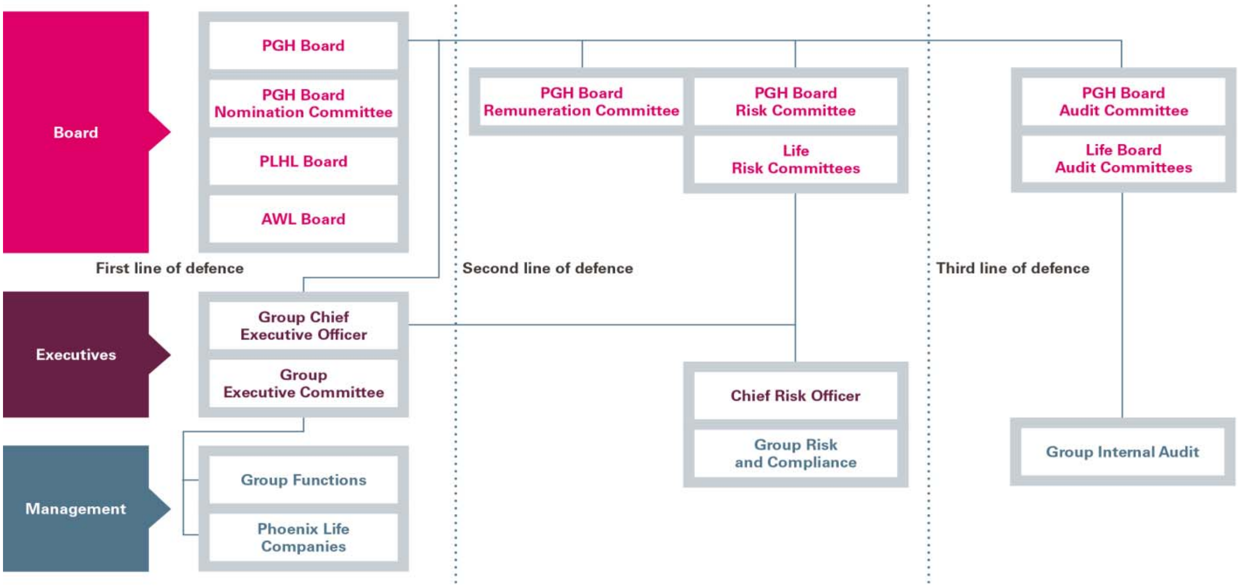
The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that the Group's stakeholders have appropriate, timely and accurate information to support them in forming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

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 Executive Committee. 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 GIA. 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, Phoenix Unit Trust Managers Limited ('PUTM') and the newly acquired business in Abbey Life Assurance Company Limited ('ALAC') and AWL.

First line: management – Management of risk is delegated from the Board to the Group CEO, ExCo 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 GIA function, which is supported by the Board Audit Committee ('BAC').

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 IM governance and organisation are included in section B.1.2.2.

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 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 to which each business unit must adhere to and against which they report compliance.

Each policy is the responsibility of a member of 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 Company 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 Company's objectives.

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 Company's 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 the principal risks and uncertainties facing the Group.

Risk	Impact	Mitigation
Significant counterparty failure	The Company is exposed to trading counterparties failing to meet all or part of their obligations, such as risk or fund reinsurers failing to meet obligations assumed under reinsurance arrangements.	The Company regularly monitors its counterparty exposure and credit rating of counterparties. The Company seeks to switch investments from reinsurance to equivalent mutual funds where it is cost effective to do so and any customer detriment can be avoided.
Adverse changes in experience versus actuarial assumptions	The Company 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 Company's ability to meet its cash flow obligations.	The Company undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Company continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.
Changes in the regulatory and legislative landscape may impact the financial position of the Company.	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 Company 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 Company 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 Company assesses the risks of regulatory change and the impact on our operations and lobbies where appropriate.

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

The Company'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
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, AWL 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.

B.3.3 OWN RISK AND SOLVENCY ASSESSMENT PROCESS

The Company carries out an Own Risk and Solvency Assessment ('ORSA') at least annually to assess its risk profile on an ongoing basis. The most recent ORSA for the Company was produced in 2016 prior to the acquisition of the Company by Phoenix Group.

The process followed by Phoenix in undertaking the ORSA process is illustrated below.

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.

SECTION B
Continued

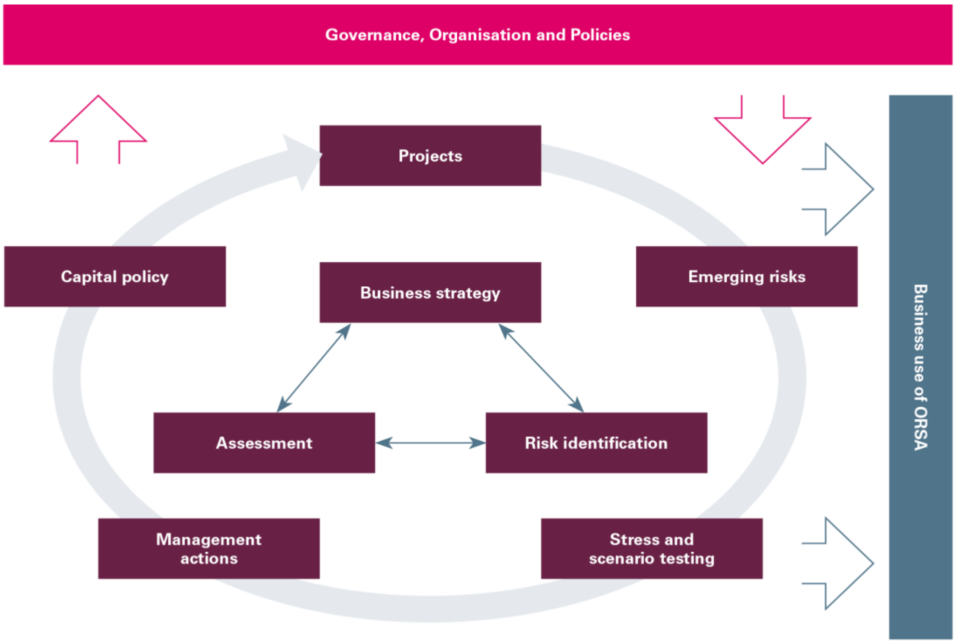
SYSTEM OF GOVERNANCE CONTINUED

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 Own Risk and Solvency Assessment process

The process followed in undertaking the ORSA is illustrated below:



Business strategy is at the core of the ORSA process. The Company holds a strategy day at least once a year and this is informed by updated projections of the annual operating plan and an assessment of those projections against the Company's external targets and KPIs.

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

- engagement and reinforcement at management committees;
- regular review of the small number of remaining underlying drivers of the risk profile (fund reinsurance counterparty exposure and ratings, cash levels, and, operational risk events and outlook);
- 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.

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 the Company has begun implementation. 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 Minimum Control Standards ('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, which includes half-yearly completion of the internal control self-assessment process ('ICSA').

– 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 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 IM.

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 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.

B.5 INTERNAL AUDIT FUNCTION

The primary role of the GIA 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.

GIA 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION CONTINUED

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 GIA 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: GIA plans, and material changes to plans, are approved by the Group BAC (further details are included in section B.1.2.3). They have the flexibility to deal with unplanned events to allow prioritisation of emerging risks. Changes to the audit plan are considered through GIA's ongoing assessment of risk.

– Reporting results: GIA's reporting to the Life Board and PGH BAC includes details of significant control weaknesses, root-cause analysis, themes and a view on the adequacy of management's remediation plans. Bi-annually, GIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control frameworks.

– Oversight of Internal Audit functions: In the case of the Group's OSPs, GIA operates a risk-based oversight model to ensure the activities of the outsourced internal audit functions meet GIA standards (which are aligned to Chartered Institute of Internal Audit standards).

B.5.3 REPORTING

GIA attend, and issue reports to the PGH BAC and Life Company Board Audit Committees ('Life BAC') (see section B.1.2) and any other governing bodies and Board committees as appropriate.

B.5.4 INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT FUNCTION

In order to maintain its independence and objectivity from the activities it reviews, GIA 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.

– GIA 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

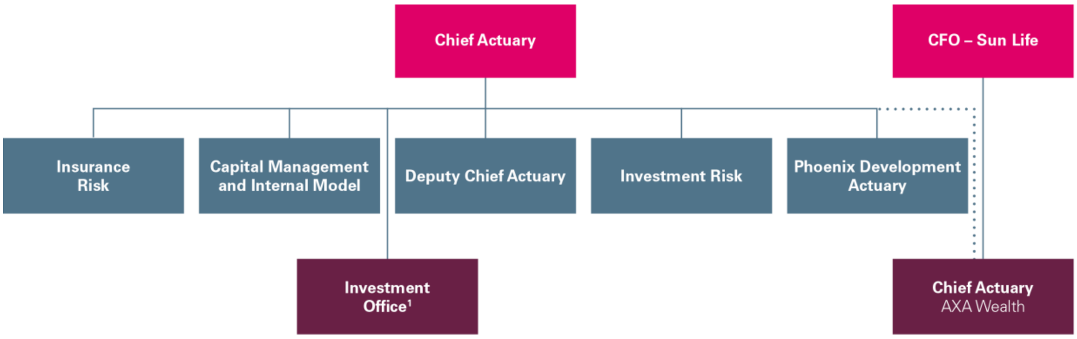
B.6 ACTUARIAL FUNCTION

B.6.1 ORGANISATIONAL STRUCTURE

The Actuarial function is performed by the Life Actuarial department. This department is headed by the Phoenix Life Chief Actuary. This department provides a range of actuarial services and advice to the Board and management team. The Life Actuarial and Group Actuarial departments collectively support the Group Boards.

B.6.2 LIFE ACTUARIAL DEPARTMENT

A structure chart for the 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.

B.6.2.1 Key team roles within life actuarial department

A summary of the role of each team within the Life Actuarial department are 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 Life 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;

– 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.

Internal Model team

The IM team works with other teams within the business to ensure that the Phoenix PIM 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 LIFE ACTUARIAL DEPARTMENT CONTINUED

B.6.2.1 Key Team Roles within Life Actuarial Department

Investment Risk team

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

Insurance Risk team

The Insurance Risk team is involved in all areas of managing longevity, mortality, persistency and morbidity risk, 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 of protection new business volumes.

The Company's exposure to insurance risk is reinsured to PLL.

Project developments

The team lead and provide technical support for the planning and execution of a wide range of strategic projects to meet Company objectives. Projects include intra group and external Part VII transfers and a variety of other projects; for example, sale of Life Company subsidiaries, developing new reassurance arrangements, and with-profit initiatives.

Chief Actuary – Axa Wealth Limited

The AWL Actuarial Function Holder also has a team that transferred over from AXA Group. The team is supporting the Life Actuarial department and the Life Finance Department with the calculation and review of actuarial numbers on Prophet ahead of migration to Phoenix systems during 2017. The calculations include Standard Formula SCR and monitoring of its drivers following the sale of the Company to Phoenix Group.

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

B.6.2.2 Reporting responsibilities of the Life Actuarial Department

The 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 for approval.

The Life Actuarial department is responsible for overseeing the calculation of technical provisions which are performed by the Chief Actuary – AWL.

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 the Company's 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION CONTINUED

B.6.2 LIFE ACTUARIAL DEPARTMENT CONTINUED

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 the RMF which includes:

- methodology to calculate the IM SCR;
- on-going development of the IM;
- review and challenge of the calculated SCR results, which, similar to technical provisions, are calculated using models and processes owned by the Life Finance department;
- on-going management of risks faced by the Life Companies and Group by considering capital policy, ALM 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 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.

B.6.2.6 Reporting of Actuarial department activities to the Boards

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

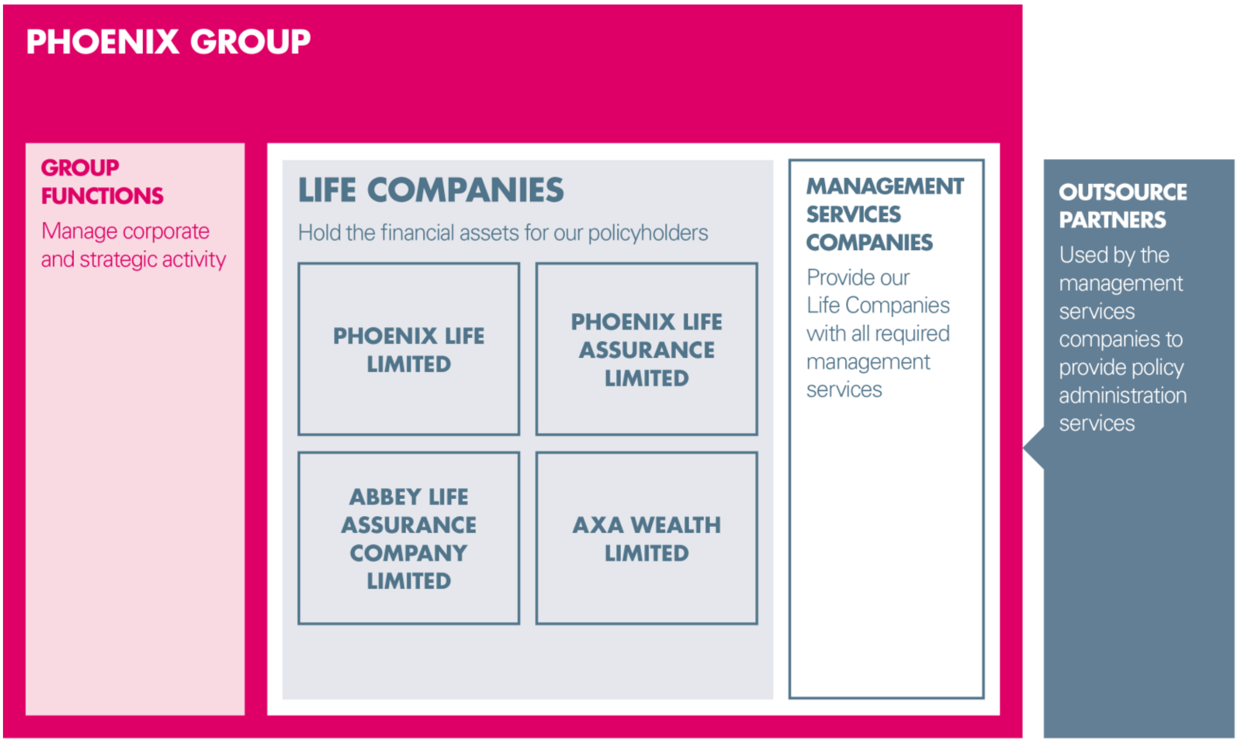
This report describes the results and outcomes of the key tasks performed by the Actuarial department, along with any material deficiencies arising from them, and highlights where further details regarding recommendations made to address any material deficiencies can be found.

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.

These 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 management 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 Company'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 management 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. An MSA for the Company will be implemented with Phoenix Group Management Services Limited ('PGMS') during 2017.

B.7.1.2 Policy administration

Full policy administration for the policyholders, including:

– call centre handling;

– policy servicing; and

– claims handling.

All policy administration services are primarily UK based, and fall under FCA jurisdiction. The Company's outsource provider of policy administration is:

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 business process services to our policyholders delivering contact centre, policy servicing and claims administration for 0.9 million live policyholders. In managing the Company's account, Capita operate out of one principal UK location, Craigforth, and is supported by overseas locations in India.

B.7.1.3 Investment management service

Service providers are used which provide the Life Companies with investment management of assets owned by the Life Companies under agreed investment management agreements and associated mandates.

Investment managements services are UK based, and fall under FCA jurisdiction. The Company's outsource provider of investment management services is:

Architas

Architas, based in London, is part of the AXA Group, providing specialist investment management services to the Company.

B.7.1.4 Third Party Service Agreement

A Third Party Service Agreement ('TSA') was entered into with AXA UK plc for IT and finance services for 18 months from the date of acquisition.

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 reputation 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 minimum control standards 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.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.7 OUTSOURCING CONTINUED

B.7.3 BOARD OVERSIGHT

Management oversight committees are in place to oversee outsource providers. 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 Risk Universe and RMF. This report is reviewed and approved by the PMB on a monthly basis and is submitted to the relevant Committee on a quarterly basis.

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 Company is adequate to meet the requirements of the regulations, 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

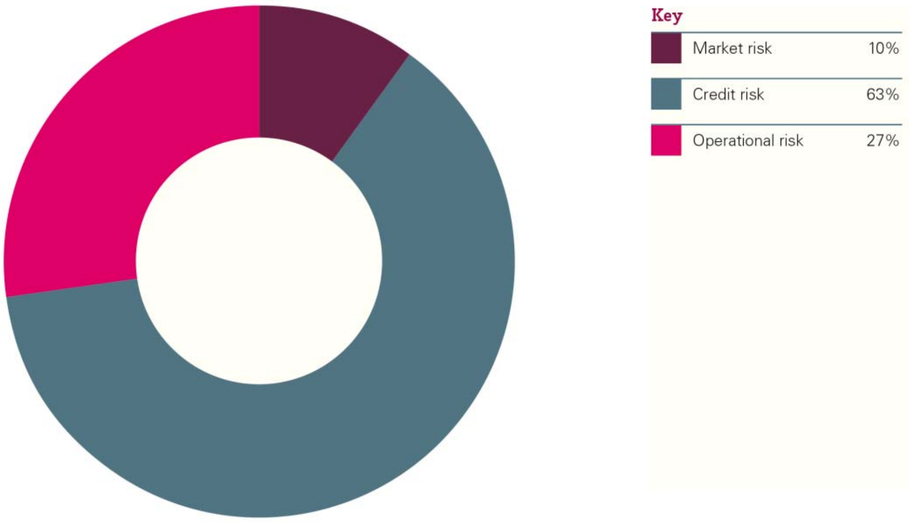
Section B.3 set out the risk management system including information on how the risk management function is implemented and integrated into the organisational structure and decision-making processes of the Group (including the Company).

This section provides information on the risk profile of the Company, including for each category of risk, 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.

Following the Company's acquisition by the Phoenix Group on 1 November 2016 the Company has been monitoring its capital on a Standard Formula basis. It was concurrently quantifying risks using the calculations basis of the Phoenix Group Internal Model to support risk management decisions, for which approval has now been obtained from the PRA with effect from 10th March 2017.

The reinsurance arrangements with PLL, effective from 1 November 2016, reinsured substantially all of the risks and rewards of the existing and new business of the Company.

The following chart shows the composition of the undiversified Standard Formula net of reinsurance SCR as at 31 December 2016.



Further details on the SCR are included in section E.1.2.

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 Company include the following sources of underwriting risk described in the table below.

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;
Expenses 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 or reduced future profits.
New business pricing risk	The risk of reductions in earnings and / or value, through financial or reputational loss, due to inadequate or inappropriate pricing of new business.

During the period ended 31 December 2016, the following key change in underwriting risk exposure has taken place:

All of the underwriting risk (existing and new business) of the Company that was not subject to existing reinsurance arrangements was reinsured to PLL effective from 1 November 2016.

C.1.2 RISK MEASUREMENT

The Company uses several methods to assess and monitor the pre-reinsurance underwriting risk exposures both for individual types of risks insured and the overall risks. These methods include the Standard Formula, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

As at 31 December 2016, the Company held no risk capital in respect of underwriting risk.

C.1.3 RISK CONCENTRATION

The Company is not exposed to any material concentration of underwriting risk. For all underwriting risks described above, the Company's pre-reinsurance exposure is spread across a diversified portfolio of products with a significant policyholder base. No individual policyholder contract size is large enough to represent a material concentration as a proportion of the Company's total risk exposure before reinsurance.

C.1.4 RISK MITIGATION

The Company seeks to manage its exposure to underwriting risk by establishing minimum control standards 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.

In addition to reinsurance treaties with PLL, the Company has two small risk reinsurance treaties in place, reinsuring mortality risk under term assurance policies. Materially all of the remaining underwriting risk of the Company is now reinsured to PLL.

The ongoing effectiveness of the reinsurance ceded externally by the Company is monitored on an ongoing basis by the RMC.

C.1.5 SENSITIVITY ANALYSIS

Insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality, longevity and lapse rates.

Post the reinsurance of the Company's business to PLL there is no ongoing sensitivity of the Company's financial position to such assumptions.

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 Company is exposed to the following sources of market risk described in the table below:

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 contracts of insurance
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 as mainly 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 and property collectives (OEICs, unit trusts, investment trusts).
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.

Markets were particularly turbulent over the course of the year following the EU Referendum and the US election. Yields on UK government debt and swap rates fell markedly in the first half of 2016 and then rallied towards the end of the year.

Substantially all of the market risk was reinsured to PLL effective from 1 November 2016. The Company now only retains market risk of £3 million related to the shareholder assets retained within the Company.

C.2.2 RISK MEASUREMENT

The Company uses several methods to assess and monitor market risk exposures both for 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 ('SAA'), and hedge effectiveness. In addition, risk is measured using the Standard Formula, sensitivity analyses, scenario analyses and stress testing.

As at 31 December 2016, market risk represented 10% of the Company's 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 control standards 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 (see Section B for more details on governance).

Examples of the minimum conduct standards include:

- Responsibility for agreeing the SAA rests with the Board, with input from Architas, 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.

C.2.4 RISK CONCENTRATION

The concentrations to equity and property are managed through the Group's SAA process, with the allocation to each asset class being agreed by the Board.

In practice the Company has relatively few non-linked assets. As at 31 December 2016, the largest concentration of non-linked assets is the Head Office building having fair value of £6 million.

C.2.5 RISK MITIGATION

The Company has mitigated the majority of its market risk exposures through the reinsurance agreements in place with PLL. The ongoing effectiveness of risk mitigation is monitored on an ongoing basis by the IMC and Finance and Capital Committee ('FCC').

C.2.6 SENSITIVITY ANALYSIS

Post the reinsurance of the Company's business to PLL there is limited ongoing sensitivity of the Company's financial position to market risk.

The impact on the Company's Solvency II excess of an increase of 55bps in interest rates, a decrease of 80bps in interest rates, a 20% fall in equity prices or a 15% fall in property prices would each be less than than £1 million.

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. The Company is exposed to the following sources of credit risk described in the table below:

Risk source	Description
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 defaulted or delayed claim settlements; particularly for the reinsurance of policyholder funds
Spread risk	The risk of reduction in earnings and/or value, arising from changes in the spread between corporate bond yields and risk free yields and the reduction in value of corporate bond assets underlying unit-linked funds.
Investment counterparty risk	The risk of reduction in earnings and/or value, arising from counterparty defaults (and/or credit rating downgrades) on investments such as bonds, derivatives and cash deposits either held directly or in underlying unit-linked funds.
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.

During the reporting period ended 31 December 2016, the following key change in credit risk exposure has taken place:

The reinsurance arrangements with PLL resulted in new counterparty risk with PLL but left the fund reinsurance counterparty risk with the existing third party reinsurers.

C.3.2 RISK MEASUREMENT

The Company uses several methods to assess and monitor credit exposures. These methods include monitoring of asset portfolio composition, single name counterparty monitoring, and potential future maximum exposure modelling. In addition, risk is measured using Standard Formula, sensitivity analyses, scenario analyses and stress testing.

As at 31 December 2016, credit risk represented 63% of the Company's total undiversified SCR as shown in the chart at the beginning of section C.

C.3.3 PRUDENT PERSON PRINCIPLE REQUIREMENTS

Responsibility for agreeing the SAA rests with the Board, as advised by the Phoenix Life Investment 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.

C.3.4 RISK CONCENTRATION

Concentration of credit risk exists where the Company 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. The Company has most of its counterparty risk within the Phoenix Group and this is monitored by the counterparty limits contained within the investment guidelines and investment management agreements.

The Company reinsures £6.8 billion of unit-linked assets to companies outside of the Phoenix Group (principally Blackrock and Legal and General Investment Managers) and remains exposed to the impact of default of these reinsurers where this risk has not been passed to policyholders. As at 31 December 2016, the Company retains the credit risk on £0.58 billion of the assets backing its pension unit-linked liabilities reinsured with third parties. The risk of default by third parties is considered minor, but the size of the exposure is significant. The largest exposure to a third party at 31 December 2016 is £0.5 billion), with Blackrock Life Limited. Such exposures are monitored on a monthly basis.

Shareholder assets held to manage liquidity are spread across several financial institutions to avoid any large cash exposure with a single counterparty.

In view of the nature of the reinsurance there is currently no credit risk in respect of such arrangements.

C.3.5 RISK MITIGATION

Credit risk is managed by monitoring of aggregate exposures to individual counterparties, by appropriate credit risk diversification and via the investment mandates. The Company manages the level of credit risk it accepts through credit risk tolerances in line with Group policy. In certain cases, protection against exposure to particular credit risk types may be achieved through the use of derivatives.

The Company cedes insurance risk in the normal course of business. The Company 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 via the Reinsurance Management Committee.

SECTION C
Continued

RISK PROFILE CONTINUED

C.3 CREDIT RISK CONTINUED

C.3.6 SENSITIVITY ANALYSIS

As at 31 December 2016, the most significant credit risk sensitivities arise from risk of reinsurers' failure on the unit-linked fund reinsurance. 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. A 1-in-10 credit risk shock based on Internal Model calibration would result in a decrease in the Company's Solvency II surplus of £3 million.

C.4 LIQUIDITY RISK

C.4.1 RISK EXPOSURE

Liquidity risk is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements.

The nature of the Company's life business historically left limited liquidity risk in the Company. Unit-linked surrenders are paid from the proceeds of sale of units and other policyholder claims are funded from premiums. The principal risk is the short term requirement to temporarily prefund settlement of unit-linked surrenders and switches which is actively managed.

During the reporting period ended 31 December 2016, the following key changes in liquidity risk exposure have taken place.

The reinsurance agreements with PLL transferred profits and losses arising in the business to PLL. This has led to the Company's liquidity position remaining stable with monthly settlements in place with PLL of any strains emerging.

Total available liquidity in the Company has reduced following the reduction in capital and dividend to its parent. This reflects the lower ongoing volatility as noted above. A minimum cash (and near-cash) buffer of £40m, which can be used temporarily to fund the settlement of unit-linked transactions, has been set to ensure the Company retains sufficient liquidity to continue to operate between settlement periods even under stress scenarios.

C.4.2 RISK MEASUREMENT

The Life Companies determine working capital accounts for each fund based on liquidity stress testing, which for AWL results in the £40 million cash buffer. Regular monitoring of liquidity then takes place in order to establish that all liquidity management activities have been processed appropriately, and to ascertain available liquidity. The result of the monitoring of actual cash relative to this buffer is circulated to management at least weekly. There is no additional capital required for liquidity risk under Standard Formula.

C.4.3 EXPECTED PROFITS IN FUTURE PREMIUMS

Own Funds are used to cover the SCR (further details are included in section E). The value of liabilities take into account expected future premium payments even if the policyholder is not contractually committed to paying them. This methodology for valuing liabilities therefore implicitly allows for any expected profits in future premiums ('EPIFP') which acts to reduce the liability value.

As at 31 December 2016, the Company's total EPIFP was £nil, as the profits emerge through the reinsurance agreements in PLL.

C.4.4 RISK CONCENTRATION

The main concentration of liquidity risk for the Company relates to short-term pre-funding of unit-linked settlements related to significant cTIP transactions. Such transactions and the associated liquidity risks are actively managed with the scheme, its advisers and our investment partners.

C.4.5 RISK MITIGATION

The Company's policy is to maintain sufficient liquid assets of suitable credit quality at all times to be able to meet all foreseeable current liabilities as they fall due. Forecasts are prepared regularly to predict the required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

For unit-linked contracts the Company matches all the liabilities with the respective assets in the portfolio. In extreme circumstances, the Company could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. The Company considers such risk to be low since there are steps that can be taken within the funds themselves both to ensure the fair treatment of all policyholders in those funds and to protect the Company's own risk exposure.

C.4.6 STRESS TESTING

Liquidity stress testing is carried out on a regular basis within the Company. As at 31 December 2016, the stress testing demonstrated that the Company is able to meet mandatory obligations and maintain the internally agreed liquidity buffers.

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.

As at 31 December 2016, the Company was under Standard Formula where operational risk capital is defined as a percentage of premiums and expenses. During the reporting period ended 31 December 2016, there has been little change in the Standard Formula proxies, but the following key changes in the underlying qualitative operational risk exposure of the Company have taken place:

- There have been changes to the Company's operational risks as a result of the acquisition of the Company by Phoenix Group, the closure to new business of individual wealth business and integration of the business into Phoenix Life.

Certain aspects of operational risks of the Company have been reinsured to PLL as part of the reinsurance arrangements effective from 1 November 2016. The operational risks retained by the Company following the reinsurance are:

- Breaches in regulation and legislation.
- Unit pricing errors.
- Outsourcing/third party supplier failures.

C.5.2 RISK MEASUREMENT

The Company's risk capital requirement for operational risk as at 31 December 2016 is calculated at £9 million in line with the requirements of the Standard Formula. The operational risk capital as at 31 December has also been assessed using the Internal Model approved by the PRA during March 2017, which is calibrated to withstand stress event to a 99.5% confidence level over a one-year period ('1-in-200'). The methodology is based on scenarios assessed by experts within the business.

All operational risks for the Company (as outlined in section C.5.1) are regularly reported to management oversight committees including the Operations Committee, FCC and the MGC.

As at 31 December 2016, operational risk represented 27% of the Company's total undiversified SCR as shown in the chart at the beginning of Section C.

C.5.3 RISK CONCENTRATION

The reinsurance arrangement has reduced the range of operational risks retained by the Company. A breakdown of the operational risk as at 31 December using the Internal Model approved by the PRA during March 2017 is shown below.

- risks resulting from outsourcing/third party supplier failures (£18 million).
- risks involving breaches in regulation and legislation (£12 million).
- unit pricing errors (£8 million).
- fraud risks (£3 million).

The modelling also captures that there is diversification both within and between the risk categories.

C.5.4 RISK MITIGATION

The Standard Formula capital for operational risk based on written premiums and unit-linked expenses is accepted as an integral part of the Company's strategy.

The Company seeks to manage its underlying exposure to operational risk by establishing minimum control standards (and supporting practices where appropriate) for each category of operational risk. These minimum control standards are defined within individual Group risk policies covering each of these 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 minimum control standards outlined within them, is one of the key mitigants used to manage the Group's operational risk exposure. In addition to these, the Group also places reliance upon:

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

All key elements of operational risk mitigation are taken account of on a prudent basis.

SECTION C
Continued

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK CONTINUED

C.5.5 STRESS TESTING

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. A 1-in-10 operational risk event based on Internal Model calibration would result in a decrease in the Company's Solvency II surplus capital of £9 million.

C.6 OTHER MATERIAL RISKS

Other material risks which should be highlighted are summarised below. In view of the reinsurance of substantially all risks and future profits of the Company to PLL, the impact of below on the Company's results and risk based capital are somewhat limited and closely managed by the Group.

C.6.1 CUSTOMER RISK

The risk of reductions in expected earnings and/or value to customers, through financial, reputational or operational losses as a result of:

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

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 Company cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator.

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 also assesses the risks of regulatory and legislative change and the impact on business operations and lobbies where appropriate.

C.6.2 STRATEGIC RISK

The risk to economic earnings 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 Company into Phoenix Life 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 the 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.

C.6.3 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 at Phoenix Group 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 Company has exposure to tax risk through the annual statutory and regulatory reporting and through the processing of policyholder tax requirements.

C.6.4 GEOPOLITICAL INSTABILITY RISK

The business environment and capital markets are exposed to an increased risk of geopolitical instability due to uncertainty surrounding UK's exit from the EU, US presidency, and the uncertain outcome of various European elections taking place in 2017.

However any financial risk resulting from potential changes in government policy is significantly mitigated in the Company through the reinsurance transactions with PLL.

C.7 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Company'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.

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 UK GAAP financial statements is also provided. All classes of assets and liabilities presented are consistent to the S.02.01.01 Balance Sheet QRT.

For assets and liabilities 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 the Company in their financial statements in accordance with UK GAAP. Some reclassification of line items has taken place to align disclosures with the Solvency II presentation, meaning that the 'statutory accounts value' column may not directly agree with line items on the financial statements of the Company.

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 compares this to the 'statutory accounts value' column. The 'statutory accounts value' column is in line with the Company's financial statements, although presentational adjustments have been included where necessary, to enable comparison to the 'Solvency II value' column.

Assets	Note	Solvency II value £000	Statutory accounts value £000	Difference £000
Property, plant and equipment held for own use	1	5,550	5,550	–
Investments (other than assets held for index-linked and unit-linked contracts)	2	22,398	22,398	–
Property (other than for own use)		811	811	–
Bonds		5,535	5,535	–
Collective investment undertakings		16,052	16,052	–
Assets held for index-linked and unit-linked contracts	3	6,019,760	6,019,760	–
Reinsurance recoverables	4	6,493,721	6,820,279	(326,558)
Insurance and intermediaries receivables		12,281	12,281	–
Reinsurance receivables	5	1,890	1,890	–
Receivables (trade, not insurance)	6	31,804	31,804	–
Cash and cash equivalents	7	15,655	15,655	–
Total assets		**12,603,059**	**12,929,617**	**(326,558)**

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS CONTINUED

D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

The Company'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 account value' column) the valuation methods included in UK GAAP are consistent with the valuation methods of the regulations.

Note	Balance sheet item	Solvency II valuation principles for each material asset class
1	**Property, plant and equipment (held for own use)**	Owner-occupied properties are valued at fair value by an independent valuer. Specifically, the Winterthur House property owned by the Company, is ascribed a value equal to the most recent external valuation, which is considered a suitable proxy to the Solvency II fair value.
2	**Investments (other than assets held for index-linked and unit-linked contracts)**	In line with UK GAAP, the value of investments (other than assets held for index-linked and unit-linked contracts) is determined using 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 the quoted market prices are not available, quoted market prices for similar assets or liabilities are used to determine the fair value. Further details on each item within investments are outlined below. ***Property (other than for own use)*** Investment properties are valued at fair value, being market value determined by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued. Further details are included in section D.4.1 ***Bonds*** Government bonds The Company holds only Government bonds; these Government bonds are valued using quoted market prices at the period end provided by recognised pricing sources. ***Collective investment undertakings*** The Company receives valuations from the investment managers of the underlying funds, based on quoted market prices.
3	**Assets held for unit-linked and index-linked funds**	Assets held for index-linked and unit-linked contracts are measured based on the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds.
4	**Reinsurance recoverables**	The value of reinsurance recoverables is dependent on the expected claims and benefits arising under the related reinsured policies. The calculation basis of gross technical provisions differs between UK GAAP and Solvency II. In particular, negative non-unit liabilities are allowed in Solvency II leading to a £327 million difference pre-reinsurance between Solvency II and UK GAAP. Further details on the calculation approach for Solvency II reinsurance recoverables are included in section D.2.7.

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
5	**Insurance and intermediaries receivables** **Reinsurance receivables**	Given the short term nature, the carrying amount per the financial statements is considered to represent the fair value for these assets.
6	**Receivables (trade, not insurance)**	The receivables (trade, not insurance) balance principally comprises trade and broker balances and current tax, all of which are valued at fair value.
7	**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 is £nil, which is valued by reference to forecast future taxable profits (which are based on the forecasted profits in the AOP submitted to the Group).

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

Deferred tax assets have not been recognised in respect of:	2016 £000
Tax losses carried forward	33,948

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 lines of business relevant to the Company are:

– unit-linked insurance; and

– other life insurance.

There is no non-life business.

This section also includes quantitative and qualitative explanation of material differences between the bases, methods and main assumptions used by the Company in the valuation of technical provisions for solvency purposes and those used for their valuation under UK GAAP.

D.2.1 INTRODUCTION
The technical provisions tables presented in this section are as at 31 December 2016.

For all business in the Company, no allowance is currently made for the Volatility Adjustment, TMTP, MA or transitional measure on interest rates.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED
D.2 TECHNICAL PROVISIONS CONTINUED
D.2.2 TECHNICAL PROVISIONS BY LINE OF BUSINESS

This section provides technical provisions split by Solvency II lines of business.

Table D.2.2a Technical provisions by Line of Business

The following table summarises the technical provisions at 31 December 2016, including the amount of the BEL and risk margin.

Technical provisions by Line of Business	Index-linked and unit-linked insurance £000	Other life insurance £000	Total technical provisions £000
Best estimate liabilities	12,719,964	(213,405)	**12,506,559**
Risk margin (pre reinsurance)	24,620	103,386	**128,006**
Reduction in risk margin for reinsurance	(17,512)	(99,136)	**(116,648)**
Gross technical provisions	**12,727,072**	**(209,155)**	**12,517,917**
Reduction in best estimate for reinsurance	(6,707,125)	213,404	**(6,493,721)**
Net technical provisions	**6,019,947**	**4,249**	**6,024,196**

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

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

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

Technical provisions – UK GAAP to Solvency II reconciliation	Notes	Index-linked and unit-linked insurance £000	Other life insurance £000	Total technical provisions £000
UK GAAP technical provisions – gross	1	**12,820,902**	**11,788**	**12,832,690**
UK GAAP reinsurance	2	–	(11,788)	**(11,788)**
UK GAAP technical provisions – net		**12,820,902**	**–**	**12,820,902**
Reinsurance reclassification	3	(6,808,063)	–	**(6,808,063)**
Solvency II BEL – net of reinsurance		**6,012,839**	**–**	**6,012,839**
Add risk margin	4	7,108	4,249	**11,357**
Solvency II technical provisions – net		**6,019,947**	**4,249**	**6,024,196**

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 Technical Provisions by Line of Business Continued

An explanation of the material valuation differences between the UK GAAP valuation for technical provisions and that used for Solvency II is included below:

Note	Comment
1	The best estimate and prudent best estimate non-unit liabilities are negative and so under UK GAAP rules they are not part of the technical provision. UK GAAP gross technical provisions are broadly equal to the value of units and sum of individual guaranteed surrender values.
2	Almost all profits (and losses) on the business are reinsured to PLL under the reinsurance agreements effective from 1 November 2016. Therefore, post-reinsurance, the difference in bases between UK GAAP and Solvency II (e.g. allowance for negative best estimate liabilities and discount rate differences) becomes irrelevant to the net reconciliation.
3	The Company has treaties in place with third party insurance companies to provide reinsurance in respect of liabilities that are linked to the performance of funds maintained by those companies. The contracts in question do not transfer significant insurance risk and therefore are classified as financial instruments in the UK GAAP financial statements. On the Solvency II balance sheet the amounts recoverable on these contracts are recognised as a reinsurance asset.
4	Solvency II technical provisions include a risk margin that does not exist under UK GAAP.

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 approach to valuing all actuarial liabilities is to use BEL plus risk margin.

Sections D.2.3 to D.2.9 sets out in detail the bases, methodology and main assumptions used to derive the BEL. Risk margin methodology is covered in section D.2.10.

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, appropriate 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.2.7 for further details).

All assumptions are updated to reflect current economic conditions and demographic experience.

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 obligations to policyholders over their lifetime, taking into account the Company's regulatory duty to treat its customers fairly.

The projection of future cash flows is performed using realistic assumptions regarding future experience. The relevant demographic assumptions include expected future trends in mortality, longevity and lapse 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 European Insurance Occupational Pensions Authority ('EIOPA') are used. These rates vary by currency of liabilities; all of the Company's obligations are denominated in sterling.

An adjustment (also specified by EIOPA) is made to the swap curve for credit risk. As at 31 December 2016 the sterling credit risk adjustment was 17bps at each duration.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.3 BASES, METHODOLOGY AND MAIN ASSUMPTIONS USED FOR BEST ESTIMATE LIABILITY CONTINUED

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 17%.

D.2.3.5 Contract boundaries

Under the regulations the liability cash flows that need to be considered within 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).

The boundary used is based on a product level assessment which was performed against early Solvency II guidance, reflecting the Company's inability to reject or vary future premiums. This assessment showed that the Company's unit-linked products have a restricted contract boundary that is not the full contractual term, reflecting the greater capacity to vary fund charges in unit-linked policies, but the impact on BEL of any restriction is limited as few recurrent premiums on existing individual policies are assumed in the AOP. For the non-profit products with substantial future premiums the original contractual maturity term is used.

D.2.4 CALCULATION

The following sub-sections outline how the BEL for each type of business is valued.

D.2.4.1 Unit-linked business

BEL for unit-linked business are based on a realistic assessment of the present value of claim payments and associated policy administration expenses, less future allocated premiums and related premium charges within the contract boundary, if applicable.

D.2.4.2 Other non-profit business

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

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).

Assumptions are set in accordance with the regulations. In particular, they:

– are applicable to homogenous risk groups and LoBs;

– are in line with the Company's knowledge of the business and practices for managing the business; and

– ensure appropriate allowance for anticipated trends or future changes in both the Company 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.

Validations are performed to ensure the experience data is accurate, relevant and credible, including the use of other industry data (e.g. industry trend data) where appropriate to supplement the Company'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); and

2) Lapse and surrender rates.

D.2.5.1 Mortality

Mortality assumptions apply to all products but are particularly important for products such as non-profit whole of life and term assurance.

The assumption review is based on mortality experience over a three year period. Criteria used to subdivide fund level data are age-band, gender, product group, smoker status and ex-entity, where relevant.

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.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.5 DEMOGRAPHIC AND EXPENSE ASSUMPTIONS CONTINUED

D.2.5.1 Mortality Continued

Future improvement in mortality rates

A separate allowance for future improvements in mortality rates is made when calculating technical provisions.

Assumptions for future mortality improvements are based on historic population experience and views of future mortality trends and by comparing actual deaths to the number of expected deaths predicted by previous assumptions.

D.2.5.2 Lapse and surrender rates

The assumption review is based on lapse experience over a three year period. Criteria used to subdivide fund level data are product type and duration in force. Where experience data is insufficient to perform a credible analysis, the experience from similar products may be aggregated.

D.2.5.3 Expense assumptions

Future expense assumptions are set taking into consideration the Phoenix target operating model. At year end 2016 this allowed for the inclusion of the Company's business.

The future expense assumptions include:

MSA fees (based on the target operating model) payable to the Group's Service Companies. The 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.

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.

Acquisition expenses – e.g. commission relating to future recurrent single premium payments inside the contract boundary.

Overhead expenses – These are allocated in a realistic and objective manner and on a consistent basis over time to the parts of the best estimate to which they relate.

D.2.6 STOCHASTIC MODEL

The products underwritten do not contain any options or guarantees that require the use of a stochastic model. The technical provisions have therefore been derived using deterministic assumptions.

D.2.7 RECOVERABLES ON REINSURANCE CONTRACTS

The amounts recoverable on reinsurance contracts are recognised as a reinsurance asset on the 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.2.7.1 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 any collateral if applicable) and the average duration of liabilities transferred.

There is no reinsurance with Solvency II SPVs.

D.2.8 SIMPLIFICATIONS

Where it is proportionate, the Company adopts various simplifications in the calculation of BEL. These simplifications are split across the calculation methodology, and simplifications incorporated into the valuation models.

D.2.8.1 Methodology simplifications

This section describes the main simplifications within the methodology for calculating the Solvency II BEL. However, neither is considered to have a material impact on the BEL

Dynamic policyholder behaviour

Variations in economic conditions affect the lapse and surrender rates. However, due to lack of relevant experience data and modelling complexity, dynamic lapse and surrender rates are not currently modelled by the Company. On account of the reinsurance agreements with PLL this risk is substantially transferred to PLL and does not remain with the Company.

Counterparty default adjustment

The methodology set out in section D.2.7.1 above is a simplification permitted by the regulations.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.9 UNCERTAINTY ASSOCIATED WITH THE VALUATION 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.2.10:

– uncertainty of demographic and economic assumptions;

– uncertainty in the timing and frequency of insured events;

– uncertainty in claim amounts, for example, 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 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, where practicable; and

– uncertainty in policyholder behaviour.

Uncertainty may also emanate from the use of best estimate assumptions. 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 or the assumption being set by expert judgement;

– allowance for future trends being different from expected; and

– random variation.

Any simplifications and approximations made when setting non-economic assumptions takes into account the sensitivity and materiality of the assumption.

Given the reinsurance of the in-force and new business to PLL, the Company has no remaining sensitivity to demographic assumptions. No uncertainty is also assumed to result from the basic risk free curve which is used for the risk margin calculation, as this is specified by the regulations.

D.2.10 RISK MARGIN

The risk margin calculation represents the additional amount above the BEL that is required to be held under the regulations, and represents a proxy for the amount of compensation a third party (i.e. the reference undertaking) would require to take over those liabilities.

The Company uses a simplified methodology to calculate the risk margin, as follows.

D.2.10.1 Methodology overview

The calculation of the risk margin 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:

– any underwriting risk with respect to the existing business, post-reinsurance;

– 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

– a calculation of the risk margin at entity level and a subsequent allocation to each LoB.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS CONTINUED

D.2.10 RISK MARGIN CONTINUED

D.2.10.1 Methodology overview Continued

However in practice, a simplified bottom up approach is used such that the risk margin is calculated by;

- allocating time zero non-hedgeable risks to LoB;
- projecting forward the amount of risk by LoB with risk drivers based on features of the business;
- calculating a reference undertaking SCR at annual intervals using the risks summed across LoBs; and
- applying a 6% cost of capital charge and discounting at a risk-free rate.

The LoB risk margins are then the proportional contribution made to the entity risk margin.

D.2.10.2 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 projecting the SCR by LoB have been investigated and compared to find a driver that best matches the expected run off of the underlying risks.

D.2.10.3 Uncertainty associated with the risk margin

The uncertainty attached to the risk margin result primarily relates to the SCR inputs used to calculate the reference undertaking SCR and the simplified methodology used to project the LoB SCR.

D.3 OTHER LIABILITIES

D.3.1 INTRODUCTION

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

The table below sets out the Solvency II value of the other liabilities and compares this to the 'statutory accounts value' column. The 'statutory accounts value' column is in line with the Company's financial statements, although presentational adjustments have been included where necessary, to enable comparison to the 'Solvency II value' column.

Liabilities	Note	Solvency II value £000	Statutory accounts value £000	Difference £000
Gross technical provisions (Gross BEL, net risk margin)	1	12,517,917	12,832,690	(314,773)
Provisions other than technical provisions	2	5	5	–
Deferred tax labilities	3	1,425	1,425	–
Debts owed to credit institutions	4	792	792	–
Insurance and intermediaries payables	5	2,807	2,807	–
Reinsurance payables	5	10,973	10,973	–
Payables (trade, not insurance)	6	19,377	19,377	–
Total liabilities		**12,553,296**	**12,868,069**	**(314,773)**

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.3 OTHER LIABILITIES CONTINUED

D.3.2 LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

Note	Balance sheet item	Solvency II valuation principles for each material liability class
1	**Gross technical provisions (Gross BEL, net risk margin)**	Details regarding the valuation of technical provisions are covered in section D.2.
2	**Provisions other than technical provisions**	A provision is recognised when the Company 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.
3	**Deferred tax liabilities**	Deferred tax liabilities are valued consistently between Solvency II and UK GAAP statutory accounts.
4	**Debts owed to credit institutions**	Debts owed to credit institutions are valued consistently between Solvency II and UK GAAP statutory accounts.
5	**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.
6	**Payables (trade not insurance)**	The payables (trade not insurance) balance is principally comprised of policyholder payables and unsettled investment trades. Payables are valued consistently between Solvency II and UK GAAP.

D.3.3 DEFERRED TAX LIABILITIES

The deferred tax liability on the Solvency II balance sheet is £1 million is valued by reference to forecast future taxable profits and is comprised as shown in the table below.

Item	Deferred tax liability value £000s	Further details
UK GAAP transitional adjustments	1,425	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 UK GAAP Statutory Accounts from 1 January 2013. The profits are brought into tax on a straight-line basis over a ten year period ending in 2022.
Total Solvency II deferred tax liabilities	**1,425**	

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

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 Company. Section D.1.2 identified the assets 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, estimation or valuation base methods used during the reporting period.

D.4.1 ALTERNATIVE VALUATION METHODS — ASSETS

As noted in section D.1.2, the Company's property (other than held for own use) assets are valued using alternative valuation methods, which utilise a combination of observable and non-observable market inputs.

Asset	Solvency II value £000	Alternative valuation Method	Justification	Assumption
Property (other than for own use)	811	Royal Institute of Chartered Surveyor ('RICS') Appraisal and Valuation Manual.	Accepted market practice.	As per RICS valuation manual and professional judgement of independent valuers.

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 Own Funds, including changes over the reporting period, the SCR and explanation of material differences between net assets under UK GAAP and the excess of assets over liabilities for solvency purposes.

E.1.1 MANAGEMENT OF OWN FUNDS

Following the implementation of the regulations from 1 January 2016, the Company's capital is managed on Solvency II basis.

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

The Company holds an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may use capital and might otherwise cause the Company to fail the minimum level of regulatory capital, the Minimum Capital Requirement ('MCR').

For the management of Own Funds, the Company adheres to a capital management framework that is consistent across the Group.

The capital management framework for managing 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 at a Group level.
- Meet the dividend expectations of shareholders.
- 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 the executive and Board level. The policy ensures sufficient liquidity to meet creditor and dividend obligations through the combination of cash buffers and cash flows. Volatility in the latter is monitored at the 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.

A capital policy is also set by the Board and monitored by management on a daily basis, to ensure there is sufficient capital to meet 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 Company.

The Company's future performance 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 the solvency position as at 31 December 2016. The Own Funds QRT S.23.01 can be found at Appendix 1.5

Description	Section reference	Actual £000	Pro forma £000
Ordinary share capital	E.1.2.3	**19,625**	**19,625**
Reconciliation reserve	E.1.2.3	**30,138**	**28,722**
Basic, Available and Eligible Own Funds to meet SCR		**49,763**	**48,347**
SCR	E.2.1	**(27,476)**	**(28,397)**
Solvency II Surplus		**22,287**	**19,950**
Ratio of Eligible Own Funds to SCR		**181%**	**170%**
Eligible Own Funds to meet MCR	E.2.1	**49,763**	**48,347**
MCR		**(12,364)**	**(12,778)**
Excess over Minimum Capital Requirement	E.2.1	**37,399**	**35,569**
Ratio of Eligible Own Funds to Minimum Capital Requirement	E.2.3	**402%**	**378%**

The actual figures are based on the Standard Formula as at 31 December 2016, whilst the pro forma figures consider approval of the Internal Model for AWL by the PRA during March 2017, as if it applied as at 31 December 2016. The pro forma basis provides a more appropriate analysis of the Company’s capital position and the management of the Company going forward.

The Company’s Own Funds are all classified as unrestricted Tier 1, as they are available, not subordinated and of the highest quality. Further details regarding the principal loss absorbency mechanism complying with Article 71(1)(e) of the Commission Delegated Regulation (EU) 2015/35 have not been included as this Article relates to paid in subordinated liabilities of which there are none.

E.1.2.1 Overview of solvency position

As at 31 December 2016, the Solvency II surplus after deductions over the SCR is £22 million, with a ratio of Eligible Own Funds to SCR of 181%. The excess of Eligible Own Funds after deductions over the MCR is £37 million, with a ratio of Eligible Own Funds to MCR of 402%.

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. This means that they 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.

100% of the Eligible Own Funds are unrestricted Tier 1, and are principally comprised of ordinary share capital and the reconciliation reserve.

No ancillary Own Funds are included as at 31 December 2016.

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.

The Basic Own Funds before deductions total £50 million and is comprised of ordinary share capital and a reconciliation reserve, comprised of excess of assets over liabilities of £50 million less share capital of £20 million.

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, SCR and Solvency II surplus.

Analysis of movement solvency position	Note	Own Funds £000	Actual Solvency Capital Requirement £000	Solvency II Surplus £000
Opening position at 1 January 2016		**458,561**	**(199,597)**	**258,964**
– Expected run-off	1	(16,618)	1,967	(14,651)
– Assumptions and experience variances	2	(36,983)	5,926	(31,057)
– Model and methodology changes	3	6,700	–	6,700
– Other		190	507	697
Earnings before economic variances		**(46,711)**	**8,400**	**(38,311)**
– Economic variances	4	(38,432)	(4,577)	(43,009)
Total earnings		**(85,143)**	**3,823**	**(81,320)**
Other movements				
– Sale and restructure	5	(323,655)	168,298	(155,357)
Closing position at 31 December 2016		**49,763**	**(27,476)**	**22,287**

Notes: The key movements during the year are explained below;

1 - Run-off

The run-off of the business has decreased Own Funds by £17 million over the year. This includes the expected impact of the run-off of the in-force and the value of new business written. The negative overall impact is driven largely by expense overruns. Capital requirements decreased by £2 million.

2 - Assumptions and experience variances

Assumptions have been reviewed throughout the year based on actual experience leading to changes in the best estimate assumptions for mortality and persistency with a net impact of £(37) million on the Own Funds. Capital requirements decreased by £6 million.

3 - Model and methodology changes

Improvements to the model made throughout the year, to improve the accuracy of risk margin had an overall impact of on Own Funds of £7 million.

4 - Economic variances

Economic variances during the year have been principally driven by the decrease in yields, though there are some impacts from equity movements, and the fall in the value of pound sterling. Capital requirements increased by £5 million.

5 - Sale and restructure

On 1 November 2016 the Company was sold to Phoenix Group, causing a switch of the basis of solvency from AXA Internal Model to Standard Formula. From the same date substantially all of the risks and rewards of the existing and new business were reinsured to another member of the Phoenix Group. As a result the Own Funds of the Company increased by around £15 million representing the excess of the advance claim amount received, as detailed in section A.1.4, over the value reinsured. The subsequent dividend then reduced the Own Funds by £339 million. The SCR of the Company decreased by £168 million as a result of these changes, primarily reflecting the passing of most of the risks of the business to the wider Phoenix Group under the reinsurance agreement.

SECTION E
Continued

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

The table below provides an analysis of the key differences between the net assets under UK GAAP and the excess of assets over liabilities under Solvency II.

Reconciliation of UK GAAP equity to Own Funds

		31 December 2016 £000
Net assets per UK GAAP		**61,549**
Valuation differences:		
Best estimate credit default risk		(429)
Risk margin	D.2.2	(11,357)
		(11,786)
Excess of assets over liabilities	E.1.2	**49,763**

Note: There is also a £326 million offsetting re-reclassification between assets and liabilities from UK GAAP, to show the best estimate liabilities before reinsurance and the offsetting reinsurance asset in Solvency II.

Credit default risk – There is a small chance that the reinsurers will fail, causing the Company a loss. Solvency II Own Funds are reduced for an assessment of the probability-weighted loss.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT
E.2.1 SOLVENCY CAPITAL REQUIREMENT

The SCR for the Company as at 31 December 2016 is presented below:

Analysis of Solvency Capital Requirement – 31 December 2016	£000
Risk categories	
Market risk	2,944
Credit risk	19,179
Operational risk	8,783
Total undiversified SCR	**30,906**
Diversification benefits	(2,005)
Loss Absorbing Capacity of Deferred Tax ('LACDT')	(1,425)
Solvency Capital Requirement	**27,476**

All amounts in the table above are determined on a Standard Formula basis and are subject to on-going supervisory assessment.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT CONTINUED

E.2.1 SOLVENCY CAPITAL REQUIREMENT CONTINUED

Risk categories

As noted in section C the only significant risk categories against which risk capital exists relate to the following:

Market risk is the risk that the market value of assets held fluctuates because of changes in market influences. Market risk comprises equity risk, interest rate risk, property risk and currency risk. More details regarding the definitions of the specific risks, risk measurement and mitigation techniques are included in section C.2.

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 include spread risk, investment counterparty risk, reinsurance counterparty risk and outsourcer default risk. More details on these risks are provided in section C.3.

Operational risk is the risk of reduction in earnings and/or value, through financial or reputation 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.

In the market risk module the underlying look-though of unit-linked assets is imperfect, so simplifying assumptions have been used. The simplification relates to the support by external data of the allocations of exposure to market risk sub-modules and average durations and credit ratings.

Other amounts

Diversification benefits – market and credit risks are related, but will not always occur simultaneously. Because of the diversification of the Company's risks, the capital requirements calculation result is smaller than the simple sum of risks.

LACDT – In the event of a severe loss, the Company will be able to offset the losses against some tax on profits arising elsewhere in the Group

E.2.2 CHANGES IN SOLVENCY CAPITAL REQUIREMENT

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 the Company's MCR as at 31 December 2016 is £12 million.

The MCR is calculated according to a formula prescribed by the regulations and initially requires calculation of the linear MCR which is determined by applying a prescribed set of factors to different components of the technical provisions. However, the MCR is subject to a floor of 25% of the SCR or €3.7 million, whichever is higher, and a cap of 45% of the SCR.

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

Calculation of MCR – 31 December 2016	£000
MCR before the application of floors and caps	42,090
MCR cap (45% of SCR)	12,364
MCR floor (higher of 25% of SCR or €3.7m)	6,869
MCR (post application of floors and caps)	**12,364**

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

Analysis of change in MCR	£000
1 January 2016	49,899
31 December 2016	12,364
Movement in MCR	**(37,535)**

The MCR at both current and previous reporting periods is based on a percentage of the SCR. Hence the change in SCR is the key driver for the changes in MCR. The overwhelming cause of change in SCR, and hence MCR, is the sale to the Phoenix Group and restructure of the Company (see section E.1.3).

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 Company does not use the equity risk sub-module in the calculation of the SCR. 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.

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

The Company used the Standard Formula at the reporting date. For the Company's business, the IMAP was submitted to the PRA in 2016 and approval to include the Company within the Group Internal Model was received on 10 March 2017. Section E.1.2 sets out the capital position of the Company on the Internal Model basis as at 31 December 2016.

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

The Company held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with all capital requirements.

As part of the Group's RMF, various controls are in place ensuring continuing compliance with the capital requirements.

E.6 ANY OTHER INFORMATION

No undertaking specific parameters have been used by the Company.

The UK has exercised the option not to require disclosure of capital add-ons until 2020.

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

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION

Continued

GLOSSARY

ANNUAL OPERATING PLAN ('AOP')	The Group's 5 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 of 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 management services companies or between management 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.
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 MEASURE 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

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 LoB;

S.12.01.02 Life and health SLT technical provisions;

S.23.01.01 Own Funds;

S.25.01.21 Solvency Capital Requirement – Standard Formula; and

S.28.01.01 Minimum Capital Requirement.

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.1 — S.02.01.02 BALANCE SHEET

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	5,550
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**22,398**
Property (other than for own use)	R0080	811
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	*R0130*	*5,535*
Government Bonds	R0140	5,535
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	16,051
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	6,019,760
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**6,493,721**
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	(213,404)
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	(213,404)
Life index-linked and unit-linked	R0340	6,707,124
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	12,281
Reinsurance receivables	R0370	1,890
Receivables (trade, not insurance)	R0380	31,804
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	15,655
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**12,603,059**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.1 – S.02.01.02 BALANCE SHEET CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	**(209,155)**
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**(209,155)**
TP calculated as a whole	R0660	
Best estimate	R0670	(213,404)
Risk margin	R0680	4,249
TP – index-linked and unit-linked	**R0690**	**12,727,071**
TP calculated as a whole	R0700	
Best estimate	R0710	12,719,964
Risk margin	R0720	7,107
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	5
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	1,425
Derivatives	R0790	
Debts owed to credit institutions	R0800	792
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	2,807
Reinsurance payables	R0830	10,973
Payables (trade, not insurance)	R0840	19,377
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**12,553,296**
Excess of assets over liabilities	**R1000**	**49,763**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.2 — S.05.01.02 PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410				166,204					**166,204**
Reinsurers' share	R1420				29,053					**29,053**
Net	**R1500**				**137,151**					**137,151**
Premiums earned										
Gross	R1510				166,204					**166,204**
Reinsurers' share	R1520				29,053					**29,053**
Net	**R1600**				**137,151**					**137,151**
Claims incurred										
Gross	R1610				50,393					**50,393**
Reinsurers' share	R1620			90,600	201,698					**292,298**
Net	**R1700**			**(90,600)**	**(151,304)**					**(241,904)**
Changes in other technical provisions										
Gross	R1710				377					**377**
Reinsurers' share	R1720				11,788					**11,788**
Net	**R1800**				**(11,411)**					**(11,411)**
Expenses incurred	**R1900**			**140,832**	**242,436**					**383,268**
Other expenses	**R2500**									
Total expenses	**R2600**									**383,268**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.3 — S.12.01.02 LIFE AND HEALTH SLT TECHNICAL PROVISIONS

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees				Contracts without options and guarantees	Contracts with options or guarantees		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0100	C0150	C0160	C0170	C0180	C0200	C0210
Technical provisions calculated as a whole	**R0010**									**0**					**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020									**0**					**0**
Technical provisions calculated as a sum of BE and RM															
Best Estimate															
Gross Best Estimate	**R0030**			12,269,196			(213,404)		450,767	**12,506,560**					**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080			6,448,881			(213,404)		**258,243**	**6,493,721**					**0**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090			**5,820,315**					**192,524**	**6,012,839**					**0**
Risk Margin	**R0100**		7,105			**4,249**			**2**	**11,357**					**0**
Amount of the transitional on Technical Provisions															
Technical Provisions calculated as a whole	R0110									**0**					**0**
Best estimate	R0120									**0**					**0**
Risk margin	R0130									**0**					**0**
Technical provisions – total	**R0200**		**12,276,302**			**-209,155**			**450,769**	**12,517,917**					**0**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.4 — S.23.01.01 — OWN FUNDS

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**19,625**	19,625			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**30,138**	30,138			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**49,763**	**49,763**			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**49,763**	**49,763**			
Total available own funds to meet the MCR	**R0510**	**49,763**	**49,763**			
Total eligible own funds to meet the SCR	**R0540**	**49,763**	**49,763**			
Total eligible own funds to meet the MCR	**R0550**	**49,763**	**49,763**			
SCR	**R0580**	**27,476**				
MCR	**R0600**	**12,364**				
Ratio of Eligible own funds to SCR	**R0620**	**181.12%**				
Ratio of Eligible own funds to MCR	**R0640**	**402.48%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**49,763**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**19,625**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**30,138**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.5 — S.25.01.21 — SOLVENCY CAPITAL REQUIREMENT — FOR UNDERTAKINGS ON STANDARD FORMULA

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	2,944		
Counterparty default risk	R0020	19,179		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	(2,005)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**20,118**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	8,783
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	(1,425)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	27,476
Capital add-on already set	**R0210**	
Solvency capital requirement	R0220	27,476
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.6 — S.28.01.01 — MINIMUM CAPITAL REQUIREMENT

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210		
Obligations with profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230	6,012,839	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		42,090

Overall MCR calculation

		C0070
Linear MCR	R0300	42,090
SCR	R0310	27,476
MCR cap	R0320	12,364
MCR floor	R0330	6,869
Combined MCR	R0340	12,364
Absolute floor of the MCR	R0350	3,332
		C0070
Minimum Capital Requirement	**R0400**	**12,364**

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