Phoenix

STANDARD LIFE INTERNATIONAL DAC

Proposed Scheme to transfer the business
of
Phoenix Life Assurance Europe DAC
to
Standard Life International DAC

Supplementary Report by the Head of Actuarial Function
on the impact of the Scheme on Policyholders of
Standard Life International DAC

25 October 2024

Contents

1. INTRODUCTION

1.1. Purpose and Scope of Report and Reliances

The purpose of this report (my "Supplementary Report") is to provide an update to my report entitled 'Report by the Head of Actuarial Function on the Impact of the Scheme on Policyholders of Standard Life International DAC' dated 27 June 2024 (my "Main Report"). All definitions and abbreviations used in my Main Report apply also to this Supplementary Report.

In my Main Report I concluded that the scheme will not materially adversely change the position of policyholders of Standard Life International DAC ("SLIntl"). In this Supplementary Report, I consider whether, taking into account developments since the date of my Main Report and their potential impact on SLIntl and its policyholders, it remains appropriate to proceed with the Scheme.

As part of my consideration of the Scheme in this Supplementary Report, I have updated the financial analysis to use financial information as at 30 June 2024 (see section 3), taken into account events that have occurred since then and considered whether the impact of the Scheme on the security and benefits of SLIntl policyholders would be affected in light of that updated information.

This report is written for the SLIntl Board in my capacity as Head of Actuarial Function for SLIntl. As well as the Board, this report may be used by the Independent Actuary, the High Court of Ireland, the Central Bank of Ireland ("CBI") and any affected parties in forming their own judgements about the Scheme. A copy of this report will be provided to the Irish High Court. This report may also be made available to the existing SLIntl policyholders and other interested parties in the transfer.

In carrying out the work and preparing this report, I have relied on data and other information provided to me by Phoenix group service companies acting for both SLIntl and PLAE. I have reviewed the information for consistency and reasonableness. If the underlying data or information is inaccurate or incomplete, the results of the analysis may likewise be inaccurate or incomplete.

The information provided to me has been prepared on a Solvency II basis based on data as at 30 June 2024. The production of this information relied upon actuarial data and information provided by PLAE and SLIntl. The pro-forma financial information in this report has been produced assuming that the Scheme had taken effect on 30 June 2024. This report is based on information made available to me up to the date of this report and takes no account of developments after this date.

A glossary of the definitions and abbreviations used in this document is included in Appendix A.

1.2. Technical standards

There is no actuarial professional guidance specifically covering the work of the HoAF in respect of a Section 13 transfer. My work has been performed in accordance with Actuarial Standard of Practice ASP-PA2 v1.2, effective 1 March 2022, issued by the Society of Actuaries in Ireland that covers general actuarial practice. However given the nature of the report and to support the Board and the Independent Actuary, the content takes into account ASP-INS2, the Actuarial Standard of Practice concerning the role of the Independent Actuary in transfers of insurance portfolios.

2. DEVELOPMENTS SINCE MY MAIN REPORT

2.1. Changes to the Scheme and the Reinsurance Agreements

Since my report in June 2024 there have been no substantive changes to the Scheme.

The transferred reinsurance agreements have been updated to reflect the change in circumstances with SLIntl becoming the cedant. Certain obligations of PLL under the 2023 Scheme have been incorporated into the with-profits reinsurance agreements to preserve continuity under the current Scheme. None of these changes affect the reinsurance provided nor the treatment of transferring policyholders. These treaties and the associated novation agreements must be signed by the parties before the effective date as a condition for the Scheme to be implemented.

2.2. Economic conditions since 31 December 2023

The financial analyses in my Main Report were prepared based on information as at 31 December 2023. Interest rates have risen by approximately 0.3% over the first half of 2024, reducing the value of transferred liabilities.

The Irish Consumer Price Index (CPI) fell from 4.6% to 2.2% between December 2023 and June 2024, which reduces liabilities in relation to future expenses.

Equity markets have generally risen around the world between December 2023 and June 2024 (e.g. FTSE-100 rose by 5.6%) which increases the value of unit linked business, but also increases the solvency II capital requirement for equity risk.

The impact of these and other movements of in-force policies have been reflected in the analysis shown in section 2.3.

2.3. Developments Affecting the Financial Position of PLAE and SLIntl

2.3.1. Assumption Changes

PLAE's best estimate assumption maintenance expenses included an allowance for a Future Management Action (FMA) to be taken in the future to transfer the remaining in-force policies to another provider. This is to avoid unsustainable diseconomies of scale from the ongoing costs of servicing the remaining business. This FMA was changed for the 30 June 2024 valuation to reflect the proposed transfer to SLIntl as the most probable outcome. The current PLAE maintenance expense assumptions were replaced by PLAE's obligations to SLIntl under the terms of the transfer, less a margin to reflect the uncertainty of the Scheme being approved. The technical provisions and the capital requirements were also adjusted for stresses that apply to PLAE's obligations to SLintl under the transfer.

The current PLAE pre-transfer balance sheet thus reflects the maintenance expense obligations of PLAE under the transfer in place of its current MSA. The PLAE risk margin has been uplifted to recognize the transfer price due to SLIntl in accordance with the principles of Solvency II.

I note that this change to the PLAE best estimate assumptions prior to the transfer has no effect on the transferring assets or liabilities from the perspective of SLIntl. This is because the transferred assets and liabilities will be calculated using the agreed Expense Model including SLIntl's best estimate assumptions, which are now being reflected by PLAE.

The investment management expense assumptions have been updated to reflect updates to the agreements with PLAE's asset managers.

There have been no material changes to SLIntl best estimate assumptions since 31 December 23.

2.3.2. Updated Effects of the Transfer on PLAE and on SLIntl

My Main Report illustrated the effects of the Scheme on SLIntl and PLAE balance sheets on a pro forma basis if the Scheme had been effective on 31 December 2023. The following tables update this assessment to illustrate the post-transfer balance sheets if the Scheme had been effective on 30 June 2024.

PLAE €m	Pre-Transfer		Post-Transfer	
	31.12.2023	30.06.24	31.12.2023	30.06.24
Assets excl. Reins Recoverable	651	567	160	147
Current assets	99	104	-	-
BEL gross of reinsurance	(918)	(843)	-	-
Other liabilities	(108)	(54)	-	(1)
Ceded reinsurance	432	425	-	-
Risk Margin	(36)	(61)	-	-
Basic Own Funds	119	137	160	146
Ancillary Own Funds	-	-	-	-
SCR	61	61	-	3[1]
Total OF/SCR cover%	195%	226%		4,898%

Table 1: PLAE Effects of the transfer if it had become effective on 30 June 2024.

[1] **The residual PLAE SCR would arise because PLAE will hold cash assets following the transfer attracting some risk capital** and that PLAE would have to hold €4m at a minimum in accordance with capital requirements**. The same would have applied in the YE23 pro forma column but this is not shown for consistency with the table shown in my Main Report.**

SLIntl €m	Pre-Transfer		Post-Transfer	
	31.12.2023	30.06.24	31.12.2023	30.06.24
Assets excl. Reins Recoverable	18,828	20,260	19,310	20,674
Current assets	231	182	330	286
BEL gross of reinsurance	(30,598)	(32,164)	(31,450)	(32,998)
Other liabilities	(438)	(325)	(546)	(379)
Ceded reinsurance	12,838	12,926	13,270	13,351
Risk Margin	(171)	(178)	(195)	(198)
Basic Own Funds	690	702	719	736
Ancillary Own Funds	55	55	55	55
SCR	383	413	420	448
Total OF/SCR cover%	194%	183%	184%	177%

Table 2: SLIntl Effects of the transfer if it had become effective on 30 June 2024.

The PLAE Own Funds have increased at 30 June 2024, compared with 31 December 2023 primarily as a result of change to the best estimate assumptions described above.

SLIntl's own funds increased, largely as a result of growth in equity markets increasing the present value of its in-force unit linked business. However, there was also an increase in equity risk in the SCR due to application of the Solvency II requirements, and this caused SLIntl's solvency ratio to reduce overall over the period.

If the transfer is not approved and effected for any reason, then PLAE would revert to its original set of assumptions for maintenance expenses. In this scenario then PLAE's balance sheet as at 30 June 2024 would be as shown in the following table.

PLAE €m	Current Position Anticipating Transfer	Position that PLAE Would Revert to if the Transfer did not Proceed
	30.06.24	30.06.24
Assets excl. Reins Recoverable	567	567
Current assets	104	104
BEL gross of reinsurance	(843)	(882)
Other liabilities	(54)	(54)
Ceded reinsurance	425	425
Risk Margin	(61)	(34)
Basic Own Funds	137	125
Ancillary Own Funds	-	-
SCR	61	57
Total OF/SCR cover%	226%	217%

Table 3: PLAE Effects if the transfer was not implemented and PLAE reverts to its previous best estimate expense base.

SLIntl remains on course with its proposed application for inclusion of the PLAE business into scope of its PIM. The figures shown in this report are consistent with the interim consolidation methodology used in my Main Report.

There have been no changes to the PLAE CP or the SLIntl CP since 31 December 2023.

The resulting risk profile of SLIntl following the transfer has not materially changed from the 31 December 2023 pro-forma SCR calculation to the 30 June 2024 pro forma calculation.

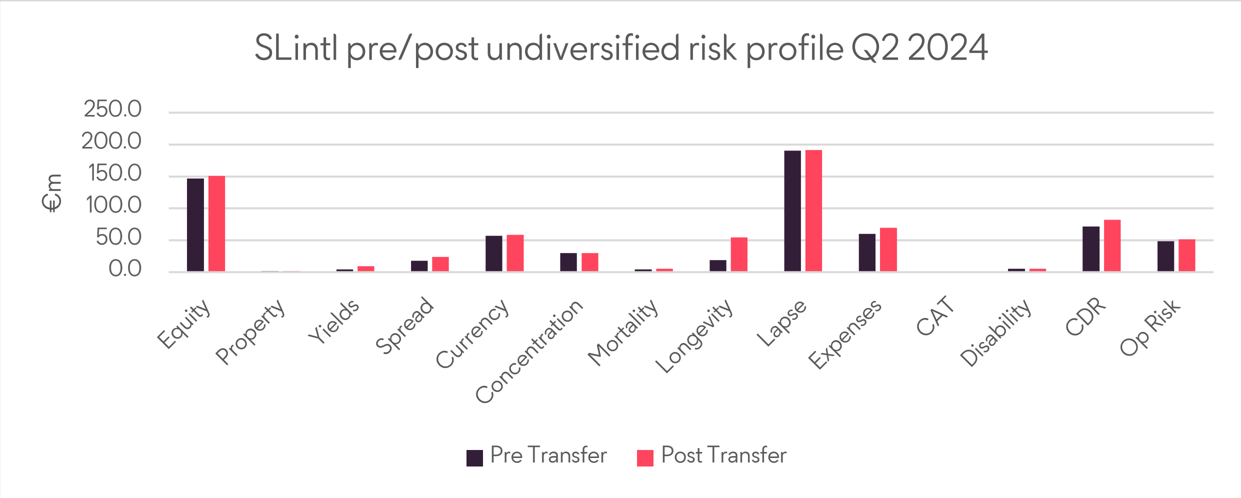

Figure 1 Risk Profile of SLIntl before and after the transfer using 30 June 2024 pro forma SCR calculation.

The results of table 2 show that SLIntl would still hold assets comfortably in excess of the requirements of the SLIntl CP following the transfer. Therefore I remain satisfied that the transfer would not have a material adverse effect on the security of the existing policyholders of SLIntl.

2.4. Other Developments

In my Main Report I noted that there are no changes expected to the tax status of transferring policyholders, and clearances and confirmations were sought out from the Irish tax authorities. These tax clearances have now been granted.

I noted in my Main Report that the Phoenix Group is undertaking a process to achieve operational readiness and establish appropriate management services agreements in time for the transfers in of business on 1 January 2025. I was informed by the project team that the necessary work was underway. This work is proceeding to plan and tracking to 'green' status at the time of writing.

SLIntl and PLAE have agreed the terms of their respective MSAs with PGMS (Irish Branch) that will apply following the transfer. In the case of PLAE, the MSA will cover such support services as the business still requires from PGMSIB, excluding policy administration services which will have transferred to SLIntl. The revised SLIntl MSAs make no changes to the current administration services, and therefore there continues to be no reason to expect any change to the standards of servicing for transferring policies.

I mentioned in my Main Report that an exercise was under way to review any changes needed to the SLIntl governance structure to accommodate the transferring business. This is ongoing and no material differences have emerged from the work done to date. Chairs of the relevant SLIntl Committees will be asked to approve any changes required to their respective terms of reference, and this will be tracked through the Operational Readiness work stream described above. The CBI have approved an application made by SLIntl for a derogation from the Irish Domestic Actuarial Regime requirement to publish and maintain With-Profits Operating Principles (WPOPs) for the transferring with-profits funds. This is no change to the current position for transferring policyholders, who would continue to access the PLL Principles and Practices of Financial Management for information about how their funds are run. There is also no change for the existing policyholders of SLIntl who do have access to WPOP documents for their funds.

2.5. Events since 30 June 2024

There have been no material changes to the key economic indicators since 30 June 2024, nor any company events materially affecting the balance sheets of PLAE or SLIntl.

3. POLICYHOLDER RESPONSES TO THE COMMUNICATIONS EXERCISE

Following the Directions Hearing 16,966 PLAE policyholders and 1,061 financial advisers were written to about the proposed transfer. The transfer was also published on the companies' websites and in press notices. As at 24 October there have been 670 responses to the communication from PLAE policyholders. No responses have been received from existing SLIntl policyholders. Of the PLAE policyholders' responses, 317 were categorised as business-as-usual administration enquiries, 110 were general enquiries about the transfer, two requests for copies of documentation about the transfer, one technical question about the transfer, one objection to the transfer, and 239 new gone-aways identified as a result of the mailing. The objection is covered in the PLAE Supplementary Report and I can confirm that I agree with the conclusion of the PLAE HoAF and that this objection does not change my favourable opinion on the Scheme.

4. CONCLUSIONS FOR CURRENT SLINTL POLICYHOLDERS

For the reasons set out above I consider that the Scheme will not materially adversely change the position of current policyholders of SLIntl.

M Wharton
Fellow of the Society of Actuaries in Ireland
25 October 2024

Appendix A – Glossary

Term	Definition
"**1909 Act**"	means the Assurance Companies Act, 1909 of the Republic of Ireland (as amended)
"**1989 Act**"	means the Insurance Act, 1989 of the Republic of Ireland (as amended)
"**2015 Regulations**"	means the European Union (Insurance and Reinsurance) Regulations 2015 (SI 485/2015)
"BEL"	Best estimate Liabilities, the value being derived from a model using best estimate actuarial assumptions.
"Capital Policy", "CP"	A Board-approved policy for the amount of additional capital the firm holds in excess of the regulatory requirements to provide an additional solvency buffer.
"**CBI**"	means the Central Bank Of Ireland, the regulator of insurance companies in Ireland.
"CDR"	means counterparty default risk, the risk exposure to the failure of a contractual counterparty, for example a reinsurer.
"**Court**"	means the High Court of Ireland
"**Diligenta**"	Diligenta Limited, an external service company providing administration services to companies in the Phoenix Group
"**Directions Hearing**"	means the hearing to be held before the Court on 8 July 2024 at which the Court is asked to give certain directions to the parties in relation to the proposed Transfer including how the Transfer will be publicised / how the parties intend to communicate with policyholders
"**EEA**"	means the European Economic Area

Term	Definition
"**Effective Date**"	means 1 January 2025
"EFL Retrocession Agreement"	means retrocession arrangement that was put in place to allow transferring Irish policyholders in the SLAL HWPF to maintain their current unit- linked investment options
"Expense Model"	means the model for determining the best estimate liabilities in respect of the transferring business using SLIntl assumptions, as defined in the Scheme.
"**Fixed Charge Arrangements**"	means the deed of fixed charge between PLL as chargor and SLIntl as secured party which will be executed prior to the sanction of this Scheme by the Court, the Account Control Agreement and Custody Agreement
"**Floating Charges**"	means the deeds of floating charge, which will be executed prior to the sanction of this Scheme by the Court, between: (a) PLL as chargor and SLIntl as secured party; and (b) RAL as chargor and SLIntl as secured party
"**FSAI"**	means a Fellow of the Society of Actuaries in Ireland
"GAO"	means Guaranteed Annuity Option, a feature of certain pension policies which have the benefit that policyholders can purchase an annuity at a guaranteed rate.
"FSMA"	means the UK Financial Services and Markets Act 2000
"**HoAF**"	means the Head of Actuarial Function
"**IA**"	means the Independent Actuary, Mr. Michael Claffey of Milliman Limited (7 Grand Canal, Grand Canal Street Lower, Dublin 2, D02 KW81, Ireland) who has been appointed as the independent expert to report to the Court on the Scheme

Term	Definition
"**MSA**"	means Management Services Agreement.
"**NTMA**"	means the National Treasury Management Agency which manages the Dormant Accounts Fund (i.e., the fund established under the Dormant Accounts Act 2001) in accordance with the Unclaimed Life Assurance Policies Act 2003)
"OPR"	Means Operational risk, which incorporates losses caused by inadequate or failed internal processes, people and systems, or from associated external events including legal risks.
"ORSA"	Means Own Risk and Solvency Assessment. This is a set of processes defined under Solvency II to assess a firm's overall solvency needs related to its specific risk profile, in a continuous and prospective way.
"Own Funds"	Free assets on an insurance company balance sheet in excess of the amount required to cover technical provisions and the regulatory capital requirements.
"Partial Internal Model (PIM)"	Under Solvency II, an internal model is an alternative methodology for determining the SCR instead of using the standard formula. Internal models require regulatory approval. A partial internal model adopts a hybrid of internal model and standard formula components and also requires regulatory approval.
"PGH"	means Phoenix Group Holdings plc
"**Phoenix Re**"	means Phoenix Re Limited, Bermudian subsidiary of PGH
"**PGMSI**"	means PGMS (Ireland) Limited
"**PGMSIB**"	means the Irish branch of PGMS UK
"**PGMS UK**"	means Phoenix Group Management Services Limited, a UK-based service

Term	Definition
	company of the Phoenix group.
"PLL"	means Phoenix Life Limited
"**Phoenix 2009 Scheme**"	means the scheme providing for the transfer to PLL of the business of Scottish Mutual Assurance Limited and Scottish Provident Limited in February 2009 (as amended, modified or replaced from time to time)
"**PLAE**"	means Phoenix Life Assurance Europe Designated Activity Company
"**PLAE 90% WPF"**	means PLAE 90% WPF
"**PLAE Alba WPF"**	means PLAE Alba WPF
"PLAE MSA"	means the Management Services Agreement through which administration and other services are provided by PGMSIB to PLAE.
"PLAE CP"	means the PLAE Capital Policy
"**PLAE PWPF"**	means PLAE Phoenix WPF
"**PLAE SPI WPF"**	means PLAE SPI WPF
"**PLAE NPF"**	means PLAE Non-Profit Fund
"PPFM"	means Principles and Practices of Financial Management, a document required for UK with-profits funds that aims to explain how a firm manages its with-profits business.
"**2022 Scheme**"	means the transfer of certain insurance business from PLL and RLL to PLAE by way of a UK Part VII Scheme and Irish Scheme that became effective on 1 January 2023
"**RAL**"	means ReAssure Limited, the immediate parent company of PLAE.
"**Regulator**"	means the CBI

Term	Definition
"**RLL**"	means ReAssure Life Limited
"**RUKSL**"	ReAssure UK Services Ltd, a service company in the Phoenix group that provides administration for life companies that were part of the ReAssure group.
"Risk Margin"	An amount representing the amount required by a third party to take over the capital obligations of an insurance company
"Risk Profile"	The composition of different types of risk borne by an insurance company, typically subdivided into market risks, insurance risks, and operational risks.
"**Sanctions Hearing**"	means the final hearing before the Court to be held on 12 November 2024 at which the Court is asked to consider the petition seeking the Court's approval for the Transfer (following such hearing the Court will issue its judgement on whether or not to sanction the Scheme)
"Shareholders' Fund"	means assets and liabilities not attributable to the long term insurance business
"Solvency II"	means the prudential regime for insurance and reinsurance undertakings in the EU.
"Solvency Capital Requirement (SCR)"	The Solvency Capital Requirement is the capital a company is required to hold under Solvency II Pillar 1.
"Solvency Cover Ratio"	The ratio of Own Funds divided by the SCR
"Standard Formula (SF)"	The methodology and calibration set by EIOPA to determine regulatory capital requirements for firms that do not use an internal model.
"**SLIntl**"	means Standard Life International Designated Activity Company
"**SLAL**"	means Standard Life Assurance Limited

Term	Definition
"SLAL Brexit Scheme"	means the transfer of certain insurance business from SLAL to SLIntl by way of a UK Part VII Scheme and Irish Scheme that became effective on 28 February 2019
"SLIntl CP"	means SLIntl Capital Policy
"SLIntl HWPF"	means SLIntl Heritage WPF
"SLIntl GWPF"	means SLIntl German WPF
"SLIntl GSMWPF"	means SLIntl German Smoothed WPF
"SLInt MSA"	means the Management Services Agreement through which administration and other services are provided by PGMSIB to PLAE.
"SLIntl NPF"	means SLIntl Non Profit Fund
"SLOC"	means Sun Life Assurance Company of Canada (UK)
"**SS&C**"	means SS&C International Managed Services Limited
"Technical Provisions"	The amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts
"Unit-Linked Business (UL)"	A type of long-term business where the policy benefits are determined by the value of assets held in policyholders' funds. These funds are divided into units of equal value and allocated amongst policies in proportion to their investment in the fund.
"WPOP"	means With-Profits Operating Principles, a document required for Irish with-profits funds that aims to explain how a firm manages its with-profits business.

Term	Definition
"WPF"	Means with-profits fund, a pooled investment fund where the policyholders share a participating interest in the rewards and risks borne by the fund.