STANDARD LIFE ASSURANCE LIMITED

STANDARD LIFE PENSION FUNDS LIMITED

Proposed Scheme to transfer the entire business of Phoenix Life Assurance Limited, Standard Life Assurance Limited and Standard Life Pension Funds Limited to Phoenix Life Limited

Report by the Chief Actuary on the impact of the Scheme on Policyholders of Standard Life Assurance Limited and of Standard Life Pension Funds Limited

18 April 2023

Contents

1. INTRODUCTION

1.1. Purpose and Scope of Report

The purpose of this report is to describe the impact of a proposed scheme (the "Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA") on the policyholders of Standard Life Assurance Limited ("SLAL") and Standard Life Pension Funds Limited ("SLPF"). Under the Scheme, the business of SLAL, SLPF and Phoenix Life Assurance Limited ("PLAL") is to transfer to Phoenix Life Limited ("Phoenix").

This report describes how the Scheme is expected to affect the security of benefits and the reasonable benefit expectations of policyholders of SLAL and SLPF. It also sets out how the Scheme is consistent with the requirements to treat customers fairly and act to deliver good outcomes.

The Scheme will impact the previous SLAL Schemes described in section 3.2 of this report and it will be necessary to make certain amendments ("Proposed Variations") to their terms. As these Schemes were approved under Scots law, this will require the consent or approval (as required for each Scheme) of the Court of Session in Edinburgh. The scope of this report includes the impact of the Proposed Variations.

Unless otherwise indicated, references to the Scheme also include reference to equivalent schemes in Jersey and Guernsey (see section 4.2.1) and references to the High Court include the Jersey Court and Guernsey Court.

This report is written for the SLAL Board and the SLPF Board in my capacity as Chief Actuary for each company, carrying out the Chief Actuary function in accordance with the Insurance – Senior Management Functions part of the Prudential Regulation Authority ("PRA") Rulebook. As well as the Boards, this report may be used by the SLAL With-Profits Actuary, the SLAL With-Profits Committee (the "WPC"), the SLAL Independent Governance Committee, the Independent Expert, the High Court, the Court of Session, the PRA, the Financial Conduct Authority (the "FCA") and any overseas regulators and courts in forming their own judgements about the Scheme (or equivalent local schemes in Jersey and Guernsey).

A separate report on the Scheme has been prepared by SLAL's With-Profits Actuary. The With-Profits Actuary's report assesses the impact of the Scheme from the perspective of with-profits policyholders in SLAL's with-profits funds.

The Independent Expert has also prepared a report, which considers the Scheme and its effects on the policyholders of Phoenix, PLAL, SLAL and SLPF, and the policyholders of Standard Life International dac ("SL Intl") and Phoenix Life Assurance Europe dac ("PLAE"), whose benefits are reinsured to SLAL and Phoenix respectively.

During the preparation of this report, I have considered the content of the reports prepared by both the Independent Expert and the With-Profits Actuary and am supportive of their conclusions. There is nothing in their reports that represents a difference of substance from the views expressed in this report.

I will prepare a supplementary report ahead of the Sanction Hearings.

Unless otherwise defined in this report, the words and phrases used in this report have the same meaning as attributed to them in the Scheme document which sets out the terms of this Scheme.

1.2. Status

I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1996, and hold a practising certificate issued by the IFoA to act as a Chief Actuary. I have been the Chief Actuary of SLAL and SLPF since 24 September 2021.

I have also been the Chief Actuary for ReAssure Limited ("RAL") since 1 January 2016 and for ReAssure Life Limited since 31 December 2019.

I am an employee of ReAssure (UK) Services Limited, a wholly owned subsidiary of Phoenix Group Holdings plc ("PGH"), the ultimate parent company of the Phoenix group. My remuneration structure is consistent with that of other senior managers in the organisation. . I am currently a shareholder of PGH and also hold options on a number of PGH shares.

I am not a beneficiary of any policies with any of the Phoenix group companies. I am a deferred member of the ReAssure Group Final Salary Pension Scheme.

During the period between the Directions Hearing and the Transfer Date, I will continue to comply with applicable law and regulations and the Phoenix Group's share dealing policy if dealing in any shares in PGH.

My shareholdings and my pension arrangements do not affect my objectivity in carrying out my review as Chief Actuary. As a Fellow of the Institute and Faculty of Actuaries, I am bound by a professional code of conduct, which requires me to act with integrity and impartiality.

I confirm that my personal interests have not influenced me in reaching any of the conclusions detailed in this report.

1.3. Technical standards

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards ("TAS") issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this report and it is compliant with the requirements of Actuarial Profession Standard X2 as issued by the Institute and Faculty of Actuaries.

2. EXECUTIVE SUMMARY AND CONCLUSION

In my opinion as Chief Actuary, taking into account the advice and opinions set out in this report, no class of SLAL or SLPF policyholder will be materially adversely affected by the implementation of the Scheme or the Proposed Variations. In particular, I believe that the Scheme and the Proposed Variations should not have any material adverse impact on the security of benefits or the reasonable benefit expectations of the existing policyholders in SLAL or SLPF. I also believe that the Scheme and the Proposed Variations are consistent with the requirements of SLAL and SLPF to treat customers fairly and act to deliver good outcomes, and there should be no adverse effect on the levels of service provided to such policyholders.

This report is structured as follows.

In section 3 I have provided background information on SLAL, SLPF, Phoenix and PLAL. It is important to note that all SLPF policies are reinsured to SLAL and managed alongside SLAL's business under SLAL's management frameworks.

I have given a summary of the Scheme in section 4, highlighting its effect on the policyholders of SLAL and SLPF. In particular, I note the following:

- SLAL and SLPF policies within the with-profits funds of SLAL will be transferred to equivalent funds in Phoenix as a result of the Scheme, where they will operate as now. SLAL and SLPF policies within the SLAL Proprietary Business Fund ("SLAL PBF") will be transferred to the Non-Profit Fund of Phoenix as a result of the Scheme and continue to operate as now.
- The Scheme will not change the terms and conditions of policies currently within SLAL or SLPF.
- The management of SLAL and SLPF business will be generally unchanged. The frameworks under which Phoenix, PLAL and SLAL policies (including those reinsured from SLPF) are managed, such as the governance, capital policy and risk management frameworks, are already harmonised across the parties to the Scheme with the exception of the capital policy framework where the 'Capital Event' business requirement that currently applies only to SLAL business will be extended to cover all business under the Scheme as described in section 4.3.

In sections 5, 6 and 7 I have analysed the impact of the Scheme on the policyholders of SLAL and SLPF, in particular I note the following:

- The risk profile of Phoenix after the transfer will be different from SLAL's current risk profile (which includes the reinsured SLPF policies). However, the split of risk exposures between high level risks (i.e. market risk, credit risk, insurance risk, operational risk) will not change significantly because SLAL business will comprise around 70% of Phoenix's business post transfer and Phoenix and PLAL are exposed to similar types of risks to SLAL.
- The risk profile of Phoenix after the transfer will include some risk exposures that SLAL does not currently have; for example, in relation to bulk purchase annuities, equity release mortgages and potential future support for Phoenix's With-Profits Funds, including those being transferred from PLAL. This will not materially affect the security of SLAL and SLPF policyholders. These risks originate from companies operating under the same risk management framework ("RMF") as SLAL, which have similar risk monitoring and mitigation processes in place.

- Importantly, Phoenix and PLAL already hold sufficient capital to meet both their regulatory and capital policy requirements in relation to these risks, and this will continue to be the case in Phoenix following the transfer.
- There should be no negative effect on the investment performance, bonuses or on unit pricing as a consequence of the Scheme.
- The Scheme will not cause any changes to the administration of SLAL and SLPF policies and there is no reason to expect the quality of administration or the level of service provided to SLAL or SLPF policyholders to reduce as a result of the Scheme.
- There will be no material change to the governance arrangements for existing SLAL or SLPF policies as a result of the Scheme as the composition of the Board of Phoenix, PLAL and SLAL (which also manages SLPF's policies) is the same and governance arrangements are harmonised across the parties and will not be changed as a consequence of the Scheme.

3. BACKGROUND

3.1. History of SLAL

SLAL traces its history back to when the Life Insurance Company of Scotland was established in 1825. Subsequently, it changed its name to The Standard Life Assurance Company ("SLAC") in 1832. SLAC began as a partnership, but was converted to a limited company in 1910 and then to a mutual in 1925.

After just over 80 years as a mutual, SLAC demutualised on 10 July 2006 and most of the long-term business of SLAC was transferred to its new parent life insurance company, SLAL, under a Part VII Scheme (the "SLAC Demutualisation Scheme"). On 31 December 2011, the substantial majority of the assets and liabilities of Standard Life Investment Funds Limited ("SLIF") was transferred to SLAL under a Part VII scheme.

Since September 2018, SLAL has been a member of the Phoenix Group, which is headed by PGH. The Phoenix Group currently includes seven UK regulated life insurance companies – Phoenix, PLAL, ReAssure Limited, ReAssure Life Limited, SLAL, SLPF and Sun Life Assurance Company of Canada (UK) Limited – and two life companies regulated in Ireland – PLAE and SL Intl.

SLAL is open to new business and writes mainly unit-linked pensions business for workplace and retail customers.

Phoenix and abrdn plc entered into an agreement in 2021 under which it has been agreed, inter alia, that certain current SLAL policies will at some point be transferred to abrdn Life and Pensions Limited, a subsidiary of abrdn plc. The policies subject to this agreement will be transferred to Phoenix under the Scheme. The subsequent transfer will be subject to a separate High Court process, which will not commence until after the Scheme is implemented.

3.2. Previous SLAL Schemes

SLAL has been involved in a number of Part VII schemes previously as noted below:

Effective Date	Long-term Insurance Business Schemes involving SLAL	Scheme
July 2006	The demutualisation of SLAC and the establishment of SLAL is governed by the 2006 Scheme of Demutualisation pursuant to a Part VII insurance business transfer scheme. The SLAC Demutualisation Scheme has been varied since 2006, including by the schemes below.	SLAC Demutualisation Scheme
December 2011	Transfer of business from SLIF to SLAL.	SLAL 2011 Scheme
March 2019	Transfer of SLAL's euro-denominated business in Germany, Austria and Ireland to SL Intl (with reinsurance back to SLAL of certain business).	SLAL Brexit Scheme

The SLAC Demutualisation Scheme was also varied twice in 2016, once through the Court of Session application process to enable it to operate as intended following the introduction of Solvency II. These changes were made using the scheme's variation provisions and did not require a new Part VII scheme.

Details of the key relevant areas of the SLAC Demutualisation Scheme are given in section 3.4.

The significant features of the SLAL Brexit Scheme are:

- all euro-denominated business in SLAL was transferred to SL Intl;
- liabilities associated with SL Intl's with-profits funds were reinsured back to SLAL, which allowed the transferred with-profits policyholders to continue to benefit from the protection of the UK with-profits regime, and for those in SL Intl's Heritage With-Profits Fund it allowed them to continue to benefit from sharing the experience of the SLAL Heritage With-Profits Fund (the "SLAL Heritage WP Fund");
- a collateralised security structure involving a fixed charge and a floating charge was put in place to provide appropriate security to SL Intl and its policyholders following the transfer and reinsurance;
- three Deed Polls and an Undertaking were issued by SL Intl to help ensure that the rights and reasonable benefit expectations of transferring policyholders whose liability is reinsured back to SLAL were not materially adversely affected by the SLAL Brexit Scheme. These Deed Polls and Undertakings give the transferring with-profits policyholders an enforceable right against SL Intl, pursuant to which SL Intl is obliged to "top-up" the amounts owed to such policyholders under the terms of their policy to the level of returns they would have received under the same policy had it not transferred under the SLAL Brexit Scheme; and
- a retrocession arrangement (known as the EFL Retrocession Arrangement) was put in place to allow certain Irish policyholders with unit-linked investment options to continue to invest in the same range of unit-linked funds following the transfer.

3.3. Structure and Business of SLAL today

SLAL comprises a shareholders' fund (the "SLAL Shareholders' Fund") and a long-term insurance fund, which consists of five sub-funds:

- the SLAL Heritage WP Fund;
- the German With-Profits Fund (the "SLAL German WP Fund");
- the German Smoothed Managed With-Profits Fund (the "SLAL German SM WP Fund");
- the UK Smoothed Managed With-Profits Fund (the "SLAL UKSM WP Fund"); and
- the SLAL PBF.

Further details of the business in each fund, including the different classes of policyholders considered in this report are included in Appendix 1.

The SLAL PBF is maintained for accounting and operational purposes to allow SLAL to identify its long-term insurance business which is not allocated to its with-profits funds. Since the introduction of Solvency II, there is no legal or regulatory requirement to maintain the SLAL PBF or to separate the business allocated to the SLAL PBF from the SLAL Shareholders' Fund. For reporting purposes under Solvency II, the SLAL Shareholders' Fund is combined with the SLAL PBF.

The approximate number of policies and best estimate liabilities ("BEL"), including reinsurance accepted and net of reinsurance ceded, in each sub-fund of SLAL as at 31 December 2022 are shown in the table below.

Fund	SLAL Heritage WP Fund	SLAL German WP Fund	SLAL German SM WP Fund	SLAL UKSM WP Fund	SLAL PBF
Policies (000)	1,179	0	0	0	3,087
BEL (£m)	21,476	2,102	156	58	89,152

Notes:

1) *The BEL shown is the amount after allowing for the Solvency II transitional arrangements. The numbers of policies are based on those shown in the SLAL Quarterly Reporting Templates ("QRT"s) but double counting that results from the prescribed QRT methodology has been removed.*
2) *There are no policies in the SLAL German WP Fund and the SLAL German SM WP Fund. These funds only contain business reinsured to SLAL by SL Intl.*
3) *The policy numbers for the SLAL UKSM WP Fund business are included in the SLAL PBF figure, as this business is written in the SLAL PBF and its with-profits investment content is allocated to the UKSM WP Fund.*

In total, SLAL at 31 December 2022 had approximately 4.3 million policies in-force with total net assets, on a basis that treats reinsurance consistently with the BEL shown above, in excess of £117 billion. SLAL is open to new business and writes mainly unit-linked pensions business for workplace and retail customers. This business is written into the SLAL PBF.

At the time of the SLAL Brexit Scheme, SLAL provided a loan to PGH (the "'Group Loan", with current value £309m) which then funded the purchase of SL Intl from SLAL by PGH. SLAL has a charge over the shares of SL Intl.

3.4. Key relevant areas of the SLAC Demutualisation Scheme

The SLAC Demutualisation Scheme as amended provides the framework in which SLAL operates its business and contains the "Core Principles" for the operation of the SLAL Heritage WP Fund. It also defines the payments between the SLAL Heritage WP Fund and the other funds of SLAL. Some key areas of relevance from the SLAC Demutualisation Scheme are described below.

3.4.1 Recourse Cashflow

The Recourse Cashflow ("RCF") is a payment made from the SLAL Heritage WP Fund based on the surplus emerging on certain defined blocks of UK and Irish business. The calculation of this surplus is defined in the Scheme and it provides the shareholder with a share of the surplus emerging in the SLAL Heritage WP Fund.

Payment of the RCF is contingent on the financial position of the SLAL Heritage WP Fund. The RCF is only paid if:

(i) the SLAL Heritage WP Fund has a surplus;
(ii) SLAL can demonstrate that it is reasonable to expect that the SLAL Heritage WP Fund will continue to comply with the requirements in COBS 20.1A.5R (that sufficient assets must be held in a with-profits fund to cover its with-profits and other liabilities); and
(iii) (unless there is a current "Capital Event", as defined in section 3.4.3) the "Notional Company" has sufficient assets to cover its Technical Provisions.

If the surplus is negative (i.e. a loss has been incurred), then capital support is provided through a contingent loan by the shareholder making assets available to the SLAL Heritage WP Fund. No such capital support has been advanced to date.

Under the SLAC Demutualisation Scheme, other non-contingent payments are made from the SLAL Heritage WP Fund in respect of German business, which is not within the scope of the RCF calculation. The payments are defined as certain percentages of the unallocated premium and initial commission for in-scope policies.

3.4.2 Core Principles and Notional Company

The Core Principles state, amongst other things, that SLAL must consider the financial impact of decisions affecting the SLAL Heritage WP Fund in terms of their appropriateness to a 'Notional Company'. This affects areas such as investment policy, bonus rates and pay-outs. The Notional Company is essentially a version of the SLAL Heritage WP Fund with some specified additional capital, no requirement to pay RCFs and no requirement to distribute its Estate. This approach ensures that with-profits management decisions made before and after SLAC's demutualisation are based on broadly consistent measures of financial strength. The Notional Company is financially stronger than the SLAL Heritage WP Fund, which means that in some circumstances SLAL's shareholder would effectively provide financial support to the extent that the risk profile of the SLAL Heritage WP Fund would not be affordable on a standalone basis. The continued use of this approach is a core part of the SLAL Heritage WP Fund policyholders' expectations.

3.4.3 Core Principles and Capital Events

The SLAC Demutualisation Scheme requires that SLAL must ensure, to the extent reasonably practicable, that there is 'no significant foreseeable risk' of a Capital Event arising and requiring SLAL to stop managing the SLAL Heritage WP Fund in accordance with the Core Principles. A Capital Event is defined as SLAL becoming 'unduly exposed' to a risk of being unable to meet its SCR or its more general capital needs.

The purpose of this provision is to ensure that SLAL remains well enough capitalised to be able to manage the SLAL Heritage WP Fund by reference to the Notional Company. An undue risk to SLAL's capital position that necessitates a departure from the Core Principles would be likely to disadvantage policyholders in the SLAL Heritage WP Fund.

The SLAC Demutualisation Scheme requires the SLAL Board to form a 'reasonable opinion' on whether SLAL is unduly exposed to a risk that it will be unable to cover its SCR or more general capital needs, and to take account of advice from the With-Profits Actuary and Chief Actuary as to what would constitute being 'unduly exposed'. This has resulted in a practice of the With-Profits Actuary advising the Board on whether the calibration of SLAL's capital policy framework, which is described in section 3.5, complies with this requirement.

3.5. SLAL's Capital Policy

The Board of SLAL have set a capital policy (the "SLAL CP") which sets minimum requirements relating to both the quantity of capital (ensuring that the company can continue to meet the PRA's capital requirements in internally specified stress scenarios) and the quality of capital (ensuring sufficient easily realisable assets are held to meet the capital risks arising in the business which consume those assets) held by SLAL. These minimum capital requirements are subject to continued compliance with the SLAC Demutualisation Scheme requirement described in 3.4.3.

The strength of the SLAL CP is a function of the scenarios used to determine the minimum requirements, which are calibrated to be consistent with the risk appetite of the SLAL Board. The quantity of capital scenario testing is currently based on holding sufficient capital to be able to meet regulatory capital requirements after the more onerous of a 1-in-10 year all risk event over a one-year period and a 1-in-20 year market risk scenario which emerges more quickly. The latter test was added in response to market volatility at the start of the coronavirus pandemic and will not necessarily remain part of the SLAL CP over the longer term. The quantity of capital requirement is expressed as a percentage of the Solvency Capital Requirement ("SCR"), which is the amount of capital required to be held by insurance companies under Solvency II. The scenarios and percentage are reviewed from time to time to ensure that the capital policy continues to meet its objective, and the PRA are notified of the percentage. The percentage may thus change without affecting the strength of the SLAL CP.

The SLAL CP currently requires SLAL to hold capital equal to at least 31 percent of the SCR in addition to the capital necessary to meet the SCR itself. This percentage is currently being reviewed as part of its normal review schedule. Any change as a result of the review will apply prospectively following approval by the SLAL Board.

If at any point there is a small deficit relative to the SLAL CP, then no action is required other than that no capital can be released (for example through the payment of dividends). However, larger deficits would require the consideration of corrective action.

The quality of capital assessment is based on holding sufficient realisable assets to meet the more onerous of:

- an assessment, following a 1-in-10 one year event and taking into account the timeframe over which 1-in-10 losses arise, of the ability to maintain Matching Adjustment ("MA") compliance under the stressed conditions modelled in the SCR conditions; and
- an internal assessment of the appropriate level of realisable assets required such that there is less than a 1-in-200 chance, assessed over a one-year period, of having insufficient realisable assets to meet payments, potential losses and other financial requirements as they fall due over the lifetime of the portfolio.

As at 31 December 2022 SLAL had headroom over the SLAL CP requirements on both the quantity and quality of capital measures. At this date, there was less headroom on the quantity of capital measure than quality of capital.

SLAL conducts full valuations on a quarterly basis and estimates its solvency position between valuations, for the purposes of monitoring compliance with the SLAL CP and for making business decisions, in particular those regarding deployment of capital. Recognising that these inter-valuation estimates are based on simpler models and are therefore subject to a degree of mis-estimation risk, additional capital may be retained over and above the SLAL CP to make allowance for this risk. The amount retained is calibrated regularly and informed by historic true up levels, the level of market volatility and business change experienced in the roll forward period, and ongoing development in the solvency monitoring tools to improve their accuracy.

3.6. SLPF

SLPF was incorporated in March 1969 and is a subsidiary of SLAL. The ownership of SLPF is allocated to the SLAL Heritage WP Fund. SLPF has in force a small number of annuity policies (364 as at 31 December 2022), all of which are reinsured to SLAL. Deferred annuities and immediate annuities that commenced before the effective date of the SLAC Demutualisation Scheme are allocated to the SLAL Heritage WP Fund and immediate annuities that commenced after this date are allocated to the SLAL PBF.

In addition, SLPF currently has an administrative role, as "Instructing Parties Agent" ("Agent"), in relation to SLAL's inbound property-linked reinsurance policies, through which other insurance companies make SLAL's insured funds available to their customers. As Agent, SLPF acts as a single source of instructions to a security trustee company (Law Debenture Trust Corporation plc) that acts in the interests of these other insurers' security.

Because all of its business is reinsured, SLPF does not set a capital policy, but does hold a surplus over its regulatory capital requirements. As at 31 December 2022 SLPF had total assets of £17 million and a surplus of £7.5m over its regulatory capital requirements.

3.7. Information on Phoenix

3.7.1. History of Phoenix

Phoenix traces its history back to 1971, when it was incorporated as Lloyds Life Assurance Limited. It was subsequently renamed Royal Heritage Life Assurance Limited in 1986 after its acquisition by the Royal Insurance Group in 1985. The company was renamed Royal & Sun Alliance Linked Insurances Limited in 1998 and Phoenix Life Limited in 2005.

Phoenix was closed to new business from 2002 until 2017, although during and after this period it issued policies under options on existing policies, including the acceptance of new members to existing pension arrangements and the issue of immediate annuities in respect of vesting pension policies. Phoenix now writes non-profit protection business under the SunLife brand and bulk purchase annuity business under the Standard Life brand.

Phoenix has been involved in a number of Part VII schemes since 2005 including the schemes that transferred business to Phoenix shown below.

Effective Date of Scheme	**Long-term Insurance Business transferred to Phoenix ***	**Scheme referred to elsewhere in this report as**
31 December 2005	Bradford Insurance Company Limited, Phoenix Assurance Limited and Swiss Life (UK) plc	n/a
31 December 2006	Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited	n/a
1 January 2009	Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") ^	Phoenix 2009 Scheme
1 January 2011	Phoenix & London Assurance Limited	Phoenix 2011 Scheme
1 January 2012	NPI Limited and certain long-term insurance business of National Provident Life Limited ("NPLL")	Phoenix 2012 Scheme
8 December 2017	AXA Wealth Limited	Phoenix 2017 Scheme
31 December 2018	Abbey Life Assurance Company Limited	Phoenix 2018 Scheme

* In all cases except NPLL, the entire business of each company was transferred to Phoenix.

^ Certain protection policies of SMA and SPL were transferred to The Royal London Mutual Insurance Society Limited in December 2008 under a separate scheme.

The Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the Phoenix 2017 Scheme and the Phoenix 2018 Scheme currently set out various terms for the management of Phoenix's business.

In addition, Phoenix has been involved in a number of Part VII schemes which transferred certain business from Phoenix. These include:

- certain immediate annuity business which was transferred to Guardian Assurance Limited ("GAL") in 2013. All of the business of GAL was subsequently transferred to ReAssure Limited;
- other immediate annuity business transferred to ReAssure Limited in 2016; and
- the transfer of Phoenix's business written in Germany, Iceland and Ireland to PLAE (the "Phoenix Brexit Scheme") with effect from 1 January 2023. As a consequence of this scheme, reinsurance agreements and related security arrangements have been put in place between Phoenix and PLAE to reinsure back to Phoenix the with-profits and unit-linked liabilities of PLAE that were transferred from Phoenix under the scheme.

3.7.2. Structure and Business of Phoenix today

The long-term insurance business within Phoenix is held within eleven sub-funds:

- the 100% With-Profits Fund (the "100% WPF");
- the 90% With-Profits Fund (the "90% WPF");
- the Alba With-Profits Fund (the "Alba WPF");
- the Britannic Industrial Branch With-Profits Fund (the "BIB WPF");
- the Britannic With-Profits Fund (the "Britannic WPF");
- the Phoenix With-Profits Fund (the "Phoenix WPF");
- the SAL With-Profits Fund (the "SAL WPF");
- the Scottish Mutual With-Profits Fund (the "SM WPF");
- the SPI With-Profits Fund (the "SPI WPF");
- the NPI With-Profits Fund (the "NPI WPF"); and
- the Non-Profit Fund (the "NPF"), which includes a Matching Adjustment Portfolio.

The first ten funds listed above are with-profits funds ("WPFs"). All of the surplus arising in the 100% WPF and the NPI WPF is attributable to the with-profits policyholders in those funds and at least 90% of the surplus in the other with-profits funds is attributable to the with-profits policyholders in the relevant fund.

The NPF consists of the balance of the policies of Phoenix and includes business originally written by Phoenix as well as business transferred to Phoenix as a result of the various Part VII schemes. The policies in the NPF mainly fall into the following categories:

- unit-linked regular and single premium life and pension policies;
- immediate, deferred and bulk purchase annuities, including new bulk purchase annuity business being written under the Standard Life brand;
- term assurance, critical illness and income protection policies written on both guaranteed and reviewable premium bases; and
- whole of life policies, mainly 'Guaranteed over fifty' policies, including the new business written under the SunLife brand

The NPF is maintained for accounting and operational purposes to allow Phoenix to identify its long-term insurance business which is not allocated to its with-profits funds. Since the introduction of Solvency II, there is no legal or regulatory requirement to maintain the NPF or to separate the business allocated to the NPF from the assets and liabilities of Phoenix which are not attributable to its long-term insurance business (referred to as the "Phoenix Shareholders' Fund"). For reporting purposes under Solvency II, the Phoenix Shareholders' Fund is combined with the NPF.

The approximate number of policies and BEL, net of reinsurance, in each sub-fund of Phoenix as at 31 December 2022 are shown in the table below.

Fund	100% WPF	90% WPF	Alba WPF	BIB Fund	Britannic WPF	Phoenix WPF	SAL WPF	SM WPF	SPI WPF	NPI WPF	NPF
Policies (000)	0.2	193	64	69	261	81	62	67	48	0	2,878
BEL (£m)	22	57	342	68	2,967	1,443	1,895	1,035	867	0	33,505

In total, Phoenix at 31 December 2022 had approximately 3.7 million policies in-force with total net assets in excess of £46 billion.

3.8. The PLAL Business to be transferred to Phoenix

PLAL traces its history back to the Pearl Loan Company which was formed in 1857 and the Pearl Life Assurance and Sick Benefit Society which was formed in 1862. The company operated under variations on the 'Pearl' name thereafter, most latterly as Pearl Assurance Limited, until 28 September 2012 when it changed its name to Phoenix Life Assurance Limited.

The company sold industrial and ordinary branch life and pension business and general insurance business. It ceased to sell new industrial branch business in 1997 and other business, except for increments on existing business, at the end of 2002.

PLAL has been involved in a number of Part VII schemes in recent years including the schemes which transferred business to PLAL shown below.

Effective Date of Scheme	Long-term Insurance Business transferred to PLAL	Scheme referred to elsewhere in this report as
4 January 2010	Self-Employed Retirement Plan business of NPLL	n/a
1 July 2012	The entire business of London Life Limited	PLAL 2012 Scheme
30 June 2015	The entire business of NPLL	PLAL 2015 Scheme

The PLAL 2012 Scheme and the PLAL 2015 Scheme currently set out various terms for the management of PLAL's business.

In March 2012, PLAL's general insurance business was transferred to BA (GI) Limited, then another company in the Phoenix Group, under a Part VII scheme.

In addition, certain immediate annuity business was transferred out of PLAL and NPLL to GAL in 2013. All of the business of GAL was subsequently transferred to ReAssure Limited.

Today PLAL comprises a shareholders' fund (the "PLAL Shareholders' Fund") and a long-term insurance fund which comprises five sub-funds:

- the Pearl With-Profits Fund – from which at least 90% of the surplus is payable to with-profits policyholders of the fund with the balance being distributable to shareholders (the "PLAL Pearl WPF");
- the SERP Fund – another with-profits fund; if any surplus arises in this fund, it is payable to the policyholders in the fund (the "PLAL SERP Fund");
- the London Life With-Profits Fund – all of the surplus of which is payable to the with-profits policyholders in the fund (the "PLAL LL WPF");
- the National Provident Life With-Profits Fund – all of the surplus of which is payable to the with-profits policyholders in the fund (the "PLAL NPL WPF"); and
- the Non-Profit Fund (including a Matching Adjustment Portfolio) – from which all of the surplus is payable to shareholders (the "PLAL Non-Profit Fund").

The PLAL Non-Profit Fund consists of the balance of the policies of PLAL and includes business originally written by PLAL as well as business transferred to PLAL as a result of the PLAL 2012 Scheme. The policies in the PLAL Non-Profit Fund mainly fall into the following categories:

- Immediate and deferred annuities;
- Term assurance, critical illness and income protection policies written on both guaranteed and reviewable premium bases; and
- Whole of life policies.

The approximate number of policies and BEL, net of reinsurance, in each sub-fund of PLAL as at 31 December 2022 are shown in the table below.

PLAL Fund	Pearl WPF	SERP Fund	LL WPF	NPL WPF	PLAL Non-Profit Fund
Policies (000)	372	15	17	84	194
BEL (£m)	3,764	457	294	1,928	1,468

In total, PLAL at 31 December 2022 had approximately 0.7 million policies in-force with total net assets of approximately £9.5 billion.

The PLAL 2012 Scheme outlines the support that will be provided to its with-profits funds – either by making loans, where assets in the with-profits fund would otherwise fall below the regulatory minimum value of assets plus a small margin, or by holding additional assets in the PLAL Non-Profit Fund and PLAL Shareholders' Fund to cover any proportion of the SCR and capital policy requirement that cannot be met from the fund's own resources. As at 31 December 2022, the PLAL SERP Fund, the PLAL LL WPF and the PLAL NPL WPF relied on this support.

4. THE PROPOSED SCHEME

4.1. Background to the Scheme

The main purpose of the Scheme is to transfer the business of PLAL, SLAL and SLPF to Phoenix.

The transfer is aligned with the Phoenix Group's commitment to being a strong and sustainable business over the long term and to meet the needs of its customers and stakeholders. It will enable the Phoenix Group to:

- reduce the number of life companies within the Phoenix Group, resulting in long term operational and administrative efficiencies;
- access the value of diversification synergies between Phoenix, PLAL and SLAL's capital requirements that have been recognised at Phoenix Group level since the harmonisation of the Phoenix, PLAL and SLAL Internal Models in 2021,
- improve consistency of the terms of financial management across the combined business compared to the terms of previous Part VII schemes that transferred business into Phoenix, PLAL and SLAL, and
- facilitate future management actions.

A key aim of the Scheme is to enable the above actions while safeguarding the existing rights of policyholders.

4.2. Summary of the Scheme

4.2.1 Legal Process

The Scheme provides for the transfer of the whole of the long-term insurance businesses of PLAL, SLAL and SLPF (each a "Transferor" and together the "Transferors") to Phoenix as at the transfer date, which is expected to be 27 October 2023 (the "Transfer Date"). However, for accounting and financial reporting purposes, the Scheme will be treated as being effective from 30 September 2023. This will have no consequences for policyholders.

Approval for the Scheme will be sought from the High Court in London and will be conditional on the approval or consent (as required in accordance with the relevant scheme) of the Court of Session to the variations to the SLAC Demutualisation Scheme, the SLAL 2011 Scheme and the SLAL Brexit Scheme.

It is proposed that the transfer of any business carried on in or from within Jersey by PLAL or SLAL (or any predecessor firms), or which comprises policies issued by PLAL or SLAL (or any predecessor firms) to persons resident in Guernsey will be effected following the approval of separate schemes in Jersey and Guernsey. These schemes will provide for the transfer of policies on the same terms as the Scheme and are expected to have the same transfer date as the Scheme.

4.2.2 The General Provisions of the Scheme

All assets and liabilities of the PLAL Shareholders' Fund and SLAL Shareholders' Fund will be transferred to the Phoenix Shareholders' Fund. As SLPF is allocated to the SLAL Heritage WP Fund, the vast majority of the SLPF Shareholders' Fund's assets and liabilities will be transferred to the newly established Heritage WP Fund in Phoenix that is described below. Some minor exceptions to this are described later in this section.

Initially £4m of assets, sufficient to meet the ongoing Minimum Capital Requirement, will be retained in each Transferor until it is de-authorised. If, following de-authorisation, SLPF remains in its Agent role, assets sufficient to perform this role will be retained in SLPF until its role as Agent ceases. These assets and any investment income earned on them, as well as any related tax liability, will be transferred to Phoenix when each company is de-authorised by the PRA and, in the case of SLPF, when its role as Agent ceases. The assets transferred from PLAL and SLAL will be paid to the Phoenix Shareholders' Fund and those transferred from SLPF will be paid to the Heritage WP Fund.

Under the Scheme, the following new Funds, corresponding to the existing with-profits sub-funds in SLAL and PLAL, will be established as separate with-profits sub-funds within the Phoenix long-term fund:

- the German Smoothed Managed With-Profits Fund (the "German SM WP Fund");
- the German With-Profits Fund (the "German WP Fund");
- the Heritage With-Profits Fund (the "Heritage WP Fund");
- the London Life With-Profits Fund (the "LL WP Fund");
- the National Provident Life With-Profits Fund (the "NPL WP Fund");
- the Pearl With-Profits Fund (the "Pearl WP Fund");
- the SERP Fund; and
- the UK Smoothed Managed With-Profits Fund (the "UKSM WP Fund").

The WPFs of the Transferors and their management will not be changed by the Scheme. The policies, assets and liabilities currently allocated to the existing with-profits funds in PLAL and SLAL will be allocated to the relevant successor Fund in Phoenix.

The Policies in the PLAL Non-Profit Fund and the SLAL PBF (together with any related assets and liabilities) will be transferred to the NPF, such that following the Transfer Date, Phoenix will have a single non-profit fund.

No business will transfer into the existing WPFs of Phoenix and no existing Phoenix business will transfer under the Scheme. However, the with-profits investment element and the assets and liabilities held within the NPI With-Profits Fund (which is currently maintained by Phoenix and reinsured to the Pearl With-Profits Fund of PLAL) will be allocated to the Pearl WP Fund established in Phoenix under the Scheme and the NPI With-Profits Fund of Phoenix will cease to exist following the Transfer Date.

The Policies of SLPF are currently reinsured to SLAL and allocated to either the SLAL PBF or the SLAL Heritage WP Fund. These Policies, the liabilities relating to them, and the corresponding assets will be allocated to the Fund in Phoenix which succeeds the SLAL fund to which they are currently allocated. Any transferring assets of SLPF that are attributable to the rights, benefits and powers of SLPF under the current reinsurance arrangement between SLPF and the SLAL PBF will be allocated to the NPF, rather than the Heritage WP Fund. Any liabilities relating to SLPF's role as Agent, which will continue following the Transfer Date, will remain in SLPF.

The subsidiaries of SLAL and PLAL that are not dormant will transfer to Phoenix with effect from the Transfer Date and be allocated to the equivalent fund to which they are currently allocated in PLAL and SLAL.

The Group Loan provided by SLAL to PGH will transfer to Phoenix under the Scheme, as will the charge over SL Intl's shares.

The reinsurance agreements of each of the Transferors will be transferred to Phoenix together with any associated custody and security arrangements. The Scheme aims to ensure that the existing reinsurance mechanics will continue in the same way as they apply before the transfer.

The role of SLAL as reinsurer under the reinsurance agreements and related security arrangements which were put in place between SLAL and SL Intl by the SLAL Brexit Scheme will be replaced by Phoenix under the proposed SLAL Brexit Scheme variation. This change will additionally require the discharge, with the approval of the Court of Session, of the floating charge over SLAL assets and its replacement with an equivalent English Law charge over Phoenix assets, and for SL Intl to provide amended Deed Polls and an amended Undertaking, both of which replace SLAL with Phoenix.

SLAL has also granted a floating charge over its assets in favour of Law Debenture Trust Corporation plc in relation to reinsurance arrangements through which other insurers can access SLAL's insured funds. This will also be discharged in accordance with Scots Law and replaced with an equivalent English Law charge over Phoenix assets.

As a consequence of the Scheme, the reinsurance agreements between Phoenix and PLAL and between SLAL and SLPF will collapse (as following the Transfer Date, all business will be in one entity). Where, as a result of the Scheme, the rights and obligations under these arrangements will be allocated to different Funds in Phoenix, the Scheme replaces such reinsurance arrangements with inter-fund arrangements to ensure that the financial impact of the arrangements is replicated in Phoenix following the Transfer Date.

Similarly, where there is an arrangement between funds in the Transferors akin to reinsurance or where a policy is allocated to one fund of a company, but part (e.g. an investment option or other benefit) is provided from another fund, the Scheme provides for those arrangements to be replicated between the successor Funds in Phoenix so that these can continue to operate in Phoenix after the Transfer Date in the same way as they did prior to the Transfer Date.

No changes are proposed to the administration of the Phoenix, PLAL, SLAL and SLPF Policies under the Scheme.

Should it not be possible for technical reasons to transfer any Policy or group of Policies under the Scheme or (where relevant) under the separate Guernsey and Jersey schemes, then under the terms of the Scheme, Phoenix will reinsure any such Policies with effect from the Transfer Date until such Policies are novated or transferred to Phoenix. This arrangement will ensure that any such excluded Policies will be treated for all practical purposes in the same way as if they had been transferred to Phoenix with effect from the Transfer Date. I understand that there are a small number of SLAL policyholders who may not be able to transfer as a consequence of sanctions relating to the Russia-Ukraine conflict. I will provide an update on this in my supplementary report.

Costs associated with the Scheme will be met by the Phoenix Shareholders' Fund.

4.2.3 Prior Schemes

The existing schemes to which other companies alongside Phoenix, PLAL, SLAL and SLPF are a party will stay in full force and effect by transferring the rights and obligations to Phoenix unless they are already in Phoenix. Each of the remaining schemes which apply to Phoenix, PLAL or SLAL (the "Superseded Schemes") will be superseded by the Scheme with effect from the Transfer Date.

The Scheme consolidates, and in certain places amends, subject to the separate approval of the relevant Courts, the provisions from the Superseded Schemes, however, except as highlighted in section 4.2.4, these amendments are not intended to change the way in which funds operate, but rather to align to a consistent wording or reflect current practice. Provisions that are no longer required, for example those relating to actions to be taken on the Superseded Schemes' effective dates, have not been included.

In places changes have been made to the provisions which were in the Superseded Schemes to simplify the operation of the Scheme and to reflect recent developments in Phoenix, each of the Transferors and the wider environment, including in relation to law and regulation, since the effective dates of the Superseded Schemes. Items which represent a change from the Superseded Schemes are described in the next section.

The SLAL Brexit Scheme is being varied with the approval of the Court of Session to replace SLAL (as the Transferor) with Phoenix (as the Transferor) following the Transfer Date and will stay in force in its amended form following the Transfer Date.

4.2.4 Particular Features of the Scheme

Some aspects of the Scheme are directly relevant to SLAL and SLPF policyholders, while others do not affect SLAL or SLPF policies but do affect how Phoenix will be run after the transfer. This section summarises all of the main features of the Scheme, whether relevant to SLAL and SLPF policyholders or not.

Capital Policy
This is described in section 4.3.

Certification requirements

Currently, annual certification is built into three schemes:

- The Phoenix 2009 Scheme requires an annual certificate to be provided by the Phoenix Board, and, as to actuarial and tax matters, the relevant Phoenix With-Profits Actuary, confirming whether the SPI WP Fund has been operated in accordance with the terms of the Phoenix 2009 Scheme.
- The PLAL 2015 Scheme requires the PLAL Board to provide an annual certificate confirming whether the provisions of the PLAL 2015 Scheme have been complied with, and requires the relevant PLAL With-Profits Actuary to provide an annual certificate setting out whether the provisions relating to actuarial matters have been complied with and whether the investment and bonus policy of the PLAL NPL WP Fund has had regard to the provisions of the PLAL 2015 Scheme.
- The SLAC Demutualisation Scheme requires SLAL to certify to the Regulator compliance with the provisions relating to the operation of SLAL's funds and SLAL's Mortgage Endowment Promise.

These existing certification requirements do not apply to any of the other WPFs which will form part of Phoenix following the Transfer Date. They have not been included in the Scheme on the basis that scheme compliance is a legal requirement, i.e. Phoenix will be legally bound to comply with all provisions of the Scheme, and that there will be no reduction in controls or policyholder protections, whether or not certification is included. Other processes, such as annual review of PPFM compliance, are in place to provide assurance that the obligations are being met.

Merger and Closure of WP Funds

Currently, the schemes governing the operation of the Phoenix WPFs and the PLAL WPFs require that a fund be closed if the value of its with-profits liabilities falls below a threshold value.

The Scheme will amend the merger and closure provisions of the current Phoenix WPFs and PLAL WPFs by:

- updating the definition of the with-profits liabilities to refer to the equivalent Solvency II definitions;
- applying annual indexation to the relevant closure thresholds from the existing schemes in line with RPI following the Transfer Date;
- replacing any closure provisions which required the mandatory closure of the WPF with permissive closure provisions;
- including provisions which state that when a WPF ceases to be maintained, the With-Profits Policies in the closing WPFs will be transferred to:
  a) another WPF in Phoenix, where they will be able to participate in profits in that Fund; or
  b) the Phoenix NPF, with guaranteed increases in benefits in accordance with any Closure Uplift being applied to the Policies; or
  c) the Phoenix NPF, with conversion to Linked Policies of equal value at the closure date

  Each of these options can be applied to some or all of the With-Profits Policies in the closing WPF.
- requiring Phoenix to effect any agreed fund closure and policy transfer within 12 months of notifying the regulator, which must be done as soon as reasonably practicable.

The Heritage WP Fund is the only former SLAL WP Fund which has an existing fund closure provision. The Scheme will not change this closure provision. The closure thresholds for the Heritage WP Fund will be restated in the Scheme at their 1 July 2022 values and then continue to increase annually with RPI.

Modification of the Scheme

Should the parties wish to apply to the Court to modify the Scheme following the transfer date, the Scheme requires that a certificate be obtained from an independent actuary to the effect that in their opinion, the proposed amendment will not materially adversely affect the security or reasonable expectations of the policyholders of Phoenix (including the holders of the Transferred Policies). This is consistent with the requirements of the SLAC Demutualisation Scheme, and will bring the Scheme requirements applying to the current Phoenix and PLAL business into line with this.

NPI WPF closure

Under the Scheme, the with-profits investment element as well as the assets and liabilities held within the NPI WPF (which is currently maintained by Phoenix) will be allocated to the Pearl WP Fund established in Phoenix under the Scheme. Currently the with-profits investment element of certain (ex NPI Limited) Policies in the NPF are allocated to the NPI WPF and then reinsured to the PLAL Pearl WP Fund. This reinsurance arrangement between the PLAL Pearl WP Fund and the NPI WPF will cease to exist as a result of this re-allocation, and the NPI WPF will close following the Transfer Date.

Reallocation of Non-Profit policies

The Scheme allows Phoenix to reallocate non-profit policies from Phoenix's WPFs to the Phoenix NPF, subject to this not being contrary to the terms of the policies, being approved by the WPC and a fair and appropriate amount of assets being passed to the NPF. This is consistent with the current Phoenix and PLAL schemes but will give Phoenix greater powers in relation to Heritage WP Fund policies than SLAL currently has, with such reallocations only being allowed by the SLAC Demutualisation Scheme when securing annuities for vesting Heritage WP Fund policies. Any material reallocation of Heritage WP Fund policies would be a 'Related Transaction' under the Scheme, which means that it would only be permitted if it was on terms that are unlikely to have a material adverse effect on the interests of with-profits policyholders.

Recourse Cashflow

The Scheme will modify the RCF, which is the main element of the SLAL Heritage WP Fund's Reference Period Transfer Amount (a payment made to the shareholder which provides the shareholder with a share in the profits of the SLAL Heritage WP Fund). The RCF is determined using formulae set out in the SLAC Demutualisation Scheme. The RCF approach is to be modified for practical reasons such that the economic value of the amount payable by the Heritage WP Fund is unchanged, but only certain elements will contribute to mid-year RCF payments. In any event, this will not result in the Heritage WP Fund making any RCF payments sooner than it could otherwise have done under the SLAC Demutualisation Scheme. The Scheme will also clarify how changes in the construction of the risk-free yield curve should be allowed for within the RCF calculation in order to ensure that such changes do not lead to inappropriate transfers of value between the Heritage WP Fund and the shareholder.

Unit-Linked Funds

The Scheme provides for new Linked Funds to be created in Phoenix to correspond with the Linked Funds of the Transferors prior to the Transfer Date. Following the Transfer Date, Phoenix's new Linked Funds will have the same asset pools and will be priced on the same basis as the equivalent funds of the Transferors prior to the Transfer Date. The Linked

Policies will receive the same number and classes of units in the Linked Funds of Phoenix as they hold in the Linked Funds of the Transferors immediately prior to the Transfer Date.

The Scheme will harmonise the existing fund merger and closure provisions for unit-linked funds currently maintained by Phoenix, PLAL and SLAL other than those funds linked to external collective investment schemes, including external unit trusts, those funds reinsured to other insurers, or the former Hill Samuel unit-linked funds. Phoenix will have the right to merge, divide or wind-up unit-linked funds, close funds to new investment or modify their investment objectives. However, Phoenix is not allowed to exercise these rights if precluded by the Policy terms and conditions. Further, should any of these rights be exercised, the Phoenix Board must have regard to the interests of relevant policyholders and policyholders impacted have the right to a free switch.

The Scheme does not make any change to the terms and conditions of the Linked Policies of the Transferors and will not change the arrangements with third parties relating to the investment, management and pricing of unit-linked funds or the associated costs.

Unit-matching in SLAL Heritage WP Fund

The Scheme will clarify that Phoenix can carry out 'unit matching' on unit-linked business allocated to the Heritage WP Fund, subject to separate approval of any such proposals by the Board with advice from the With-Profits Actuary and With-Profits Committee. Unit matching is a common UK industry practice relating to the management of unit-linked funds, which involves removing assets from unit-linked funds that are categorised as surplus shareholder assets under the Solvency II regulations. Unit matching has no impact on policyholders and already takes place on other unit-linked business in SLAL and other Phoenix Group companies.

With-Profits Committee Terms of Reference

The current Phoenix and PLAL schemes both include their WPC's Terms of Reference ("ToR") and describe the conditions in which they can be changed. The current SLAL scheme does not mention its WPC's ToR. Following the transfer, the WPCs of Phoenix, PLAL and SLAL will be combined. The ToR of the combined WPC will not be included in the Scheme because it will evolve over time and the current version will be available on the relevant websites. The conditions under which the ToR can be changed for Phoenix and PLAL will be retained in the Scheme so that policyholder protections are unchanged, with minor changes to simplify its operation.

4.3. Capital Policy

The Scheme covers two areas in relation to capital policy:

- the retention of capital in excess of SCR to support the solvency of Phoenix, and
- the support that may be provided to individual WPFs when needed

4.3.1 Retention of capital in excess of SCR

The existing schemes governing SLAL, Phoenix and PLAL set out the minimum amounts of capital that each company must currently hold. These amounts underpin the capital policy framework (described in section 3.5), which includes further tests and may, depending on which tests are the more onerous, result in a company retaining more capital than is required by its scheme in isolation. The existing scheme requirement for SLAL is the Capital Event business requirement described in section 3.4.3. The existing scheme requirement for Phoenix and PLAL is the '1-in-10' capital quantity test described in section 3.5. (As all SLPF policies are fully reinsured to SLAL, SLAL's capital holdings provide security for both SLAL and SLPF customers.)

Under the Scheme, the Phoenix Capital Policy will incorporate both of these existing requirements and will add a capital quality test so that Phoenix holds sufficient capital to cover the most onerous of:

- A capital quantity test (the 'Scheme Capital Quantity Test'). This, consistent with the existing Phoenix and PLAL scheme requirements, requires Phoenix to hold sufficient excess assets to meet its SCR in internally specified stress scenarios consistent with the Board's risk appetite, which is currently to have less than a 1-in-10 chance of failing to meet its SCR over a one year period.

  The Scheme will express this requirement in the above terms, and not simply as an additional percentage of SCR to hold that will be varied in future, as is the case in the existing Phoenix and PLAL schemes. The Scheme will state that before making any change to the test's objective that would result in fewer excess assets being held, an independent actuary must certify that, in their opinion, the proposed change to the test is unlikely to have a material adverse effect on the interests of the Phoenix customers. This is in line with the existing PLAL 2012 Scheme.

- A capital quality test (the 'Scheme Capital Quality Test'). While such tests are already used in the capital policy framework, they were not previously a Scheme requirement. The Scheme describes this test in terms of its broad objectives, which correspond to those currently used in the capital policy framework. This approach will ensure that the capital quality test is always considered when determining how much capital must be held, while giving the Board freedom to modify this test as appropriate in future.

- A Capital Event business requirement which, under certain circumstances, may require additional capital to be held beyond that required by the Scheme Capital Quantity and Scheme Capital Quality Tests.

The Scheme Capital Quantity and Scheme Capital Quality tests implement the Board's risk appetite in relation to the amount of capital to hold in excess of regulatory requirements. In setting this risk appetite there is a balance to maintain between outcomes that are in the interests of shareholders, such as minimising the amount of capital support needed by the companies and meeting dividend expectations, and outcomes that are in the interests of with-profits policyholders, such as minimising the likelihood of having to take actions in adverse conditions that would protect the company balance sheet but might reduce with-profits payouts.

This risk appetite is undergoing a review prior to the Scheme being implemented but it is expected that the 1-in-10 likelihood level used in the current SLAL CP will remain appropriate for the Scheme Capital Quantity Test. This reflects that the risk appetite already operates on the same 1-in-10 basis for SLAL, Phoenix and PLAL, albeit the different risk profiles of the companies give rise to different scenarios tested. I will provide an update on any changes as part of my supplementary report.

The Capital Event business requirement helps to maintain the balance between shareholders and with-profits policyholders. It protects with-profits policyholders by requiring the company to be run so there is no significant foreseeable risk of a "Capital Event" arising and requiring actions to be taken in with-profits funds that are not in accordance with the Scheme Principles of Financial Management defined by the Scheme for each with-profits fund. A "Capital Event" is defined as Phoenix being unduly exposed to a risk of being unable to meet its regulatory capital requirements.

The Scheme clarifies that such actions:

- can only be taken in a with-profits fund where alternative actions which would avoid the need to do so are insufficient to escape the Capital Event, and then only to the extent that they are necessary to escape the Capital Event;
- must be fair to policyholders; and
- are limited to asset mix changes for WPFs other than the Heritage WPF, and excludes a small number of WPFs as noted later in this section.

The Capital Event business requirement is essentially the same as the requirement of the SLAC Demutualisation Scheme described in section 3.4.3 and which is currently used in the management of SLAL's level of capital. Under the Scheme it will apply to Phoenix's level of capital and cover the management of most of the With-Profits Funds, retaining from previous schemes for each WPF the allowable departures from the Scheme Principles of Financial Management (noting that those Principles are also retained and therefore vary from fund to fund).

I note that the Phoenix Chief Actuary report describes how the Capital Event business requirement might be interpreted in the future:

"The Scheme does not define how an undue exposure should be measured, but I consider it very unlikely that the criteria for a Capital Event would be met if Phoenix was holding sufficient assets to satisfy the capital quantity and capital quality tests at the time.

However, the Scheme also requires Phoenix, to the extent reasonably practicable, to carry on its business so that there is no significant foreseeable risk that:

i. a Capital Event arises; and
ii. a departure from the with-profits Scheme Principles of Financial Management is required to escape the Capital Event.

In forming a view on whether there is such a significant foreseeable risk, I would expect regard to be had to:

- *The financial strength of Phoenix at the time and the degree of possible mis-estimation in the company's balance sheet, and hence the extent to which there is a risk that a Capital Event may occur due to future economic or other factors*
- *The availability of remedial actions that Phoenix could take in response to such a situation, in order to address it without affecting the with-profits funds, such as internal management actions or group support*
- *Whether or not any departure from the Scheme principles would be effective in protecting/improving the overall solvency position of Phoenix, taking into account that surplus in a with-profits fund can generally only be used to cover the regulatory capital requirements of that specific fund"*

A small number of with-profits funds are excluded from the scope of the Capital Event business requirement wording around the triggers for departing from the with-profits management principles. These are the NPL and SPI WP Funds (because such actions are not allowed), the London Life WP Fund (because it could have resulted in actions being taken sooner than would be the case now), the German WP Fund (as it does not currently have any such Scheme-based requirements) and the UK and German SM WP Funds (because no such actions are available).

As described in section 3.5, the capital policy required by a scheme may be supplemented with additional capital tests and allowances where considered appropriate. Post Scheme any such tests and allowances will be calibrated by reference to the enlarged Phoenix.

4.3.2 Support for Individual WPFs

The support arrangements for the Phoenix and PLAL WPFs, which form part of Phoenix's and PLAL's current capital policies, and for the SLAL German WP Fund, will continue to apply in the same way in Phoenix after the Transfer Date.

The Heritage WPF will be brought into line with Phoenix and PLAL WPFs by introducing an additional requirement to maintain a buffer of 0.5% of with-profits liabilities (or £5m if greater) over the regulatory minimum value of assets in the fund, with any required support made on terms no less favourable to the with-profits fund than arm's length commercial terms. Other than this change, the support arrangements for the Heritage WP Fund will continue to apply in the same way in Phoenix after the Transfer Date as they applied in SLAL.

Any amounts of capital support advanced to a with-profits fund prior to the Transfer Date will continue to be advanced to that with-profits fund in Phoenix once the Scheme becomes effective.

4.4. Impact on Existing SLAL and SLPF Policies

4.4.1 Impact on Operation of Existing SLAL Policies

Policies within the with-profits funds of SLAL will be transferred to equivalent funds in Phoenix as a result of the Scheme, where they will operate as they do today. Policies within the SLAL PBF will be transferred to the Non-Profit Fund of Phoenix as a result of the Scheme and will also continue to operate as they do today.

No changes will be made to the terms and conditions of policies currently within SLAL under the Scheme, including those reinsured from SL Intl to SLAL under the SLAL Brexit Scheme.

All of the current with-profit funds in SLAL will continue to operate as discrete funds for the purposes of calculating policyholder benefits. No business will transfer to the with-profits funds, other than the SLPF policies which are currently reinsured to the SLAL Heritage WP Fund. These will transfer into the new Heritage WP Fund and be directly held by, rather than reinsured into, that fund.

SLAL policies will fall under the Capital Policy set out above. The use of capital quantity and capital quality tests is in line with current practices in SLAL, but the inclusion of these tests in the Scheme along with conditions around how they can be changed in future provides SLAL policyholders with additional protection. The Capital Event business requirement is largely unchanged from the SLAC Demutualisation Scheme and retains all existing protections.

The management of SLAL business will be generally unchanged as the frameworks under which Phoenix, PLAL and SLAL policies are managed, such as the governance, capital policy and risk management frameworks, are already harmonised and will not be changed by the implementation of the Scheme.

Commentary on the impact of the Scheme on SLAL policyholders is given in section 6.

4.4.2 Impact on Operation of Existing SLPF Policies

SLPF's policies will be transferred into the successors to the SLAL funds that they are currently allocated to and will continue to operate as they do today.

No changes are being proposed to the terms and conditions of policies currently within SLPF under the Scheme.

The reinsurance of SLPF's policies to SLAL means that these policies are all currently managed under SLAL's governance, capital and risk management frameworks. The Scheme's impact on SLPF policies in these areas is therefore the same as for SLAL policies, as described in section 4.4.1 above.

Commentary on the impact of the Scheme on SLPF policyholders is given in section 7.

5. FINANCIAL ANALYSIS

5.1. Impact of the Scheme

In considering whether the benefit security of policyholders in SLAL or SLPF will be affected by the Scheme, it is helpful to compare the solvency positions of SLAL and SLPF before the Scheme with that of Phoenix after the Scheme has been implemented. Details of the basis for these calculations are given in section 5.2 and the tables in sections 5.3 and 5.4 show the position of SLAL and SLPF on 31 December 2022 and of Phoenix as if the Scheme had been implemented then.

Brief details of the current prudential regulatory regime are given in Appendix 2.

I have commented in section 5.5 how events since 31 December 2022 are likely to have changed the figures and the conclusions that can be drawn from them.

The SLAL CP requires SLAL to retain capital in excess of the amounts required to satisfy the regulatory capital requirements and the same is true of the Phoenix Capital Policy in respect of Phoenix after the Scheme is implemented ("PCP"). This means that policyholders are and will continue to be afforded greater security than required under the PRA's rules. However, any assets held in excess of the amount of assets required to satisfy the respective capital policies may be distributed and hence little reliance can be placed on this excess when assessing the security for policyholders.

5.2. Basis of calculation of the solvency positions

The figures as at 31 December 2022 are based on the audited accounts as at that date.

The figures in respect of Phoenix in section 5.4 have been supplied by the Chief Actuary of that company. I have not independently verified these figures and I have relied on the statements made in his report.

In the tables in sections 5.3 and 5.4:

- Own Funds – The "before" figures for SLAL were, with the exception of the Transitional Measure on Technical Provisions ("TMTP"), subject to review by SLAL's external auditors.
- TMTP (which is part of Own Funds) is recalculated on a pro-forma basis as at 31 December 2022. This presentation is consistent with how the business is managed.
- SCR – This is calculated according to Phoenix Group's Internal Model, which was approved by the PRA in September 2021. As with the TMTP, the SCR was not subject to review by SLAL's external auditors.
- Solvency Ratio – For SLAL, this is calculated as *(Total Own Funds less RFF Restriction) divided by Total SCR*. For Phoenix, this is calculated on two bases, one including all funds and the other including 'unsupported' WPFs (i.e. those not receiving shareholder support) only to the extent that transfers from those funds will accrue to shareholders. Excluding policyholder benefits and risks in unsupported WPFs gives an indication of the ability of the company to absorb risks outside of those funds. As the Solvency Ratio relates to SCR coverage, for this purpose, an 'unsupported' WPF is one which can cover its SCR without relying on shareholder support.

In addition, in section 5.4, it is assumed that:

- The MA portfolios in the SLAL PBF and the PLAL Non-Profit Fund will transfer into the MA portfolio of the Phoenix NPF with the exception of two longevity risk transfer arrangements in SLAL. This is expected to be broadly neutral as the respective MA applications have already been harmonised.
- In the first half of 2023 Phoenix will submit an application to allow a MA in the Heritage WP Fund. Approval is expected shortly after the Transfer Date so there may be a temporary increase in valuation liabilities in the intervening period which has not been allowed for in Table 3. The temporary increase in valuation liabilities would have no impact on policyholders and no material impact on Phoenix's solvency position.
- As Phoenix does not currently anticipate applying for a Volatility Adjustment ("VA"), the SLAL VA will lapse.
- Proposed changes to Phoenix's TMTP methodology as a result of the Scheme will mean that the amount of Phoenix's total TMTP immediately after the Scheme is implemented will equal the aggregate TMTP of Phoenix, PLAL and SLAL immediately before the Scheme is implemented other than adjustments to allow for the impact on TMTP of the changes to MA and VA mentioned above. An application to calculate TMTP on this basis as at 30 September 2023 is planned. The solvency position shown in Table 3 assumes TMTP is recalculated on this basis as at 31 December 2022.

I will provide an update on the status of the TMTP application in my supplementary report.

5.3. Position before the Transfer

5.3.1. SLAL

Table 1 shows the financial position of SLAL and its solvency ratio as at 31 December 2022. It can be seen that at this date SLAL held assets in excess of its capital policy requirement:

Table 1	**SLAL as at 31 December 2022 before the effect of the Scheme**		
	Own Funds £m	**RFF Restriction** £m	**SCR** £m
SLAL Heritage WP Fund	1,943	1,225	718
SLAL PBF and SLAL Shareholders' Fund	2,442	-	1,268
Total	**4,385**	**1,225**	**1,985**
Excess of Adjusted Own Funds over SCR	**£1,175m**		
Solvency Ratio – All funds	**159%**		

Notes:

- *The Own Funds and capital requirements relating to the SLAL German WP Fund, SLAL German SM WP Fund and SLAL UKSM WP Fund fall under the SLAL PBF and SLAL Shareholders' Fund results*
- *The numbers in the table above and elsewhere in this section may not add up exactly due to rounding.*
- *These figures include the Group Loan which contributes £309m to own funds.*

5.3.2. SLPF

Table 2 shows the financial position of SLPF and its solvency ratio as at 31 December 2022.

Table 2	SLPF as at 31 December 2022 before the effect of the Scheme		
	Own Funds £m	RFF Restriction £m	MCR £m
Total	**10.7**	-	**3.2**
Excess of Own Funds over MCR	**7.5**		
Solvency Ratio	**336%**		

As SLPF has a relatively small amount of business which is all reinsured to SLAL, the biting capital constraint is the Minimum Capital Requirement ("MCR").

5.4. Position of Phoenix after the Transfer

Table 3 shows pro-forma figures for Phoenix as if the Scheme had been implemented as at 31 December 2022 for ease of comparison.

Table 3	Phoenix as at 31 December 2022 after the effect of the Scheme		
	Own Funds £m	RFF Restriction £m	SCR £m
Existing Phoenix WPFs	1,199	401	505
Heritage WP Fund	1,943	1,166	777
London Life WPF	20	-	18
NPL WPF	119	-	154
Pearl WPF	797	346	314
SERP Fund	67	-	92
NPF and Phoenix Shareholders' Fund	5,759	-	2,572
Total	**9,905**	**1,914**	**4,433**
Excess of Adjusted Own Funds over SCR	**£3,558m**		
Solvency Ratio – All funds	**180%**		
Solvency Ratio excluding unsupported WPFs	**225%**		

Note:

- *These figures include the Group Loan which contributes £309m to own funds.*
- *If approval for the Heritage WP Fund's MA is not in place immediately after the Scheme is implemented, the Heritage WPF SCR will be c£80m greater for a short period of time, with an offsetting reduction in the RFF restriction and no material impact to the overall solvency position.*

After the Scheme is implemented, Phoenix will have a higher excess of adjusted Own Funds over SCR and higher solvency ratio than SLAL had. While Phoenix will have a lower solvency ratio than SLPF, SLPF's high solvency ratio is due to the presence of surplus assets that could be transferred to the SLAL Heritage WP Fund at any time and so does not reflect a greater degree of security for SLPF customers prior to the transfer.

As stated in section 4.3, the level of capital required by the PCP is higher than that required to cover the PRA Solvency Capital Requirement shown above. Based on further analysis of the position of Phoenix after implementation of the Scheme, Phoenix on a pro-forma basis is expected to be able to meet the higher levels implied by the PCP. The Scheme Capital Quantity Test was the more onerous requirement of the PCP as at 31 December 2022 on a pro-forma basis.

5.5. Commentary on solvency position including events since 31 December 2022 and future outlook

Since 31 December 2022, the most significant developments that affect the financial position of SLAL and Phoenix to the date of this report, or which are likely to affect it in the future, are as follows:

IFRS 17 – The new IFRS17 reporting standard came into effect on 1 January 2023. This is an accounting change with the solvency impact limited to the consequential impacts on taxation. This is not expected to have a significant effect on the solvency position.

UK Solvency II Reform - At the end of April 2022, HMT and the PRA issued consultation on proposed Solvency II reform. In November 2022 the HMT response to this consultation was supportive of a number of changes, the most significant of which would result in a 65% reduction in the Risk Margin (part of the technical provisions). The HMT response additionally noted that there would be no change to the current calibration of the Fundamental Spread (used to determine the Best Estimate Liability for Matching Adjustment portfolio liabilities) but that firms would be able to apply an add-on to the Fundamental Spread (which would increase the Best Estimate Liability) if considered appropriate. The impact for different companies will vary depending on their risk profile and the extent to which their balance sheets contain other items such as TMTP which could offset any changes. Current estimates of the impact of the proposals indicate a reduction in Risk Margin that is not fully offset by TMTP, and therefore an improved solvency position.

The PRA has indicated that the consultation for implementation of the Solvency II reform measures will be split, with likely staggered implementation of reforms. Reforms excluding those impacting Matching Adjustment rules could be implemented in 2023 (or early 2024), with reforms impacting Matching Adjustment rules implemented later in 2024. There remains considerable uncertainty over the timeline for implementation as it depends on the time it takes the Financial Services and Markets bill to pass through Parliament, and the subsequent parliamentary approval of the Statutory Instrument effecting the new 'Solvency UK' regime.

Summary

Allowing for events since 31 December 2022 and assuming that the proposed changes to UK Solvency II were to be implemented on or prior to the Transfer Date, then based on my current understanding of the proposals, the combined

Phoenix is expected to continue to meet its capital policy post transfer. I will comment further on these matters in my supplementary report.

Further as described in section 5.1, following the transfer the PCP will require Phoenix to retain capital in excess of the amounts required to satisfy the regulatory capital requirements. This means that policyholders are and will continue to be afforded greater security than required under the PRA's rules. However, any assets held in excess of the amount of assets required to satisfy the PCP may be distributed and hence little reliance can be placed on this excess when assessing the security for policyholders.

6. EFFECT OF THE SCHEME ON SLAL POLICIES

6.1. Business Characteristics

SLAL has four with-profits funds, and a non-profit fund including a Matching Adjustment portfolio. An explanation of the Matching Adjustment is provided in Appendix 2 'Summary of certain aspects of the current prudential regulatory regime'. SLAL's key risk is insurance risk, mostly driven by persistency risk. SLAL is open to new business and mainly writes new unit-linked pension business.

Post transfer SLAL policies will be part of a larger company consisting of 17 with-profits funds and a large non-profit fund, including a significant Matching Adjustment portfolio, and which writes significant amounts of non-profit and unit-linked business.

The table below compares the assets in SLAL with those in Phoenix had the transfer taken place on 31 December 2022

	Current SLAL		Phoenix post-transfer	
	Net Assets £bn	%	Net Assets £bn	%
Unsupported* with-profits funds	28.7	23	43.2	24
Supported* with-profits funds	0.0	0	2.9	2
Unit Linked benefits	88.7	72	107.4	60
Matching Adjustment Portfolios	3.6	3	20.3	11
Other	1.7	1	4.8	3
Total	**122.8**	**100**	**178.7**	**100**

** Consistent with solvency ratios shown in section 5, unsupported with-profits funds in this table are those which do not need shareholder support to cover their SCR.*

Key characteristics of the business that will be in Phoenix post transfer which did not originate in SLAL are:

- Phoenix currently writes significant amounts of bulk purchase annuity business and this is expected to continue post transfer.
- PLAL has three WPFs that are supported by the shareholder and contain policies with valuable guarantees.
- SLPF holds a small amount of annuity business, which is reinsured to SLAL and so already allowed for within SLAL's risk profile.

The risks of Phoenix, PLAL, SLAL and SLPF, including those referred to above, are currently managed in a consistent manner and will continue to be managed in the same way in Phoenix post transfer, this includes:

- Regular monitoring and review
- Implementation of mitigating actions, for example reinsurance
- Calculation and holding capital against risks as part of the harmonised Internal Model to provide security for policyholders' benefits.

6.2. Security of Benefits

6.2.1. Current Position

Currently the security of benefits for all policies in SLAL is provided by**:**

- SLAL meeting its regulatory capital requirements, including the SCR which is designed to ensure that a company is adequately capitalised to withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions. This means the capital held to meet the SCR will be such that there is more than a 99.5% chance that SLAL's assets will continue to exceed its liabilities over a one year timeframe;
- the strength of the SLAL CP, including the internally specified stress scenarios that are tested and the process by which these scenarios can be changed.; and
- SLAL meeting the additional capital requirements required by the SLAL CP.

Additional security is provided to policyholders through the further protections resulting from the SLAC Demutualisation Scheme, in particular those described in sections 3.4.1 to 3.4.3.

Security is also provided through:

- PGH meeting the minimum group regulatory capital requirements;
- PGH meeting the additional group capital policy requirements as set by the PGH Board; and
- the group policy for injecting capital into the life companies to restore capital policy if the life companies are unable to meet their capital policy for a period of four months.

The impact of the Scheme on various factors affecting the security of benefits is discussed below.

6.2.2. Effect of the Scheme on Capital Requirements

Effect of the Scheme on calculation of Solvency Capital Requirements (SCR)

Phoenix, PLAL, SLAL and SLPF are all part of a harmonised Internal Model under which they calculate their SCRs and hold capital against the risks identified under the RMF in a consistent manner. (SLPF holds additional regulatory capital due to its SCR being lower than the Minimum Capital Requirement). The Internal Model will not change as a result of the transfer. Capital held to meet the SCR ensures that Phoenix is able to withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions.

Effect of the Scheme on Capital Policy

PLAL, Phoenix and SLAL have the same capital management framework meaning that their capital policy requirements are based on the same strength of stress scenario and calculated using the same methodology. The Scheme will not change these arrangements, other than to extend the 'Capital Event' business requirement that is currently used in SLAL to cover all business in Phoenix after the Transfer Date. Furthermore, there will be no change to the parental capital support structure or dilution of group support.

6.2.3. Effect of the Scheme on Risk Management and Risk Profile

Effect of the Scheme on Risk Management

The Phoenix Group operates a single RMF across all of its insurance businesses. This means that the risks of Phoenix, PLAL, SLAL and SLPF are currently monitored and managed in a consistent manner. This will not change as a result of the transfer.

Effect of the Scheme on Risk Profile

The RMF has three levels of risk categorisation, the highest level being Level 1, which consists of seven categories: Strategic, Credit, Market, Insurance, Financial Soundness, Customer, Operational. Level 1 categories are divided into Level 2 categories, for example Insurance Risk consists of longevity, persistency, mortality, morbidity, expense and new business pricing risks. Some Level 2 categories are further divided into Level 3 categories.

The types of business within SLAL, SLPF, Phoenix and PLAL are described in section 3. In summary:

- SLAL's business is comprised mainly of a large amount of unit-linked business (c. £90bn), which is expected to grow through the continued sale of workplace pensions, and two large with-profits funds, the Heritage WP Fund (c. £25bn) and German WP Fund (c. £2bn).
- Phoenix has a large non-profit fund and ten with-profits funds. The risks of the with-profits funds are primarily borne by the policyholders of those funds and only affect the security of other policies to the extent that the with-profits funds need support from shareholder assets. One of Phoenix's with-profits funds currently relies on a small amount of shareholder support to cover its PCP.
- Phoenix also currently writes significant amounts of bulk purchase annuity business and intends to continue doing so in the future.
- PLAL's existing business is mainly closed with-profits funds. 3 of the 4 with-profits funds currently receive shareholder support.

The risk profile of Phoenix after the transfer will include some risk exposures that SLAL does not currently have, such as exposures to equity release mortgages and potential future support for Phoenix and PLAL's With-Profits Funds. Additionally, Phoenix writes significant volumes of bulk purchase annuities which involve existing SLAL risk exposures (e.g. credit risk, longevity risk) but with a different profile due to the large and one-off nature of individual deals, and the time taken to put the associated reinsurance in place.

These new risk exposures will not materially adversely affect the security of SLAL and SLPF policyholders. These risks originate from companies operating under the same risk framework as SLAL, which have similar risk monitoring and mitigation processes in place, including:

- Establishing risk appetite statements for insurance risks and monitoring exposures against agreed limits.

- Monitoring exposure to individual counterparties through appropriate credit risk diversification and investment mandates.
- Carefully managed reinsurance arrangements.
- Collateral arrangements in respect of derivative contracts and reinsurance treaties.
- Monitoring the ongoing effectiveness of risk mitigation on a regular basis by the Enterprise Finance and Capital Committee (insurance risks), separate Shareholder and With-Profits Hedging Forums (market risk and credit risk) and Reinsurance Management Committee (reinsurance counterparty risk)

The risks are all captured in the Phoenix Internal Model and Phoenix and PLAL already hold sufficient capital to meet both their regulatory and capital policy requirements in relation to these risks, and Phoenix after implementation of the Scheme will continue to do so. The writing of new Bulk Purchase Annuity business is carefully managed so that new business is only written if sufficient capital is available, and it could cease if necessary should solvency be expected to come under strain. These new risks will influence the strength and security of Phoenix as a whole, although they will not impact SLAL policyholders directly. The new business brings a source of surplus and the increased scale strengthens Phoenix's commercial position to negotiate asset and administration arrangements for all customers

The table below compares an approximate split of SLAL's SCR between Level 1 risks as at 31 December 2022 with an approximate split of Phoenix's SCR at the same date as if the Scheme had been implemented at that time.

Level One Risk	SLAL	Phoenix post transfer
Credit	12%	32%
Market	2%	6%
Insurance	50%	37%
Operational	22%	12%
Other	14%	14%

The key change in risk profile for SLAL policyholders as a consequence of the Scheme is an increase in diversification. Credit risk (mostly through bond spread risk) is the dominant risk in Phoenix prior to the Scheme while Insurance risk (and in particular persistency risk) is dominant in SLAL. Post Scheme there is a more balanced risk profile, including a lower allocation to operational risk.

6.2.4. Liquidity

The various frameworks described above are largely concerned with solvency, i.e. whether the value of SLAL's assets are and will remain greater than the value of SLAL's liabilities. It is important to also have in place measures to ensure adequate liquidity, so that highly liquid assets such as cash and government bonds are available to meet short-term contractual outflows such as claim payments and derivative collateral calls.

SLAL operates a liquidity framework under which available resources are compared with potential outgoings over a number of different time horizons. Buffers are established based on certain stress tests and the ability to cover these buffers is actively monitored.

After the Scheme is implemented, current SLAL business will have an exposure to the liquidity needs and resources of current Phoenix and PLAL business. Phoenix and PLAL operate the same liquidity framework as SLAL.

The extreme market volatility in the second half of 2022 resulted in substantial stress in financial markets and in particular led to large collateral calls on interest rate swaps and other derivatives which moved in value due to the changing economic conditions. The liquidity framework operated as intended and the liquidity needs over that period were successfully managed. Nevertheless, a review is currently in progress to review and enhance the liquidity framework and its operation to reflect the practical experiences and limitations over that period.

The current liquidity framework, as amended for any enhancements identified in the ongoing review, will operate in the same way in Phoenix after the Scheme as it does now in SLAL, PLAL and Phoenix. SLAL met its liquidity buffer requirements at 31 December 2022 and I note that the Phoenix Chief Actuary expects Phoenix to meet its buffer requirements immediately after the Scheme is implemented.

I will provide an update on any developments in this area in my supplementary report.

6.2.5. Summary of impact on Benefit Security

After the Scheme is implemented:

- Phoenix will have a different and more balanced risk profile compared to SLAL currently;
- Phoenix will be writing a wider range of new business than SLAL does currently, including bulk purchase annuities, which require more capital than business written by SLAL currently; and
- Phoenix will need to provide support to its with-profits funds where necessary, including the three being transferred from PLAL, which already receive shareholder support.

These risks will be managed in line with the existing RMF that is common to Phoenix, PLAL and SLAL. The impact of these risks, and all other Phoenix risk exposures, will be allowed for in Phoenix's calculation of its capital requirements (both SCR and capital policy). Additionally:

- SLAL, Phoenix and PLAL use the same Internal Model to calculate regulatory capital requirements and have the same risk governance framework, and there will be no changes to these as a result of the Scheme;
- Phoenix's capital policy will work in the same way after the Scheme is implemented as the respective policies of SLAL, PLAL and Phoenix currently, other than that the SLAL Capital Event business requirement will be extended to cover all of Phoenix. Subject to the outcome of the ongoing risk appetite review mentioned in section 4.3.1 the same approach and scenario likelihoods will be used to determine the parameters of the capital quantity test and the capital quality test as now apply in SLAL;
- Phoenix's capital policy and the ways in which it can be changed will be governed by the terms of the Scheme; and
- There will also be no change to the parental capital support structure or any dilution of group support as a result of the transfer.

While the capital policy framework used by SLAL will be unchanged, the protections provided by the Scheme around the minimum amount of capital that can be held will improve for SLAL customers. This is because there will be new Scheme requirements to hold enough capital to meet the Scheme Capital Quantity Test and to perform the Scheme Capital Quality Test, while the protections provided by the Capital Event wording will be maintained. Furthermore, the Scheme states that the risk appetite underlying the Scheme Capital Quantity Test cannot be weakened such that it would reduce the minimum capital holding without an independent actuary certifying that the change is unlikely to have a material adverse effect on the interests of Phoenix customers.

Most importantly, as described in section 5, following implementation of the Scheme Phoenix will meet the regulatory capital requirements and the higher ones imposed by the PCP. (Whilst the results shown in section 5 demonstrate that the surplus will be in excess of the PCP, little reliance or benefit can be placed on this excess in terms of increasing the security of policyholders for the reasons given in section 5.1.)

The level of security provided to the SLAL policyholders by the regulatory capital requirements and PCP will therefore be maintained at the point of transfer, and the Scheme will increase the SLAL policyholders' protection against future changes that weaken the PCP. Taking this together with the other factors described above, I consider that there will be no material adverse effect on the security of the current SLAL policyholders as a result of the Scheme.

6.3. Benefit Expectations of Policyholders

No changes are being proposed under the Scheme to the terms and conditions of existing SLAL policies. No changes will be made to the way the existing policies of SLAL are managed.

Both SLAL and Phoenix operate the same policy with regard to changing discretionary policy charges for non-profit policies and no changes will be made to this policy. Therefore, the implementation of the Scheme will not mean any change to practices in this regard.

The investment managers of SLAL assets transferring to Phoenix and the asset selection processes will not be changed as a consequence of the Scheme.

All unit-linked funds run by SLAL will be replicated in Phoenix under the Scheme. It is not proposed that any changes will be made to investment strategies of the unit-linked funds or their pricing practices as a result of the transfer and implementation of the Scheme will not impact the way tax is charged to the unit-linked funds.

With regard to with-profits policies, no changes will be made to the expenses or tax payable by the with-profits funds, the asset share and bonus methodologies or the investment strategies as a consequence of the Scheme.

Therefore, there should be no adverse impact on the investment performance, bonuses or on unit pricing as a consequence of the Scheme.

Neither the clarification in respect of unit matching nor the changes to the Recourse Cashflow formula will have any impact on policyholder reasonable benefit expectations. There will also be no impact from the harmonisation of unit-linked fund merger and closure provisions.

The With-Profits Actuary of SLAL has produced a report on the impact of the Scheme on the with-profits policyholders in SLAL's with-profits funds. The key conclusions of that report are:

"In my opinion as SLAL With-Profits Actuary, the Scheme will not materially adversely affect the interests and reasonable expectations of the SLAL with-profits customers. In particular, I believe that the Scheme should have no material adverse impact on the security of with-profits customers' benefits and that the Scheme is consistent with treating these customers fairly."

For the reasons given above, I consider that there will be no material reduction in the reasonable benefit expectations of current SLAL policyholders as a result of the Scheme.

6.4. Quality of Administration

Administration services are currently provided to SLAL by Standard Life Assets and Employee Services Limited ("SLAESL"), Phoenix Group Management Services Limited ("PGMS") and Pearl Group Services Limited (together the "Service Companies"). SLAESL outsources the majority of its policy administration and servicing to Diligenta Limited.

The Scheme will not change the terms upon which administration services are provided and there is therefore no reason to expect the quality of administration or the level of service provided to SLAL policyholders to deteriorate as a consequence of the Scheme.

Some restructuring of this service provision is currently underway, including moving to a single service company (PGMS) and migrating policy records onto Diligenta's proprietary administration system.

This restructuring, which I understand is not expected to have any adverse impact on the level of service that is currently provided, is independent of the Scheme.

6.5. Governance

Governance arrangements are harmonised across Phoenix, PLAL and SLAL and, in particular, the composition of the Board of each of Phoenix, PLAL and SLAL is the same. These arrangements will not change as a result of the Scheme. As such there will be no change to the governance arrangements for SLAL policies as a result of the Scheme.

6.6. New business

Following implementation of the Scheme, Phoenix will write the unit-linked business that is currently sold by SLAL, in addition to the non-profit protection business (under the Sun-Life brand) and bulk purchase annuity business (under the Standard Life brand) which it sells already.

I understand that the new business to be written by Phoenix after the implementation of the Scheme will be written on terms that Phoenix expects to be profitable and within such volumes that any additional risk to Phoenix will be covered by available capital within Phoenix and any additional support provided by Phoenix Group such that Phoenix continues to satisfy the requirements of its capital policy.

6.7. Previous SLAL Schemes

The relevant ongoing provisions of the following previous schemes involving SLAL have been consolidated in the Scheme: the SLAC Demutualisation Scheme (as amended in 2011, 2016 and 2019) and the 2011 Scheme. As a result, these schemes will be superseded by the Scheme.

The SLAL Brexit Scheme will not be superseded but will be amended to transfer SLAL's responsibilities to Phoenix, the existing floating charge over SLAL's assets will be replaced with an English Law charge over Phoenix's assets, and SL Intl will provide amended Deed Polls and Undertakings. The operation of the SLAL Brexit Scheme will be unchanged.

I have reviewed the SLAL Schemes being superseded by this Scheme and concluded that this Scheme includes appropriate policyholder protections. As noted above, I consider that this Scheme will not materially adversely impact the security of benefits or reasonable benefit expectations of holders of SLAL policies notwithstanding the replacement of the past SLAL Schemes with this Scheme.

6.8. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly and provide good outcomes with respect to the current policyholders in SLAL. This is because there will be no changes to benefits for these policies as a consequence of the Scheme and there will be no material adverse effect on the security of these benefits

6.9. Notification to Policyholders

SLAL policyholders will receive a pack containing a letter and a general Scheme guide. In line with SLAL's normal approach the guide will include the Q&As and all the relevant with-profits information. I have reviewed the packs prepared for SLAL policyholders and am satisfied that the information regarding the proposals as contained therein adequately describes the proposals for policyholders.

Certain SLAL policyholders have asked to receive all their business-as-usual contact by e-mail or text and it is proposed that this group of policyholders will receive by email or text a link to their online document store where the Part VII mailing pack will be loaded. If the e-mail is received but not opened a letter will be sent by post advising them to check their online document store. If the email or text is not received a full pack will be sent by post. I support this approach.

6.10. Conclusion for SLAL Policyholders

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

7. EFFECT OF THE SCHEME ON SLPF POLICIES

7.1. Business characteristics

SLPF's business is comprised entirely of immediate and deferred annuities which are reinsured to SLAL.

7.2. Security of Benefits

7.2.1. Existing security for SLPF policyholders

Currently the security of benefits for policies in SLPF is provided by:

- The security of SLAL, given i) SLAL's ownership of SLPF and ii) the reinsurance of all SLPF policies to SLAL; and
- SLPF meeting its regulatory capital requirements. SLPF's biting capital requirement is the Minimum Capital Requirement, which exceeds its SCR. The SCR is designed to ensure that a company is adequately capitalised to withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions. This means the capital held to meet the MCR will be such that there is more than a 99.5% chance that SLPF's assets will continue to exceed its liabilities over a one year timeframe.

7.2.2. Consequences of the Scheme

The general consequences of the Scheme are as described in section 6.2.

Phoenix will have a different and more balanced risk profile after the Scheme compared to SLPF's current exposure, which is dominated by counterparty risk.

SLPF currently has a relatively high solvency ratio. However, it has no requirement to hold capital in addition to its regulatory requirements and theoretically at least could choose to release all of its excess Own Funds.

Following the transfer, the SLPF policies will fall directly under Phoenix's capital policy which requires capital to be held in excess of the regulatory requirements. Due to all of SLPF's business being reinsured to SLAL, the vast majority of security for SLPF policyholders is provided by the strength of SLAL, which already falls under the same capital policy. As described in section 6.2 there will be no reduction of security between SLAL before the Scheme is implemented and Phoenix afterwards.

I therefore consider that there will be no material adverse effect on the security of benefits for SLPF policyholders.

7.3. Benefit Expectations of Policyholders

No changes are being proposed under the Scheme to the terms and conditions of existing SLPF policies.

For the reasons given above, I consider that there will be no reduction in the reasonable benefit expectations of current SLPF policyholders as a result of the Scheme.

7.4. Quality of Administration

The Service Companies provide services to SLAL, whose policy administration includes the annuity policies that are reinsured to SLAL from SLPF. The transfer will not change the provision of these services.

The implications of the planned changes for SLPF customers are the same as are described in 6.4 for SLAL customers.

Therefore, there is no reason to expect the quality of administration or the level of service provided to SLPF policyholders to deteriorate as a consequence of the Scheme.

7.5. Governance

Following implementation of the Scheme, there will be no material change to the governance arrangements for existing SLPF policies.

7.6. New business

SLPF does not write new business. Following the implementation of the Scheme Phoenix will write new business as described in section 6.6. For the reasons given in that section I consider that the writing of this new business will have no material adverse effects on SLPF customers.

7.7. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly and provide good outcomes with respect of the current policyholders in SLPF. This is because there will be no changes to benefits for these policies as a consequence of the Scheme and there will be no material adverse effect on the security of these benefits.

7.8. Notification to Policyholders

SLPF policyholders will receive a pack containing a letter and a targeted Scheme guide. In line with the normal approach the guide will include Q&As.

7.9. Conclusion for SLPF Policyholders

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

DocuSigned by:
Simon James Thomlinson
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S J Thomlinson
Fellow of the Institute and Faculty of Actuaries
18 April 2023

Appendix 1 – SLAL's Funds

The substantial majority of SLAL's business is held within the SLAL PBF and the SLAL Heritage WP Fund.

All the business in the SLAL German WP Fund and SLAL German SM WP Fund consists of business reinsured to SLAL by SL Intl following the SLAL Brexit Scheme.

The following table is a summary of the types of business written by each fund:

Fund	Conventional With-Profits	Unitised With-Profits	Unit-Linked	Annuity
SLAL PBF		Yes	Yes	Yes
SLAL Heritage WP Fund	Yes	Yes	Yes	Yes
SLAL German WP Fund*		Yes		
SLAL German SM WP Fund*		Yes		
SLAL UKSM WP Fund**		Yes		

Notes

* No policies are directly written into these funds. Instead, policies are written in SL Intl and reinsured to the PBF with the investment content passed to these funds.

** No policies are written in this fund. Instead policies are written in the PBF with any unitised with-profits investment content being passed to the fund.

Classes of business

The impacts of the Scheme have been considered for each of the funds and types of business shown above, along with SLPF's immediate and deferred annuities and the other types of business which exist in small quantities in the SLAL PBF and Heritage WP Fund e.g. protection and non-profit savings contracts. The business in the SLAL funds is described in more detail below.

Proprietary Business Fund

This fund contains certain non-profit classes of business written by SLAC prior to demutualisation that were not allocated to the SLAL Heritage WP Fund at demutualisation and all business written by SLAL post demutualisation other than business or elements of business written in the SLAL Heritage WP Fund or allocated to the SLAL UKSM WPF, SLAL German WP Fund or SLAL German SM WP Fund as described below. All profits and losses arising in the SLAL PBF are allocated to the SLAL shareholder.

The majority of the business within this fund arises from UK unit-linked contracts.

SLAL Heritage With-Profits Fund ("SLAL Heritage WP Fund")

This fund contains either directly or by reinsurance all the in-force UK, Irish and German business, including that originating in Austria, (both with-profits and non-profits) written by SLAC prior to demutualisation, with the exception of a small number of policies now in the SLAL PBF. It contains policy increments and new business that have been written after demutualisation and allocated to the SLAL Heritage WP Fund. Other new business may be allocated to the SLAL Heritage WP Fund subject to restrictions set out in the SLAC Demutualisation Scheme and PPFM.

The volumes of new business currently written are sufficiently small that they have no material impact on the outcomes for SLAL Heritage WP Fund policyholders. Given this, it is expected that the SLAL Heritage WP Fund will be closed to new business for the purpose of the FCA's COBS requirements around the time of the Transfer Date, and that the Scheme customer notification will be used to communicate this. Following this, Phoenix will still be able to allocate limited amounts of certain types of additional business to the Heritage WP Fund.

Both conventional and unitised with-profits policies have been written within the SLAL Heritage WP Fund. Where policies can invest in both with-profits and unit-linked funds, the unit-linked elements of these policies are invested in the SLAL PBF. The Heritage WP Fund contains a variety of business types. Further details of the business within the Heritage WP Fund and how it is managed can be found in the Heritage WP Fund's Principles and Practices of Financial Management (PPFM) document, which is available online.

The cashflows from the SLAL Heritage WP Fund to the SLAL PBF are described in section 3.4.1.

SLAL German With-Profits Fund ("SLAL German WP Fund")

In order to sell with-profits policies in Germany and Austria after the demutualisation of SLAC, SLAL established two new German with-profits funds (the SLAL German WP Fund and SLAL German SM WP Fund). The business within these funds was transferred to SL Intl under the SLAL Brexit Scheme and the liabilities reinsured back to SLAL.

The SLAL German WP Fund was allocated the with-profits investment element (and corresponding guarantees) of all the new with-profits business, other than smoothed managed with-profits business, in Germany (including plans originating in Austria) written by SLAL after demutualisation and is also allocated any increments written since the business was transferred to SL Intl.

The SLAL German WP Fund offers unitised with-profits benefits, but there are a variety of guarantees on the investment content. In order to meet these guarantees, deductions for the assessed cost of guarantees are made to the investment funds. In the event that experience worsens, these deductions can be increased up to specified maximum levels and any costs that cannot be met by the fund would then be met by the SLAL shareholder. Deductions can also be reduced if experience improves. In exceptional circumstances this could lead to the repayment of past deductions to the extent that they are no longer required, as the fund does not operate an Estate.

The SLAL PBF meets all expenses of the business and risks relating to any insurance cover (additional life cover or disability cover). In return, the SLAL PBF receives the annual management charges and risk benefit charges deducted from investments held in the SLAL German WP Fund. If the SLAL German WP Fund requires shareholder support, this can be provided through an 'Internal Capital Support Memorandum of Account' which allows the shareholder to make a loan the GWPF.

The SLAL German WP Fund is closed to new business other than increments.

SLAL German Smoothed Managed With-Profits Fund ("SLAL German SM WP Fund")

As noted above, the SLAL German SM WP Fund was established following SLAC's demutualisation to allow SLAL to continue to write smoothed managed with-profits business in the German and Austrian markets.

The SLAL German SM WP Fund was allocated the with-profits investment element of all the new smoothed managed with-profits business in Germany (including plans originating in Austria) written by SLAL after demutualisation and is allocated any increments written since the business was transferred to SL Intl.

Policies are written in the SLAL PBF and their with-profits investment content is held in the SLAL German SM WP Fund. The policies contain no investment return guarantees, but policy investment returns are usually smoothed and any smoothing profits or losses are shared among all policies in the fund. The SLAL PBF meets all expenses of the business and the annual management charges taken on this business are paid to the SLAL PBF.

The SLAL German SM WP Fund is closed to new business other than increments.

SLAL UK Smoothed Managed With-Profits Fund ("SLAL UKSM WP Fund")

The SLAL UKSM WP Fund was established at demutualisation and is allocated the with-profits investment element of all the new UK Stakeholder pension plans written by SLAL.

Policies are written in the SLAL PBF and their with-profits investment content is held in the SLAL UKSM WP Fund. The policies contain no guarantees, but policy investment returns are smoothed and any smoothing profits or losses are shared among all policies in the fund. The SLAL PBF meets all expenses of the business and annual management charges taken on this business are paid to the SLAL PBF.

The SLAL UKSM WP Fund is open to new business.

Appendix 2 – Summary of certain aspects of the current prudential regulatory regime

The prudential regulatory regime in place in the UK in respect of life insurers is known as "UK Solvency II". It supersedes the 'Solvency II' regime for the European Economic Area industry which applied to UK insurers from 1 January 2016 until the end of the transition period that followed the UK's exit from the EU on 31 December 2020.

To date UK Solvency II has deviated little from Solvency II and this report generally uses 'Solvency II' to refer to both of these regulatory regimes. As described in section 5.5, consultations on UK Solvency II reforms have taken place in 2022 and are expected to lead to some changes by year-end 2023 at the earliest.

Solvency II requirements are commonly split into three pillars.

Pillar 1 covers the financial requirements and is designed to ensure that a company is adequately capitalised to deliver policyholder protection by ensuring the SCR is set such that a company can withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions.

Companies calculate their capital resources (known as "Own Funds") with technical provisions calculated on a best estimate basis with an additional margin for risk.

The SCR, which is the additional capital that companies must hold, can be set by using the standard formula or a company's own internal model, provided this model has been approved by the PRA.

In addition, insurance companies can make applications to the PRA for reliefs or adjustments including the following, which will be taken into account in determining its Own Funds and technical provisions:

- Transitional Measures on Technical Provisions ("TMTP") – these are aimed at providing a smooth transition between the previous prudential capital regime (Solvency I) and Solvency II. Companies gain relief on the amount of technical provisions that must be held by applying TMTP and this relief is run off over 16 years from implementation of Solvency II.
- Matching Adjustment – these provisions give companies relief for holding certain long-term assets which match the cash flows of a designated portfolio of life or annuity insurance and reinsurance obligations. It does so by allowing an adjustment to the discount rate at which the company is required to value the cash flows of its (re)insurance obligations in order to determine the amount of the technical provisions it is required to hold to cover them.
- Volatility Adjustment – this is designed to protect companies from the impact of volatility on their solvency position by allowing an addition, which is provided by the regulator and which may vary from time to time, to be made to the discount rate used to calculate liabilities.

Certain with-profits funds are known as 'ring-fenced funds' for the purposes of Solvency II. The SLAL Heritage WP Fund and SLAL German WP Fund are ring-fenced funds for Solvency II purposes, while the SLAL UKSM WP Fund and SLAL German SM WP Fund are not. Being ring-fenced under Solvency II means that separate calculations of the solvency position of each ring-fenced fund must be undertaken and restrictions on the use of capital allocated to each ring-fenced fund must be recognised in the company's overall solvency calculations (this is known as the "RFF Restriction"). This means to the extent that the surplus in a with-profits fund that requires no shareholder support is improved, this has no impact on the overall solvency position of the company.

Pillar 2 imposes minimum standards of risk management and governance on companies. There is a requirement for permanent internal audit and actuarial functions. Insurers must also regularly undertake forward-looking assessments of risks, solvency needs and adequacy of capital resources, called the "ORSA", and senior management must demonstrate that the ORSA informs business planning, management actions and risk mitigation.

Pillar 3 aims for greater levels of transparency for regulators and the public including through a submission by companies of a private annual report to regulators, and a public solvency and financial condition report.

In November 2022, the HMT responded to the consultation on Solvency II reform and were supportive of a number of changes, the most significant of which would result in a 65% reduction in the Risk Margin (part of the technical provisions). The impact for different companies will vary depending on the extent to which their balance sheets contain other items such as TMTP which could offset the benefit. The Solvency II reform measures could be implemented by the end of 2023 and may possibly be staged with some aspects of the reforms being implemented later than others.

Appendix 3 – Glossary

Term	Definition
100% WPF	The 100% With-Profits Fund of Phoenix.
90% WPF	The 90% With-Profits Fund of Phoenix.
abrdn	abrdn plc, previously known as Standard Life Aberdeen plc (renamed in 2021).
Agent	Instructing Parties Agent. The administrative role undertaken by SLPF in relation to SLAL's inbound property-linked reinsurance policies.
Alba WPF	The Alba With-Profits Fund of Phoenix.
BEL	Best Estimate Liabilities. One of the components of the technical provisions under UK Solvency II. The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cashflows.
BIB WPF	The Britannic Industrial Branch With-Profits Fund of Phoenix.
Britannic WPF	The Britannic With-Profits Fund of Phoenix.
Capital Event business requirement	An element of the existing SLAC Demutualisation Scheme that is being included in the Scheme. It helps to determine the minimum amount of capital that the company must hold in excess of its regulatory requirements.
Closure Uplift	An increase in the benefit entitlement upon the closure of a With-Profits Fund relating to the distribution of any surplus assets of that fund.
COBS	The Financial Conduct Authority's Conduct of Business Sourcebook. Section 20 of COBS, covers the management of with-profits business
Core Principles	Core Principles. These set out how SLAL board should manage the Heritage WPF business as defined by the SLAC Demutualisation Scheme. The Core Principles include its investment and bonus policy, the role of asset shares in the management of the fund and the role of the estate and criteria for distribution of residual estate.
Court of Session	The supreme civil court of Scotland.
Deed Polls and Undertakings	Legal documents provided by SL Intl to help ensure that the with-profits policy benefits of SL Intl policies reinsured to SLAL are the same as if those customers had been direct customers of SLAL.
Effective Date	The date upon which the Scheme is treated as becoming effective for the purposes of financial and regulatory reporting, expected to be 30 September 2023.
Equity Release Mortgage	A financial product in which the lender provides cash in exchange for a share of the equity in a property.
EU	The European Union.
Existing Phoenix Group Schemes	The existing Schemes governing the operation of Phoenix Group companies
FCA	Financial Conduct Authority.
FSMA	Financial Services and Markets Act 2000.
German SM WP Fund	The new version of the SLAL German SM WP Fund that will be created in Phoenix.
German WP Fund	The new version of the SLAL German WP Fund that will be created in Phoenix.
Group Loan	The loan from SLAL to PGH which funded PGH's purchase of SL Intl from SLAL.
Heritage WP Fund	The new version of the SLAL Heritage WP Fund that will be created in Phoenix.
High Court	The High Court of Justice of England and Wales.

Term	Definition
IFoA	Institute and Faculty of Actuaries, the UK chartered professional body which is responsible for regulating actuaries.
Independent Expert	An experienced actuary, who is independent of Phoenix Group and approved by the regulators, and who produces a report on the transfer and its impact on customers as part of the Part VII transfer process. This report is relied on by the regulator and Courts.
Internal Models	A model developed by an insurer to analyse their overall risk position, to quantify risks and to determine the capital required to meet those risks.
Linked Policies	Policies under which the benefits are determined by reference to the value of underlying assets. With-Profits policies are not linked policies.
LL WP Fund	The new version of the PLAL LL WPF that will be created in Phoenix.
MA	Matching Adjustment. This is an adjustment to the risk-free rate used in Solvency II valuation of cashflows where insurers hold certain long-term assets with cashflows that match the liabilities.
MCR	Minimum Capital Requirement. The MCR is lower than the SCR, and defines the point of intensive regulatory intervention.
Notional Company	A hypothetical company to compare against as if the Heritage WPF itself was a stand-alone company with some specified additional capital.
NPF	The Phoenix Non-Profit Fund. This comprises all assets and liabilities attributed to the non-profit business of Phoenix.
NPI WPF	The NPI With-Profits Fund of Phoenix currently. A with-profits fund established under the Phoenix 2012 Scheme in order to hold the with-profits element of the policies transferred from NPI Limited.
NPL WP Fund	The new version of the PLAL NPL WPF that will be created in Phoenix.
NPLL	National Provident Life Limited. A company created when the NPI business transferred to AMP.
ORSA	Own Risk and Solvency Assessment. A requirement under UK Solvency II whereby insurers must regularly undertake a forward looking assessment of risks, solvency needs and adequacy of their capital resources.
Own Funds	The excess of an insurer's assets over its liabilities on a UK Solvency II basis.
Part VII Transfer	The transfer of long-term insurance business under UK law in accordance with Part VII of FSMA.
PCP	The Phoenix Capital Policy. This will be Phoenix's capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR. This is underpinned by the Phoenix Capital Policy requirements of the Scheme.
Pearl WP Fund	The new version of the Pearl WPF that will be created in Phoenix.
PGH	Phoenix Group Holdings plc. A holding company and ultimate EEA parent undertaking of subsidiaries within the Phoenix Group.
PGMS	Phoenix Group Management Services Limited. A PGH company providing services to Phoenix and PLAL.
Phoenix	Phoenix Life Limited. A life insurance subsidiary of PGH.
Phoenix 2009 Scheme	A scheme that transferred long-term insurance from SMA and SPL to Phoenix in 2009 via a Part VII Transfer.

Term	Definition
Phoenix 2011 Scheme	A scheme that transferred long-term insurance business from Phoenix & London Assurance Limited to Phoenix in 2011 via a Part VII Transfer.
Phoenix 2012 Scheme	A scheme that transferred long-term insurance business from NPI Limited and certain long-term insurance business of NPLL to Phoenix in 2012 via a Part VII Transfer.
Phoenix 2017 Scheme	A scheme that transferred long-term insurance business from AXA Wealth Limited to Phoenix in 2017 via a Part VII Transfer.
Phoenix 2018 Scheme	A scheme that transferred long-term insurance business from Abbey Life Assurance Company Limited to Phoenix in 2018 via a Part VII Transfer.
Phoenix Brexit Scheme	A scheme that transferred particular blocks of long-term insurance business from Phoenix and RLL to PLAE in 2023 via a Part VII Transfer.
Phoenix Group	PGH and all of its subsidiaries.
Phoenix Shareholders' Fund	The Phoenix Shareholders' Fund. This comprises all assets and liabilities not attributed to long-term insurance business of Phoenix.
Phoenix WPF	The Phoenix With-Profits Fund of Phoenix.
Phoenix WPFs	The collective name for Phoenix's ten ring-fenced with-profits funds (the 100% WPF, the 90% WPF, the Alba WPF, the BIB WPF, the Britannic WPF, the Phoenix WPF, the SAL WPF, the Scottish Mutual WPF, the SPI WPF and the NPI WPF).
PLAE	Phoenix Life Assurance Europe DAC. An insurance holding company and subsidiary of RAL.
PLAL	Phoenix Life Assurance Limited. A life insurance subsidiary of PGH that was renamed from Pearl Assurance in 2012.
PLAL 2010 Scheme	A scheme that transferred the SERP business of NPLL to PLAL in 2010 via a Part VII Transfer. This scheme was superseded and replaced by the PLAL 2012 Scheme.
PLAL 2012 Scheme	A scheme that transferred the entire long-term insurance business of London Life Limited to PLAL in 2012 via a Part VII Transfer.
PLAL 2015 Scheme	A scheme that transferred the entire long-term insurance business of NPLL to PLAL in 2015 via a Part VII Transfer.
PLAL CP	PLAL capital policy. This is PLAL's own capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR.
PLAL LL WPF	The London Life With-Profits Fund of PLAL.
PLAL Non-Profit Fund	The PLAL Non-Profit Fund.
PLAL NPL WPF	The National Provident Life With-Profits Fund of PLAL.
PLAL Pearl WPF	The Pearl With-Profits Fund of PLAL.
PLAL SERP Fund	The SERP With-Profits Fund of PLAL.
PLAL Shareholders' Fund	The PLAL Shareholders' Fund. .
PLAL WPFs	The collective name for PLAL's four ring-fenced with-profits funds (the PLAL Pearl WPF, the PLAL SERP WPF, the PLAL London Life WPF and the PLAL NPL WPF).
PPFM	Principles and Practices of Financial Management. A requirement of COBS rules and a public document outlining how a with-profits fund is managed.
PRA	Prudential Regulation Authority.
Proposed Variations	The proposed replacement of the SLAC Demutualisation Scheme and the SLAL 2011 Scheme and the amendments of the SLAL Brexit Scheme.
Q&As	The 'question and answer' section of the customer Scheme guides.

Term	Definition
QRTs	Quantitative Reporting Templates. These are the templates used to report Solvency II valuation results to the regulator.
RAL	ReAssure Limited. A life insurance subsidiary of PGH.
RCF	Recourse cashflow. The main component of the RPTA. It is calculated as the cash flows arising on the business from all sources except investment return, over a particular Reference Valuation Period.
RFF Restriction	Ring-fenced Fund Restriction. The restriction on the use of capital allocated to each with-profits fund.
RMF	Risk Management Framework. The framework used by Phoenix Group to manage the risks of its insurance businesses.
RPTA	Reference Period Transfer Amount. The means by which surpluses can be distributed to shareholder and non-profit funds under the SLAC Demutualisation Scheme.
SAL WPF	The SAL With-Profits Fund. A with-profits fund established under the Phoenix 2011 Scheme that comprises the business that was transferred into Phoenix from the long-term business fund of Phoenix & London Assurance Limited.
Scheme	The proposed Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation.
Scheme Capital Quality Test	An element of the Phoenix Capital Policy under the Scheme which helps to determine the minimum amount of capital that Phoenix must hold in excess of its regulatory requirements, and is based on continuing to hold sufficient assets of sufficient quality in stress events.
Scheme Capital Quantity Test	An element of the Phoenix Capital Policy under the Scheme which helps to determine the minimum amount of capital that Phoenix must hold in excess of its regulatory requirements, and is based on continuing to hold a sufficient amount of assets in stress events.
SCR	Solvency Capital Requirement. One of the regulatory capital requirements under UK Solvency II. Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%.
SERP Fund	The new version of the PLAL SERP Fund that will be created in Phoenix.
Service Companies	The collective name for Standard Life Assets and Employee Services Limited, Phoenix Group Management Services Limited and Pearl Group Services Limited, all of which are Phoenix Group companies that provide services to insurance companies within Phoenix Group.
SLAC	The Standard Life Assurance Company. It demutualised in July 2006 and transferred its long-term insurance business to SLAL under a Part VII Transfer.
SLAC Demutualisation Scheme	The scheme that transferred the long-term insurance business of SLAC to SLAL via a Part VII Transfer in 2006.
SLAL	Standard Life Assurance Limited. A life insurance subsidiary of PGH.
SLAL 2011 Scheme	A scheme that transferred the business of SLIF to SLAL in 2011 via a Part VII Transfer.
SLAL Brexit Scheme	A scheme in 2019 under which the euro-denominated business of SLAL, which was originally sold in Ireland, Germany and Austria, was transferred to SL Intl by means of a Part VII Transfer.

Term	Definition
SLAL CP	The SLAL Capital Policy. This is SLAL's own capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR.
SLAL German SM WP Fund	The German Smoothed Managed With-Profits Fund of SLAL.
SLAL German WP Fund	The German With-Profits Fund of SLAL.
SLAL Heritage WP Fund	The Heritage With-Profits Fund of SLAL.
SLAL PBF	The SLAL Proprietary Business Fund.
SLAL Shareholders' Fund	The SLAL Shareholders' Fund.
SLAL UKSM WP Fund	The UK Smoothed Managed With-Profits Fund of SLAL.
SLIF	Standard Life Investment Funds Limited. A wholly owned subsidiary of SLAL whose long-term business was transferred to SLAL in 2011 under a Part VII transfer.
SL Intl	Standard Life International DAC. A life insurance subsidiary of PGH based in Ireland.
SLPF	Standard Life Pension Funds Limited. A wholly owned life insurance subsidiary of SLAL.
SM WPF	The Scottish Mutual With-Profits Fund of Phoenix.
SMA	Scottish Mutual Assurance Limited. Under the Phoenix 2009 Scheme, its business was transferred to Phoenix.
Solvency II	Regulatory solvency framework for the European Economic Area insurance and reinsurance industry.
SPI WPF	The SPI With-Profits Fund of Phoenix.
SPL	Scottish Provident Limited. Under the Phoenix 2009 Scheme, its business was transferred to Phoenix.
Superseded Schemes	The in-force schemes that would be superseded and disapplied by the Scheme that is the subject of this report if it is implemented. The schemes are the Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the Phoenix 2017 Scheme, the Phoenix 2018 Scheme, the PLAL 2012 Scheme, the PLAL 2015 Scheme, the SLAC Demutualisation Scheme and the SLAL 2011 Scheme.
TAS	Technical Actuarial Standards. The TASs are standards issued by the Financial Reporting Council which apply to work in the UK involving the use of actuarial principles and/or techniques and the exercise of judgement. Compliance with the TASs for work in their scope is required for members of the IFoA.
Technical Provisions	The value of the insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II (and UK Solvency II), the Technical Provisions comprise the BEL and the Risk Margin.
TMTP	Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016. Insurers must apply to the regulator (the PRA in the UK) to use a TMTP.
ToR	Terms of Reference.
Transfer Date	The time and date that the Scheme becomes operative
Transferor(s)	The collective name for PLAL, SLAL and SLPF, the companies whose business will transfer to Phoenix under the Scheme.
UK Solvency II	The regulatory regime for insurance companies in the UK since 1 January 2021.
UKSM WP Fund	The new version of the SLAL UKSM WP Fund that will be created in Phoenix.

Term	**Definition**
Unit Matching	A practice by unit-linked providers, whereby some unit-linked assets are encashed upfront that would otherwise be encashed when AMCs are charged to the Linked Funds. The Companies are therefore choosing to receive some of the value of future AMCs immediately rather than waiting for these to be paid over time.
UWP	Unitised With-Profits. UWP business typically refers to policies where policyholders' premiums are used to buy units whose value is then increased through bonuses that are awarded at the discretion of the insurer, depending on the surplus emerging in the relevant insurance fund. At maturity, policyholders typically receive the value of their units, which may be adjusted by a final bonus amount.
VA	Volatility Adjustment. An increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the Matching Adjustment) that aims to prevent forced sales of assets in the event of extreme bond spread movements. Its effect is to reduce the market value of the assets that must be held by an insurer to cover its Best Estimate Liabilities.
WPA	With-Profits Actuary. The person or person fulfilling the With-Profits Actuary function. A regulated role in the UK with a responsibility for advising a firm's Board on the key areas of discretion exercised in managing its with-profits business.
WPC	With-Profits Committee. A committee that provides oversight of the management of a with-profits fund. The role of the WPC is to act in an advisory capacity to a firm's Board on decisions affecting with-profits policyholders, to ensure the interests of with-profits policyholders are appropriately considered within the firm's governance structures.
WPFs	With-Profits Funds