Standard Life Assurance Limited

Report by the Chief Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company

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Table of contents

1 Executive Summary 4
2 Introduction 5
2.1 Purpose of the Report...5
2.2 Guidance on its Usage 5
2.3 Independent Expert 5
2.4 Status and Disclosures..6
2.5 Scope 6
2.6 Reliances...6
2.7 TAS Compliance...7
3 Background...8
3.1 Overview 8
3.2 Rationale for the Scheme 10
4 Overview of SLAL 12
4.1 History of SLAL..12
4.2 Legacy Schemes 12
4.3 Fund Structure...13
4.4 Solvency Position 18
4.5 Capital Policy...18
4.6 Risk Management...19
4.7 Risk profile of SLAL business 20
5 Overview of SL Intl 22
5.1 History of SL Intl 22
5.2 Previous Schemes...22
5.3 Fund Structure...22
5.4 Solvency Position 23
5.5 Capital Policy...23
5.6 Risk Management...23
5.7 Risk profile of SL Intl business...23
6 The Proposed Transfer 25
6.2 Proposed structure of the Transfer 25
6.3 Proposed SLAL and SL Intl structure post transfer 27
6.4 New Reinsurance Arrangements 28
6.5 Reinsurance Security..30
6.6 Termination of Reinsurance..31
6.7 Existing Reinsurance..34
6.8 Post Transfer Governance Arrangements...34
6.9 Changes to Legacy Schemes 38
6.10 Servicing of Policyholders...38

7 Effect of proposed changes on security of policyholder benefits....40
7.2 Post Transfer Solvency....40
7.3 Capital Policy and Capital Support....42
7.4 Risk Profile....44
7.5 Changes in methodology for calculating solvency position....46
7.6 Financial Services Compensation Scheme....46
7.7 Policy Terms and Conditions....47
7.8 Service Standards....47
7.9 Conclusions....48
8 Effect of proposed changes on rights and expectations of transferring SLAL policyholders....49
8.2 HWPF With Profits Policyholders....49
8.3 Unit linked contracts Invested in the HWPF....51
8.4 GWPF and GSMWPF Policyholders....51
8.5 Unit Linked Policyholders....53
8.6 Annuities....54
8.7 Non-Profit....55
8.8 Other Tax Implications....55
8.9 Conclusion....55
9 Effect of Proposed changes on rights and expectations of non-transferring SLAL policyholders....56
9.2 With Profits Funds Policyholders....56
9.3 Unit Linked, Annuity and Non-Profit Policyholders....57
9.4 Conclusion....58
10 Notification to Policyholders....59
10.1 Transferring Policyholders....59
10.2 Non-transferring policyholders....59
11 Conclusions....60
12 Appendix: Glossary of Terms....61

1 Executive Summary

This report is addressed to the Board of Standard Life Assurance Limited ("**SLAL**") in my capacity as Chief Actuary and concerns the **Proposed Transfer** of the Euro-denominated life insurance business of SLAL to its Dublin based subsidiary, Standard Life International designated activity company ("**SL Intl**"). The transfer is to be effected under an insurance business scheme of transfer (the "**Scheme**") under Part VII of the Financial Services and Markets Act 2000. If approved, the Scheme will come into effect on the **Effective Date**, which is expected to be 28 February 2019.

This report describes the Euro-denominated business to be transferred under the Scheme and the operational aspects of managing the business once it has been transferred.

The Scheme is required due to the United Kingdom's ("**UK**") expected withdrawal from the European Union ("**EU**") as a result of the formal triggering of Article 50 on the 29 March 2017. At the date of writing, the outcome of the UK's negotiations with the EU is unclear and, in the absence of an agreement on passporting, or other similar such arrangements, SLAL will no longer be authorised to service its circa 600,000 policyholders within the **EU27** countries (the 27 member states of the EU excluding the UK).

To continue to allow Euro-denominated policyholders within the with profits funds to benefit from the protection of the UK with profits regime, and for policyholders within the Heritage With Profits Fund ("**HWPF**") to benefit from sharing experience, a number of reinsurance arrangements are to be established as part of the Proposed Transfer. I have paid particular attention to these within the report, including considering the protection of policyholders upon termination of these arrangements.

The Scheme has the unavoidable consequence of resulting in the loss of eligibility to the Financial Services Compensation Scheme ("**FSCS**") to transferring policyholders. Overall I am satisfied that this loss does not materially adversely affect the security of policyholder benefits.

Having considered the effect of the Proposed Transfer, I conclude that:

- The financial security of policyholders of SLAL will not be materially adversely affected by the Proposed Transfer;
- The Proposed Transfer will not have a material adverse impact on the fair treatment of policyholders of SLAL, including their legal rights and expected benefits; and
- The Proposed Transfer is not expected to materially adversely affect the service standards for transferring and non-transferring policyholders of SLAL.

Brian Peters

Brian Peters, FFA

Date: 17 September 2018

2 Introduction

2.1 Purpose of the Report

2.1.1 As the Chief Actuary for Standard Life Assurance Limited ("**SLAL**"), I have been asked to comment on the proposal for the transfer of all Euro-denominated business from SLAL to Standard Life International designated activity company ("**SL Intl**") under Part VII of the Financial Services and Markets Act 2000. The transfer is to be effected under an insurance business scheme of transfer (the "**Scheme**"). If approved, the Scheme will come into effect on the "**Effective Date**", which is expected to be 28 February 2019. The Scheme will require amendments to be made to the 2006 Scheme of Demutualisation and the 2011 Scheme (the "**Legacy Schemes**").

2.1.2 As part of the proposed Part VII transfer, a number of reinsurance arrangements between SLAL and SL Intl are to be established. I have considered their appropriateness and the impact they have on policyholders as part of this report.

2.1.3 For the avoidance of doubt, the proposed Part VII transfer and reinsurance arrangements are referred to in combination as the "**Proposed Transfer**".

2.1.4 The objective of this report is to consider:

- The effect of the Scheme's proposals on the security of benefits of SLAL's policyholders;
- The effect of the Scheme on the fair treatment of policyholders of SLAL, including their legal rights and expected benefits; and
- The effect of the Scheme on the service standards for transferring and non-transferring policyholders of SLAL.

2.1.5 SLAL's With Profits Actuary ("**WPA**") has been informed of the Scheme and has prepared a separate report on the effect of the transfer on with profits policyholders of SLAL, including the with profits policies being transferred to SL Intl.

2.2 Guidance on its Usage

2.2.1 This report is written for the SLAL Board in my capacity as Chief Actuary for SLAL. It should be read in conjunction with the Scheme, SLAL's WPA report and the report by the Independent Expert.

2.2.2 The SL Intl Head of Actuarial Function has produced a report considering the effect of the Scheme on the financial security and fair treatment of SL Intl policyholders.

2.2.3 A list of the definitions and abbreviations that I have used in this document are included in Appendix: Glossary of Terms. Defined terms used but not defined in this report have the same meaning as those used in the Scheme document and the Independent Expert's report unless otherwise highlighted.

2.3 Independent Expert

2.3.1 Mr Tim Roff of Grant Thornton has been retained by the Board of SLAL in the capacity of Independent Expert and has been approved by all relevant regulatory bodies.

2.4 Status and Disclosures

2.4.1 I am a Fellow of the Institute and Faculty of Actuaries, gaining my qualification in 2004. I have occupied various roles within Standard Life Aberdeen plc ("**Standard Life Aberdeen**") and was appointed Chief Actuary for SLAL in April 2018.

2.4.2 On the 31 August 2018 Standard Life Aberdeen sold its insurance business to Phoenix Group Holdings ("**Phoenix**" or the "**Group**"). The sale involved the majority of SLAL (including SL Intl) being transferred to Phoenix. My role as Chief Actuary for SLAL was not impacted by the change in ownership of SLAL.

2.4.3 I am an employee of Standard Life Assets and Employee Services Limited ("**SLAESL**"), a wholly-owned subsidiary of SLAL and which provides employee-related services to SLAL.

2.4.4 As an employee, I will have benefits which are partially related to the share price of the Group.

2.4.5 I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

2.5 Scope

2.5.1 The report is written for the SLAL Board in my current capacity as Chief Actuary.

2.5.2 The proposed transfer is subject to the consent of the Court of Session in Edinburgh (the "**Court**").

2.5.3 The Prudential Regulatory Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**") have been provided with a copy of this report to support their assessment of the Scheme, the reinsurance arrangements and the changes to the Legacy Schemes.

2.5.4 The Central Bank of Ireland ("**CBI**"), Federal Financial Supervisory Authority ("**BaFin**") and Financial Market Authority ("**FMA**") will all be provided with a copy of this report following the Initial Court Hearing.

2.5.5 A full copy of this report will be available on request by policyholders. This document can also be viewed and/or downloaded on SLAL's website at:

www.standardlife.eu

2.6 Reliances

2.6.1 I have read the report prepared by Mr Douglas Morrison, the WPA of SLAL. I have considered his comments on the effect of the Proposed Transfer and changes to the Legacy Schemes on the various groups of with profits policyholders (both those transferring and non-transferring).

2.6.2 I have read the report prepared by Mr Tim Roff, the Independent Expert. I have considered his comments on the effect of the Proposed Transfer and changes to the Legacy Schemes on policyholders.

2.6.3 In producing this report, I have reviewed a number of documents in detail. These are not outlined in full within this paper.

2.6.4 The figures reported on a **Solvency II** basis have been based on those prepared for Solvency II reporting as of 31 December 2017.

2.6.5 This report is based on information made available to me up to August 2018 and takes no account of developments after this date. An updated financial view will be provided within the Supplementary Report which will be prepared after the Initial Court Hearing and before the Final Court Hearing to sanction the Scheme.

2.7 TAS Compliance

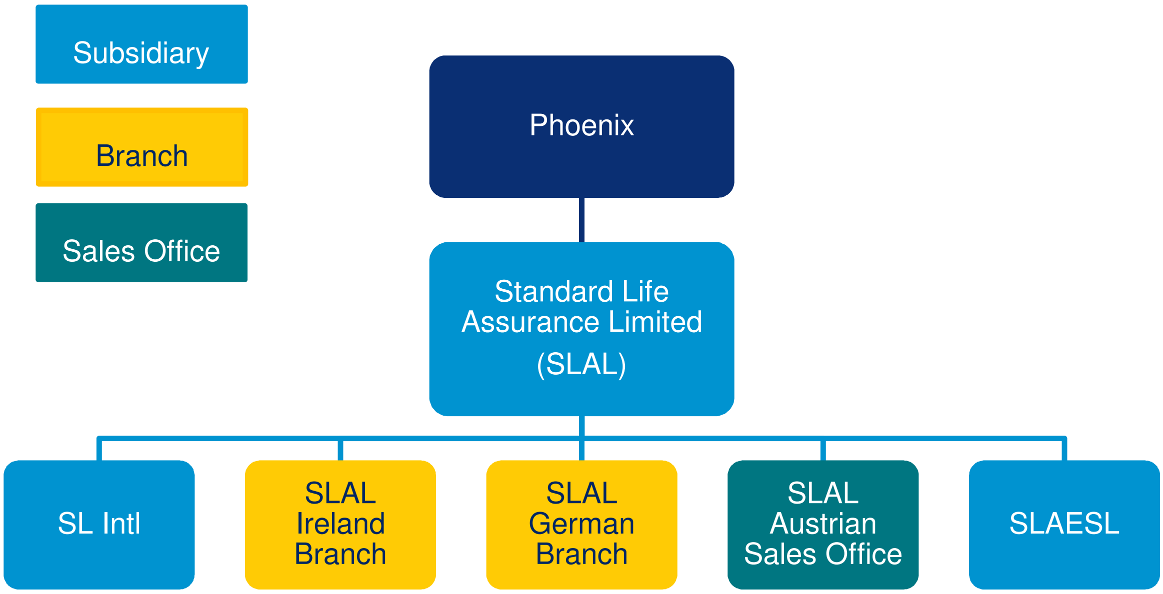
2.7.1 This report and the work behind it have been prepared in accordance with the guidance of the Financial Reporting Council, including the Principles for Technical Actuarial Work (TAS 100) and the Insurance TAS (TAS 200).

2.7.2 The work underlying this report has been completed in accordance with the Actuarial Profession Standards X2: Review of Actuarial Work (APS X2).

3 Background

3.1 Overview

3.1.1 Phoenix is the current ultimate holding company of both SLAL and SL Intl having acquired these subsidiaries from Standard Life Aberdeen in 2018.

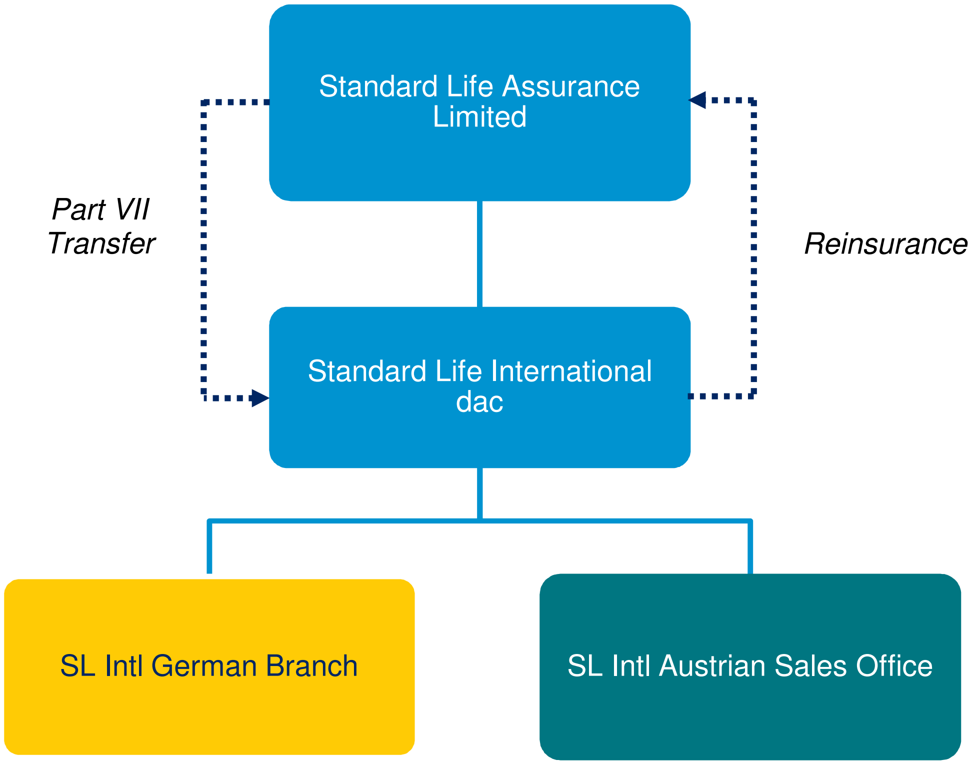


Note that not all subsidiaries of Phoenix or SLAL are shown in the above figure.

3.1.2 SLAL currently transacts long-term life insurance business in the United Kingdom ("**UK**") as well as in Europe through passporting on a Freedom of Establishment ("**FOE**") and Freedom of Service ("**FOS**") basis. SLAL operates in **Ireland** (Dublin) and Germany (Frankfurt) on a FOE basis and through a sales office in Austria (Graz) on a FOS basis. SLAL's wholly owned subsidiary, SL Intl, currently sells International bonds on a FOS basis into the UK from its head office located in Ireland.

3.1.3 The Scheme proposes to transfer all business written in the branches of Germany and Ireland (and the sales office in Austria) which is in-force at the Effective Date of the Scheme from SLAL to SL Intl. Once the transfer is complete, SLAL will cease writing business in the **EU27** (the 27 member states of the European Union ("**EU**") excluding the UK) from the Effective Date with all new EU business being written by SL Intl.

3.1.4 The below diagram shows the proposed organisational structure of the Group following the Proposed Transfer:



3.1.5 To enable this transfer to be completed, SL Intl has applied to extend its existing licences to include all classes of business currently operated by SLAL Germany and Ireland and to accept an External Fund Link ("**EFL**") retrocession arrangement under these classes. At the time of writing, SL Intl expects to receive this authorisation as part of its Change in Business Plan in December 2018.

3.1.6 The relevant classes are:

- Class I – Annuities and With Profits
- Class IV - Permanent Health Insurance (as a feature of some life policies)
- Class VII – Management of Group Pensions

3.1.7 The new organisational structure will replace the SLAL branches in Germany and Ireland and the sales office in Austria, with an expanded SL Intl operation in Ireland, a SL Intl branch in Germany and a sales office in Austria.

3.1.8 These changes are required to allow SL Intl to write new business and service the existing contracts issued by SLAL in Ireland, Germany and Austria post the UK's withdrawal from the EU ("**Brexit**").

3.1.9 Euro-denominated business relates to contracts issued in Ireland, Germany and Austria. This can be read interchangeably as "**Transferred Policies**" as defined in the Scheme.

3.1.10 The Court will be invited to sanction the Scheme and the changes to the Legacy Schemes at a hearing expected to be in February 2019.

3.1.11 Subject to the consent of the Court, the Scheme will come into effect on the Effective Date.

3.2 Rationale for the Scheme

3.2.1 On the 23 June 2016 the UK voted to leave the EU. The implications of this decision on SLAL, a company servicing policyholders in multiple EU countries, are unclear with the final outcome dependent on the result of the negotiations between the UK and the EU.

3.2.2 Under EU cross-border passporting laws, SLAL has written financial services business into Ireland, Germany and Austria using a branch structure. As the UK has now voted to leave the EU there is a risk that this branch structure will no longer be viable after Brexit.

3.2.3 Following the formal triggering of Article 50 of the Lisbon Treaty on 29 March 2017, the proposed timetable for the UK's withdrawal from the EU concluded that the process would be completed within a two year timeframe i.e. by 29 March 2019.

3.2.4 In the absence of a transitional period, this places a deadline on SLAL and the legality of the contracts it holds with its EU27 policyholders.

3.2.5 On 19 March 2018, the UK and EU reached an agreement on the terms of a transitional period following Brexit however as of August 2018 this deal was yet to be ratified by either the UK or EU Parliament and so is not certain. It would therefore not be appropriate for SLAL to depend on the transition period in its approach to Brexit at this stage.

3.2.6 An adverse Brexit scenario based on the following characteristics was considered:

- It is no longer possible to rely on the existing passporting regime to operate to or from EU Member States from April 2019.
- Loss of passporting is not mitigated by other arrangements allowing continued access to the EU Single Market.
- The UK Government is unwilling or unable to negotiate an implementation framework ('transitionals') to cover the period between the UK leaving the EU and negotiation/ratification of new trading arrangements with the remaining 27 Member States.

3.2.7 This scenario was based on the information available in 2017. Given the length of time required to take the necessary steps to protect policyholders' security and future benefit expectations, SLAL sought to mitigate the impact on its policyholders from the risk of this adverse scenario.

3.2.8 SLAL's approach to mitigate the impact of this risk on its EU27 policyholders requires a Part VII transfer of all Euro-denominated business to SLAL's Dublin based subsidiary, SL Intl.

3.2.9 The Scheme will result in all Euro-denominated business being deemed to have been issued by SL Intl, a EU27 based firm. This mitigates the potential loss of passporting as Ireland will remain within the EU post-Brexit. This ensures that these policies, independent of the outcome of the UK-EU negotiations, can continue to be serviced legally.

3.2.10 As part of the Proposed Transfer, SL Intl will reinsure the Euro-denominated liabilities within its with profits funds to SLAL. It will also accept an EFL retrocession arrangement on these funds to enable policyholders' investment portfolios to remain materially unchanged.

3.2.11 This maintains the protection of the UK with profits regime; there is no equivalent with profits regime in Ireland. It also enables the Heritage With Profits Fund ("**HWPF**") to be managed on the same basis as it is currently managed, including allowing the continuance of the sharing of experience between UK and Euro-denominated policyholder groups, as it avoids splitting the fund.

3.2.12 The reinsurance arrangements will be collateralised with the security structure designed to maintain consistency of UK and the Euro-denominated policyholders in the HWPF after the Effective Date. In the absence of this structure, the level of security which the Euro-denominated policyholders have over their benefits would be negatively impacted by the Proposed Transfer.

3.2.13 The details of the Proposed Transfer are discussed in Section 6.

4 Overview of SLAL

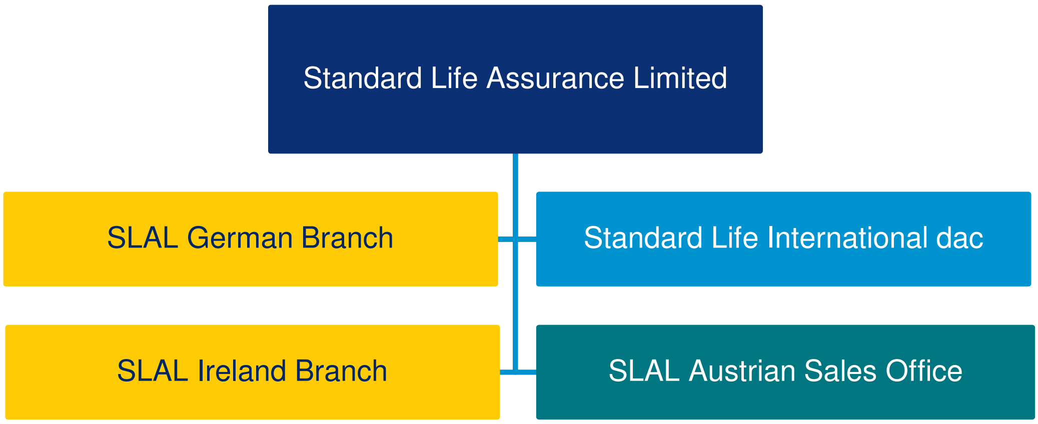
4.1 History of SLAL

4.1.1 The Life Insurance Company of Scotland was established in 1825, changing its name to The Standard Life Assurance Company ("**SLAC**") in 1832. It began as a partnership and was converted to a limited company in 1910. In 1925, after a century of expansion, both in the UK and overseas, SLAC was converted to a mutual.

4.1.2 On 10 July 2006 SLAC demutualised and substantially all of the long-term business of SLAC was transferred to its new parent life insurance company, SLAL.

4.1.3 Since this date, SLAL has continued to grow and has a number of wholly owned subsidiaries (including SL Intl). It continues to operate in the EU through its branches in Germany and Ireland (as well as its sales office in Austria).

4.1.4 The current structure of the SLAL subgroup is provided below.



4.2 Legacy Schemes

4.2.1 The demutualisation of SLAC and the establishment of SLAL was governed by the 2006 Scheme of Demutualisation (the "**2006 Scheme**") pursuant to a Part VII scheme. This scheme provides a framework in which SLAL operates its business.

4.2.2 The 2006 Scheme contains the core principles for the operation of the With Profits Fund (now known as the HWPF). It also defines the payments between this fund and the remainder of SLAL. This scheme has been varied three times since 2006.

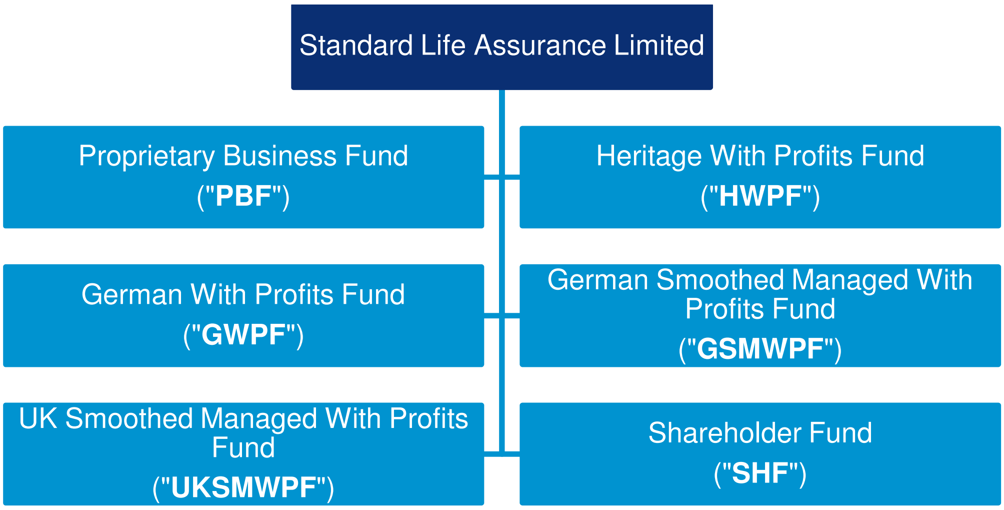
4.2.3 It was varied under paragraph 70.2(D) in connection with the transfer of insurance business from Standard Life Investment Funds Limited ("**SLIF**") to SLAL on 31 December 2011 (the "**2011 Scheme**"). The 2011 Scheme transferred the substantial majority of the assets and liabilities of SLIF to SLAL. The 2011 Scheme will be varied as a result of the Scheme.

4.2.4 It was varied under paragraph 70.2(C) from 1 January 2016 and under paragraph 70.2(D) from 27 April 2016 to reflect changes needed to continue to operate the Scheme following the replacement of the previous insurance regulatory regime (known as Solvency I) with a new regime from 1 January 2016 (Solvency II).

4.2.5 The 2006 Scheme will be varied under paragraph 70.2(D) as a result of the Scheme.

4.3 Fund Structure

4.3.1 The current fund structure of SLAL is shown below:



4.3.2 The substantial majority of SLAL's business is held within either the PBF or the HWPF. The business proposed to be transferred from SLAL to SL Intl is currently written in these funds and includes investment in the GWPF and the GSMWPF.

4.3.3 The below is a summary of the types of business written by each fund:

Fund	Conventional With Profits	Unitised With Profits	Unit linked	Annuities	Open to New Business
PBF			✓	✓	Yes
HWPF	✓	✓	✓	✓	Yes***
GWPF		✓*			**
GSMWPF		✓*			**
UKSMWPF		✓*			Yes
SHF					N/A

* No policies are directly written into these funds. Instead, policies are written into the PBF with their investment content being in the GWPF, GSMWPF or UKSMWPF.

** These funds are closed to new business other than increments.

*** In line with limits set in the 2006 Scheme.

4.3.4 The following table shows the Best Estimate Liability ("**BEL**"), Technical Provisions as a Whole ("**TP as a Whole**"), **Risk Margin**, Transitional Measure on Technical Provisions ("**TMTP**") and the **Technical Provision** in each fund (in £m) at year-end 2017. For each fund it also shows the number of transferring policies (to the nearest 1000):

Fund	Country	Number of transferring Policies (thousands)	BEL (£m)	TP as a Whole (£m)	Risk Margin (£m)	TMTP (£m)	Technical Provision (£m)
PBF	A	8	-2	79	-	-	76
	E	49	-90	6,076	52	-51	5,987
	G	38	57	496	111	-103	561
	U	-	4,091	99,271	1,242	-1,178	103,426
HWPF	A	28	874	-	-	2	876
	E	38	1,231	-	1	16	1,247
	G	271	7,314	-	16	6	7,336
	U	-	24,358	-	12	28	24,398
GSMWPF	A	0*	9	-	-	-	9
	G	7*	114	-	-	-	114
GWPF	A	19*	211	-	-	-	211
	G	124*	1,768	-	-	-	1,768
UKSMWPF	U	-	60	-	-	-	60
SHF	U	-	26	-	-	-12	14
Total	**-**	582	40,021	105,921	1,433	-1,292	146,083

A – Austria, E – Ireland, G – Germany and U – UK

* These policies are written in the PBF but invest in the GWPF and GSMWPF respectively as explained above.

4.3.5 Proprietary Business Fund (“**PBF**”)

4.3.5.1 Within the 2006 Scheme the PBF is referred to as the Non Profit Fund.

4.3.5.2 This fund contains certain non-profit classes of business written by SLAC prior to demutualisation that were not allocated to the HWPF at demutualisation and all business written by SLAL post demutualisation other than business or elements of business allocated to HWPF, UKSMWPF, GWPF, or GSMWPF as described below. All profits and losses arising in the PBF are allocated to the SLAL shareholders.

4.3.5.3 The majority of the business within this fund arises from UK unit linked contracts. However, at year-end 2017, it held Technical Provisions of circa £6,625m associated with Euro-denominated business.

4.3.6 Heritage With Profits Fund (“**HWPF**”)

4.3.6.1 The HWPF is the with profits fund as defined in the 2006 Scheme. Its governance requires both a WPA and a With Profits Committee (“**WPC**”); the WPC acts in an advisory capacity to inform the exercising of discretion by the SLAL Board.

4.3.6.2 This fund contains all the 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 PBF. It contains policy increments that are written after demutualisation and allocated to the HWPF. Other new business may be allocated to the HWPF subject to limitations set out in the 2006 Scheme.

4.3.6.3 Both conventional and unitised with profits policies have been written within the HWPF. Where policies can invest in both with profits and unit linked funds, the unit linked elements of these policies are invested in the PBF.

4.3.6.4 All UK with profits providers are required by the FCA to document and make available their Principles and Practices of Financial Management ("**PPFM**"). This requirement is also included within the 2006 Scheme. The PPFM provides policyholders with an explanation of how with profits business is operated and forms an important part of the governance arrangements of the HWPF business. In line with regulatory requirements, SLAL reports each year to its UK with profits policyholders on compliance with its PPFMs.

4.3.6.5 The HWPF's published PPFM applies only to with profits policies effected and carried out from an establishment in the UK. It does not apply to any with profits policy effected or carried out through any branch or other establishment of SLAL outside of the UK. However, the principles applicable to the UK business also apply to HWPF business issued by SLAL's branches in Ireland and Germany (including that originating in Austria).

4.3.6.6 The HWPF is open to new business with the amount it can write each year restricted by the 2006 Scheme. At year-end 2017 it held Technical Provisions of circa £9,459m associated with Euro-denominated business.

4.3.6.7 There is a capital support arrangement between the HWPF and the SLAL shareholder: a restriction on the Recourse Cash Flow ("**RCF**"). This capital support is not currently being called upon.

4.3.6.8 The RCF is a payment made from the HWPF to the shareholder based on defined UK and Irish Blocks of Business. This provides the shareholder with a share in the profits of the HWPF.

4.3.6.9 Payment of the RCF is contingent on the financial position of the HWPF. Capital support occurs where the **proposed transfer amount** is negative; in this instance the SLAL Board must provide a contingent loan, or otherwise make assets available, to the HWPF to a sum equal to or greater than the absolute value of the proposed transfer amount. The RCF is only paid if:

(i) The HWPF has a surplus;

(ii) SLAL can demonstrate that it is reasonable to expect continued compliance with the requirements in Conduct of Business Rules ("**COBS**") 20.1A.5R in respect of the HWPF; and

(iii) (Unless there is a current **Capital Event**) the **Notional Company** has sufficient assets to cover its Technical Provisions.

4.3.6.10 Additional Expenses are defined for German business. This debits the HWPF and provides a transfer to the SHF in respect of German policies.

4.3.6.11 The Additional Expenses and RCF are described in greater detail in Schedule 2 and 3 respectively of the 2006 Scheme.

4.3.7 German With Profits Fund ("**GWPF**")

4.3.7.1 After demutualisation, SLAL continued to sell significant volumes of with profits policies within both Germany and Austria. In order to do this, whilst maintaining its operation of HWPF as outlined in the 2006 Scheme, two new German with profits funds were established (the GWPF and GSMWPF).

4.3.7.2 The GWPF is 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 in its PBF after demutualisation.

4.3.7.3 That is, policies are written in the PBF, however their investment content is allocated to the GWPF.

4.3.7.4 As the GWPF contains no UK with profits policies, it is not required by regulation to have a PPFM. SLAL operates the GWPF in a manner which is to be formalised prior to the Proposed Transfer via an Internal Principles and Practices of Financial Management ("**IPPFM**"). This will be structured in a similar manner to the existing PPFM's and set out how the GWPF business is operated.

4.3.7.5 The GWPF, like the HWPF, offers a variety of guarantees on the investment content within the fund. In order to meet these guarantees, a deduction for the assessed cost of guarantees is made. Any costs that cannot be met by the fund are met by the SLAL shareholders.

4.3.7.6 The SLAL Board can waive their right to future charges from the fund in advance of injecting physical assets into the fund. The GWPF can therefore be supported in the event of it holding insufficient assets to meet any guarantees.

4.3.7.7 As SLAL's strategy developed, the decision was made to stop selling with profits business in the EU. The GWPF is closed to new business other than increments and at year-end 2017 it held Technical Provisions of circa £1,979m.

4.3.8 German Smoothed Managed With Profits Fund ("**GSMWPF**")

4.3.8.1 The GSMWPF was established following demutualisation to allow SLAL to continue to write smoothed managed with profits business in the German and Austrian markets.

4.3.8.2 The GSMWPF is 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 in its PBF after demutualisation.

4.3.8.3 That is, policies are written into the PBF with their investment content invested in the GSMWPF.

4.3.8.4 As with the GWPF, the GSMWPF is operated in a manner to be formalised within an IPPFM prior to the Effective Date.

4.3.8.5 The GSMWPF is closed to new business other than increments and at year-end 2017 held Technical Provisions of circa £123m.

4.3.9 UK Smoothed Managed With Profits Fund ("**UKSMWPF**")

4.3.9.1 At demutualisation, Stakeholder pensions were expected to generate significant new with profits business and so the UKSMWPF was established. The UKSMWPF is allocated the with profits investment element of all the new Stakeholder pension plans written by SLAL in the UK in its PBF after demutualisation.

4.3.9.2 This fund operates in a similar manner to the GWPF and the GSMWPF with policies written in the PBF and their with profits investment content in the UKSMWPF.

4.3.9.3 The UKSMWPF has a PPFM that provides policyholders with an explanation of how with profits business is operated and forms an important part of the governance arrangements of the UKSMWPF business.

4.3.9.4 The UKSMWPF only contains the with profits element of UK stakeholder pension plans written after 09 July 2006. These contain no guarantees, but policy investment returns are smoothed and any smoothing profits or losses are shared among all policies in the fund.

4.3.9.5 The UKSMWPF is open to new business.

4.3.10 Shareholder Fund ("**SHF**")

4.3.10.1 The SHF is defined in the 2006 Scheme as the property and liabilities of SLAL, excluding those allocated or attributable to, or represented by, a long term fund.

4.3.10.2 No policies are written in this fund however it does receive regular cash flows on certain blocks of business. This reflects the profits and losses that are attributable to the shareholder on business written in the long term business funds.

4.3.10.3 The RCF and Additional Expenses outlined in 4.3.6.8 and 4.3.6.10 are two such examples of this.

4.3.10.4 At year end 2017 the SHF held Technical Provisions of circa £14m arising predominately in respect of Group Corporate Centre costs and ex-gratia payments to policyholders.

4.4 Solvency Position

4.4.1 The security of a policyholder's investment is dependent on the solvency of SLAL. The Solvency II regime provides a mechanism to value the liabilities of SLAL under different conditions to ensure that it holds sufficient assets.

4.4.2 In addition to holding Technical Provisions to cover the policyholder liabilities, SLAL holds an amount, the Solvency Capital Requirement ("**SCR**"), which is set at a level to ensure that SLAL can meet its obligations to policyholders and beneficiaries over the following year with a 99.5% probability (commonly referred to as a 1-in-200 year event).

4.4.3 The solvency position of SLAL (on a Solvency II basis), is shown below for 31 December 2017, assuming it were a subsidiary of Phoenix at that date. This assumes a number of management actions, intended as part of the acquisition of SLAL by Phoenix, had been implemented prior to the 31 December 2017.

(£m)	HWPF (After Own Funds restriction)	Rest of Company	Total
Own Funds (A)	420	3,360	3,780
SCR (B)	420	2,060	2,480
Excess Capital (C = A – B)	-	1,300	1,300
Solvency Coverage Ratio (D = A/B)	100%	163%	152%

4.4.4 In line with the SLAL methodology, the GWPF will have a notional SCR of zero whilst the HWPF has a notional SCR of circa £420m as at year-end 2017. As a result of Solvency II, SLAL can only recognise Own Funds within the HWPF up to the amount of its SCR (although it has a further circa £900m of Own Funds it cannot recognise for regulatory reporting). That is, the size of the Own Funds in the HWPF as at 31 December 2017 was circa £1,320m.

4.4.5 The SCR is calculated using SLAL's PRA approved **Internal Model**. As a subsidiary of SLAL, SL Intl's capital requirement, calculated using a **Standard Formula**, is currently incorporated within the SCR using Method 2 ("Deduction and Aggregation").

4.5 Capital Policy

4.5.1 SLAL is subject to regulatory oversight by the PRA and complies with the Solvency II rules as set out in the Solvency II Directive and supporting documentation. These regulations set out the minimum amount of capital that SLAL is required to hold to cover the risks associated with its liabilities. This minimum amount of capital is represented by a solvency coverage ratio of 100%. Both SLAL and SL Intl are currently subject to these same regulations (with SL Intl being subject to regulatory oversight by the CBI).

4.5.2 SLAL seeks to maintain a capital position in line with its Board approved capital target framework. This assesses the capital that SLAL aims to hold, inclusive of SL Intl, and results in a target solvency coverage ratio which is in excess of the regulatory required ratio of 100%.

4.5.3 Under SLAL's capital targets framework, SLAL's capital coverage is assessed under three absolute stress scenarios containing specific levels of key market indicators. These scenarios are reviewed regularly with the capital position monitored continuously.

4.5.4 These scenarios are designed to reflect the most severe scenarios of recent periods and therefore reflect severely adverse but foreseeable scenarios.

4.5.5 SLAL's capital coverage is given a rating based on both its current capital coverage and its coverage in the adverse scenarios. This rating can be broadly considered to be:

- Green – Capital coverage is appropriate under both base and stress scenarios.
- Amber – Pre-emptive restorative actions may be required in order to support the longer term capital position, and hence dividend payments into the future.
- Red - Urgent action required. Immediate action plan necessary to rectify situation. There is the expectation that no dividend will be paid if SLAL is in the Red zone, unless there was a plan to restore coverage within a clearly defined timescale.

4.5.6 As at year-end 2017, SLAL's capital coverage was rated Green.

4.6 Risk Management

4.6.1 SLAL operates a "three lines of defence" model of risk management, with clearly defined roles and responsibilities for individuals and committees:

- First line: Day-to-day risk management is delegated from the Board to the Chief Executive and, through a system of delegated authorities and limits, to business managers.
- Second line: Risk oversight is provided by the Standard Life Chief Risk Officer and supported by specialist Risk Management and Compliance functions across Standard Life as well as through established risk committees such as the Standard Life Enterprise Risk Management Committee ("**ERMC**") and with reporting to the SLAL Risk and Capital Committee ("**RCC**"). The ERMC is a First Line Committee chaired by the Standard Life Chief Executive Officer ("**CEO**"). The majority of members of the ERMC are senior First Line representatives. Independent oversight is provided by non-executive directors at the SLAL RCC.
- Third line: Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Group's internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the SLAL Audit Committee.

4.6.2 Standard Life's Enterprise Risk Management framework enables a risk based approach to managing the business. It integrates concepts of strategic planning, operational management and internal control. The framework has been embedded in the business over a number of years.

4.6.3 In addition to this, SLAL has an established risk control process which includes policies for each of the key risks that threaten the achievement of the business strategy and objectives.

4.6.4 Risk and control assessments are performed and evidenced with quantitative risk metrics providing benchmarks against which risk exposures can be monitored and managed.

4.6.5 This risk control process is subject to a comprehensive risk management oversight structure which includes:

- The SLAL Board
- The SLAL RCC
- The SLAL ERMC

4.7 Risk profile of SLAL business

4.7.1 As SLAL services a variety of products to policyholders in several countries, it is exposed to a range of risks. These risks are identified, assessed, monitored, managed and, where possible, mitigated as part of the aforementioned risk management process. This mitigation includes holding capital against the risks to which SLAL is exposed.

4.7.2 The dominant risks faced by SLAL are driven by the type of business it has written. These risks are:

- Credit risk – The key material credit risk which SLAL is exposed to is in respect of corporate bond holdings; this being the risk that the issuers of those bonds fail to meet their contractual payments.
- Longevity Risk - This is the risk that policyholders, or members of the defined benefit pension scheme, live longer than expected based on SLAL's best estimate assumptions, and therefore give rise to a loss to SLAL. This risk is relevant for contracts where payments are made until the death of the policyholder, for example annuities, deferred annuities and guaranteed annuity options.
- Persistency Risk – The main persistency risk is that policyholders voluntarily discontinue their policies ("**lapse**") at a different rate than assumed over the long term or there is a mass lapse event. This reduces the Assets Under Management ("**AUM**") thereby reducing the annual management charge that SLAL would expect to earn in the future.
- Fixed Interest risk – In respect of its annuity business, SLAL is exposed to fixed interest risk if there is a mismatch between future expected payments to policyholders and the cash flows on the fixed interest assets backing those liabilities.
- Sovereign Debt risk - Sovereign debt risk across all of SLAL's sovereign debt holdings that don't receive a credit stress (i.e. this stress applies to UK Government debt and to sovereign issued debt that are AAA rated).

4.7.3 Persistency risk is the most material and continues to grow as SLAL continues to grow its investment linked pensions and savings business.

4.7.4 Longevity risk will reduce over time due to the natural run-off of the annuity business, with very little new business being written. Increases in interest rates from their current low levels will amplify the rate of run-off. Similarly, SLAL expects the credit risk exposure to fall over time as the assets backing annuity liabilities reduce as the business naturally runs off.

5 Overview of SL Intl

5.1 History of SL Intl

5.1.1 SL Intl was set up as a 100% directly owned and controlled subsidiary of SLAL in 2006 to sell its International Bond product into the UK, thereby offering an alternative proposition compared to onshore options. All profits arising in SL Intl are wholly attributable to its ultimate parent (the Group), with dividends being payable to SL Intl's parent, SLAL.

5.1.2 SL Intl is authorised and regulated by the CBI, and is subject to limited regulation in the UK by the FCA. Its product distribution makes use of the FOS element of the current passporting regime.

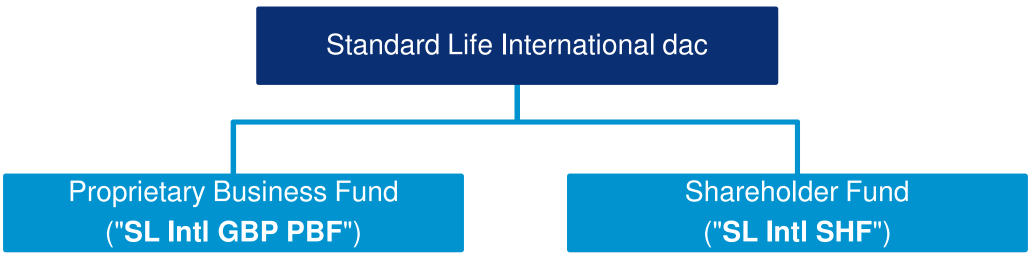
5.1.3 It is important to SL Intl that the UK proposition continues to include the offer of an International Bond. Legal advice received by SL Intl indicates that, in a post-Brexit environment, SL Intl should be able to rely on the 'overseas person exclusion' as set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 to be able to continue to provide contracts of insurance to policyholders in the UK.

5.2 Previous Schemes

5.2.1 SL Intl has no previous schemes.

5.3 Fund Structure

5.3.1 The fund structure of SL Intl is shown below:



5.3.2 SL Intl's current fund structure is representative of it being a subsidiary of SLAL established post demutualisation without any with profits business. All of the business it writes resides in the SL Intl GBP PBF.

5.3.3 The following table shows the BEL, TP as a Whole, Risk Margin and the Technical Provision in each fund (in £m) at year-end 2017:

Fund	Country	BEL	TP as a Whole	Risk Margin	Technical Provision
GBP PBF	U	-129	6,207	41	6,119
SHF	U	-	-	-	-
Total	**-**	**-129**	**6,207**	**41**	**6,119**

5.3.4 SL Intl Proprietary Business Fund ("**SL Intl GBP PBF**")

5.3.4.1 SL Intl currently only sells single-premium open-ended offshore unit linked investment bonds. The SL Intl GBP PBF holds assets associated to these products.

5.3.5 Shareholder Fund ("**SL Intl SHF**")

5.3.5.1 The SL Intl SHF is the property and liabilities of SL Intl, excluding those allocated or attributable to, or represented by, the SL Intl GBP PBF.

5.4 Solvency Position

5.4.1 The solvency position of SL Intl (on a Solvency II basis) is shown below as at 31 December 2017 (Figures are shown rounded to the nearest £1m).

(£m)	31 December 2017
Own Funds	137
SCR	102
Excess Capital	35
Solvency Coverage Ratio	134%

5.4.2 The SCR is calculated using the Standard Formula method under Solvency II.

5.5 Capital Policy

5.5.1 SL Intl currently holds sufficient capital to maintain its capital coverage target which is based on its current capital position and is approved by the SL Intl Board. The target acts as a mechanism to define the risk appetite of SL Intl and is based on a solvency coverage ratio in current conditions.

5.5.2 SL Intl's capital requirements are also taken into account in SLAL's capital target framework (see Section 4.5) which seeks to maintain sufficient capital to ensure both SLAL and SL Intl remain solvent under the three absolute stresses.

5.5.3 As part of the operational readiness work preceding the Proposed Transfer, SL Intl has developed its capital target framework with this outlined in Section 7.3.

5.6 Risk Management

5.6.1 Like SLAL, SL Intl operates a "three lines of defence" model of risk management and adheres to an Enterprise Risk Management framework. It has an internal Risk function which actively monitors its risk profile relative to its risk appetite, strategy, business and capital plans and risk capacity.

5.6.2 It has outsourced the internal Audit function to the Group. This means that the same function currently acts as a third line of defence for both SL Intl and SLAL.

5.7 Risk profile of SL Intl business

5.7.1 SL Intl's risk appetite framework expresses the amount of risk the SL Intl Board is prepared to accept in pursuit of its strategic and business plan objectives. It provides a common framework to understand and determine the level and sources of uncertainty to be tolerated in pursuit of these objectives. It is one of the ways in which SL Intl identifies, assesses, controls and monitors risk.

5.7.2 For quantifiable risks, the risk appetite is defined as an aggregate SCR coverage within a specified range. The risk appetite is determined qualitatively for each major risk category and quantitative limits are also set.

5.7.3 For each non-quantifiable risk SL Intl is exposed to, the risk appetite is defined separately.

5.7.4 This risk appetite provides SL Intl policyholders with assurance that the company does not and will not take excessive risk. The risk appetite ensures that SL Intl will continue to hold a substantial capital buffer in excess of that required by its regulatory requirements.

5.7.5 In aggregate, SL Intl's main risk exposures are:

- Persistency Risk – This is the largest risk that SL Intl is exposed to and would arise as a result of an increase in lapse rates (or a mass lapse event). This would reduce the AUM and reduce the income from the annual management charges SL Intl expects to earn in the future.
- Equity Risk – SL Intl has significant second order exposure to Equity Risk through investment of the unit linked funds in equities. A fall in equity markets will result in a fall in the value of AUM thereby reducing the present value of the income from the annual management charges SL Intl expects to earn in the future.
- Currency Risk – SL Intl's material exposure to currency risk arises as a result of unit linked funds investing in assets denominated in different currencies. A fall in value of these currencies relative to pound sterling would result in a reduction in the sterling value of assets under administration and a corresponding decrease in the expected income from future annual management charges.
- Expense Risk – This is the risk that the costs of operating SL Intl's business are higher than expected, either through deviation of forecasting expenses from actual or from inflation being higher than expected and increasing costs gradually over time.

6 The Proposed Transfer

6.1.1 The Scheme results in the transfer of all Euro-denominated business from SLAL to SL Intl. This would require:

- The HWPF to be split to ensure that the transferring Euro-denominated policies in the HWPF receive a share of the Estate; and,
- The transfer of the GWPF and GSMWPF to SL Intl.

6.1.2 It would be very challenging to split the Estate amongst UK and Euro-denominated policies without any policyholders being materially adversely affected, within the timescales available prior to the UK's withdrawal from the EU. Equally, the splitting of the HWPF would prevent the fund being managed on the same basis as it is currently, including preventing the sharing of experience between UK and Euro-denominated policyholders.

6.1.3 The transfer of the GWPF and GSMWPF to SL Intl would result in those policies that invest in these funds being subject to a different level of governance (with the with profit governance within the UK having been embedded over a number of years). The reinsurance of these funds also helps to optimise capital across SLAL (including its subsidiaries); this results in a stronger solvency coverage ratio within SL Intl which helps strengthen its security.

6.1.4 Therefore I conclude that the Scheme, in isolation, could result in a material adverse effect on both policyholders' legal rights and expected benefits as well as the security of these benefits. This is because there would be insufficient time to split the HWPF Estate. To prevent this occurring, SLAL and SL Intl have agreed to undertake the reinsurance of the business that is written or invests in with profit funds. This, in combination with the Scheme, is discussed in this Section and it is this combined legal framework that I have based my conclusions on.

6.2 Proposed structure of the Transfer

6.2.1 Following the implementation of the Scheme, SLAL will no longer sell policies into the EU27 from the Effective Date with any new EU27 business being written by SL Intl. To enable this to occur, and for SL Intl to continue to service the existing Euro-denominated policyholders, a change in the company structure is required.

6.2.2 Following the Proposed Transfer, the Group will continue to service the circa 600,000 existing policyholders in Germany, Austria & Ireland via SL Intl and write new business in these markets, by way of varying and extending SL Intl's existing regulatory permissions.

6.2.3 The use of reinsurance alongside the Part VII transfer will support the achievement of maintaining policyholder security (notwithstanding the unavoidable loss of the Financial Services Compensation Scheme protection for transferring policyholders) and expectations for both transferring and non-transferring policyholders in SLAL.

6.2.4 SLAL is recognised as providing a high standard of policy servicing within the industry (for example SLAL was awarded first place for 20 Years of Excellence in Defined Contribution (DC) Pension Schemes). The Proposed Transfer and accompanying change in company structure is intended to maintain the service standards received by both transferring and non-transferring policyholders.

6.2.5 The SLAL German and Irish branches will be closed with a new SL Intl German branch established. The Euro-denominated policies will be administered by the same staff as currently.

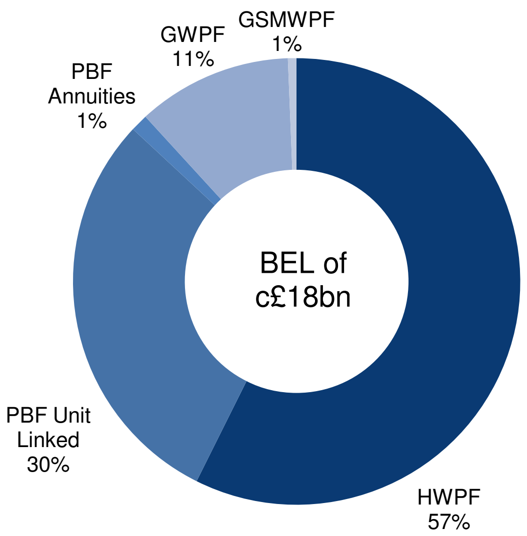
6.2.6 The Scheme transfers all of the assets and liabilities associated with the Euro-denominated policies in-force on the Effective Date from SLAL to SL Intl. These assets and liabilities are defined within the Scheme.

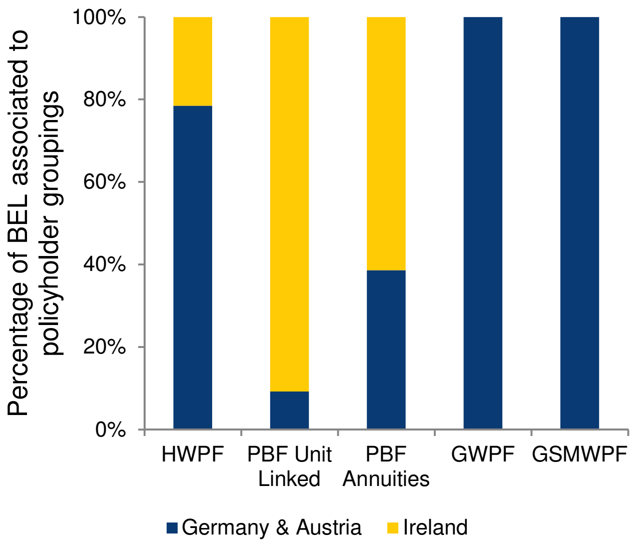
6.2.7 These assets and liabilities will be transferred from their current fund into a similar fund within SL Intl; this will require the establishment of three new with profits funds within SL Intl and a new PBF for the transferring policyholders (referred to as the "**SL Intl Eur PBF**").

6.2.8 The Euro-denominated business proposed to be transferred can be grouped into the following four blocks:

1. HWPF – all Euro-denominated policies within the SLAL HWPF.
2. Post Demutualisation German With Profits Business – all policies with their investment content in the SLAL GWPF and GSMWPF.
3. PBF Annuities – all Euro-denominated annuities within the SLAL PBF.
4. PBF Unit linked – all Euro-denominated unit linked policies within the SLAL PBF. This includes a small number of Irish policyholders who have with profits investment content in the SLAL HWPF.

6.2.9 A summary of the BEL (gross of reinsurance) within each block is provided below.





6.2.10 The reinsurance of the business within the with profits funds back to SLAL, via three reinsurance arrangements (see Section 6.4), seeks to maintain the protection of the UK with profits regime; there is no equivalent with profits regime in Ireland. It also enables the HWPF to be managed on the same basis as it is currently managed, including allowing for the continuation of the sharing of experience between UK and Euro-denominated policyholder groups, as it avoids needing to formally split the fund.

6.2.11 The EFL retrocession (see Section 6.4.6) allows the transferring Irish policyholders in the HWPF to maintain their current unit linked investment options by enabling them to continue to invest in the same range of funds following the Proposed Transfer. The retrocession is required as the investment funds are to be transferred to the SL Intl Eur PBF as part of the Proposed Transfer.

6.2.12 The HWPF, GWPF and GSMWPF reinsurance arrangements are to be collateralised. The EFL retrocession arrangement will not be collateralised.

6.2.13 The reinsurance security structure is designed to maintain consistency between UK and Euro-denominated policyholders in the HWPF after the Proposed Transfer. In the absence of this collateral, the level of security which Euro-denominated policyholders have over their benefits would be negatively impacted by the Proposed Transfer as they would be exposed to the risk of default of SLAL.

6.2.14 The direct costs of the Proposed Transfer will be allocated between SLAL's shareholders and the SLAL HWPF. This is to be done adhering to the same principles as other costs arising in SLAL affecting the HWPF and in accordance with the 2006 Scheme. This approach has been discussed within the SLAL WPA Report.

6.2.15 SLAL will incur an expense equal to the reinsurance commissions which it pays to SL Intl. This reinsurance commission will be comprised of an 'actual costs' component and a 'profit margin' component.

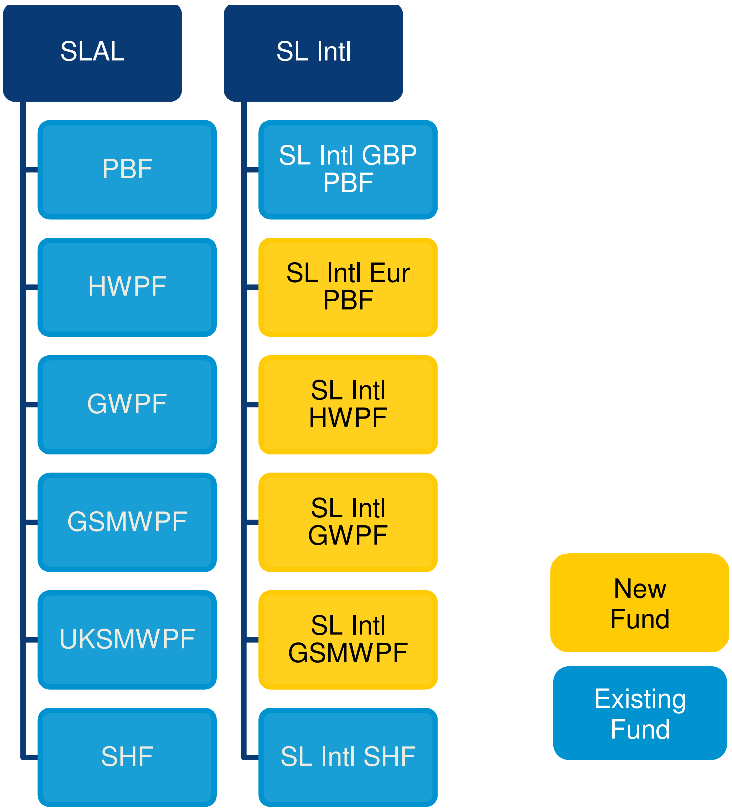
6.2.16 The 'actual cost' component in respect of the HWPF reinsurance is charged to the SLAL HWPF fund, even if, as expected, the costs incurred by SL Intl are different from those which are currently incurred by SLAL. This is because the Proposed Transfer is unavoidable in order to allow the Group to continue to service its Euro-denominated policies. Therefore, the actual costs incurred by SL Intl, even if these are higher than current costs, are unavoidable and it is in line with the 2006 Scheme to pass them to the HWPF. A proportion of these costs will be allocated to products included in the RCF and hence will be borne by the SLAL shareholder through this process.

6.2.17 The 'profit margin' component is not charged to the SLAL HWPF fund and will be borne by the SLAL shareholder.

6.2.18 For the GWPF and GSMWPF reinsurance arrangements, both the 'actual costs' component and 'profit margin' component will be borne by the SLAL shareholder as the shareholder bears all costs of operating these funds.

6.3 Proposed SLAL and SL Intl structure post transfer

6.3.1 The fund structure of SLAL and SL Intl following the Proposed Transfer is as follows:



6.3.2 The SL Intl HWPF, GWPF and GSMWPF will be new funds established following the Proposed Transfer with their net of reinsurance Technical Provisions being negligible. The SL Intl Eur PBF will also be established which will contain all the transferring policies currently in the SLAL PBF and new business written in the EU27 (and the funds accessed by the SLAL HWPF via the EFL).

6.4 New Reinsurance Arrangements

6.4.1 As part of the Proposed Transfer, new reinsurance arrangements will be established between SLAL and SL Intl.

6.4.2 These will be approved by the SLAL and SL Intl Boards with the arrangement established following the principles of a commercial transaction between two willing and knowledgeable parties.

6.4.3 SL Intl will retain the risks associated with a proportion of the Euro-denominated business as the reinsurance arrangements do not cover all the transferring business. The business written and investing in the SL Intl Eur PBF, following the Proposed Transfer, will not be reinsured to SLAL.

6.4.4 HWPF Reinsurance Arrangement

6.4.4.1 The policies proposed to be transferred from the SLAL HWPF to the SL Intl HWPF will be reinsured back to the SLAL HWPF.

6.4.4.2 This means that the SLAL HWPF will continue to be liable to meet the claims and benefits of the transferring Euro-denominated policyholders in the HWPF.

6.4.4.3 The reinsurance arrangements materially maintains the benefit expectations of both the transferring and non-transferring policyholders within the HWPF as it enables the HWPF to be managed on the same basis as it is currently managed.

6.4.4.4 Without the reinsurance arrangement the HWPF would need to be split between SLAL and SL Intl. This would be a complex and time consuming task. It would be very challenging to achieve, without any policyholders being materially adversely affected, within the timescales available prior to the UK's withdrawal from the EU.

6.4.5 GWPF and GSMWPF Reinsurance Arrangements

6.4.5.1 The post-demutualisation German with profits business will be effectively 100% reinsured back to the SLAL PBF with the investment content invested in the SLAL GWPF and GSMWPF as appropriate.

6.4.5.2 This means that the SLAL PBF, GWPF and GSMWPF will continue to be liable for the claims and benefits of the transferring Euro-denominated policyholders who invest in the SL Intl GWPF or GSMWPF.

6.4.5.3 The reinsurance of the post-demutualisation German with profits business maintains the benefits and expectations of the transferring policyholders. This is because the post-demutualisation German with profits business is managed internally in accordance with SLAL's with profits framework which is structured with consideration to the UK with profits regulations.

6.4.5.4 Reinsurance also helps to optimise capital across SLAL (including its subsidiaries) as risks associated with this business will continue to diversify against the other risks within SLAL.

6.4.6 External Fund Links

6.4.6.1 A number of Irish policies which are to be transferred to the SL Intl HWPF with the related risk being reinsured to SLAL's HWPF have the option to invest in unit linked funds. These unit linked funds are to be transferred from the SLAL PBF to the SL Intl Eur PBF as part of the Proposed Transfer.

6.4.6.2 To maintain the current investments for these policies, the unit linked funds will be accessed via an EFL retrocession from the SLAL HWPF into the SL Intl Eur PBF.

6.4.6.3 The EFL retrocession arrangement will not be collateralised. This approach is common in the market and, if the EFL retrocession were collateralised, it would not have a material effect on the security of SLAL.

6.4.7 Deed Polls

6.4.7.1 A number of **Deed Polls** are to be issued by SL Intl as part of the proposed reinsurance of the with profits business to SLAL. These are used to help ensure that the rights and benefit expectations of transferring policyholders whose liability is reinsured back to SLAL are not materially adversely affected by the Proposed Transfer.

6.4.7.2 The purpose of the Deed Polls is to give the transferring with profits policyholders an enforceable right against SL Intl, pursuant to which SL Intl shall be 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 Scheme.

6.5 Reinsurance Security

6.5.1 The proposed reinsurance security structure is designed to maintain consistency between UK and Euro-denominated policies after the Proposed Transfer and protect all policyholders within SL Intl from the risk of SLAL defaulting. It does this by the use of a security and collateral structure.

6.5.2 The structure seeks to ensure that:

- With profits policyholders will continue to share in the profits of the appropriate with profits fund;
- SL Intl, and its policyholders, are provided adequate protection in the event that SLAL were to default on its reinsurance obligations; and
- Policyholders continue to be treated consistently in the event of insolvency of SLAL.

6.5.3 The reinsurance arrangements described in Sections 6.4.4 and 6.4.5 are to be collateralised. For these arrangements, collateral will be posted by SLAL into a single set of segregated accounts with a custodian appointed to hold the assets. The assets held in the segregated accounts and relevant derivative contracts will be subject to a fixed charge granted by SLAL in favour of SL Intl to secure SLAL's liabilities under the reinsurance arrangements. If SLAL were to default on its reinsurance obligations to SL Intl, SL Intl would have a right to enforce the fixed charge against SLAL and thereby receive the assets within the segregated accounts and relevant derivative contracts.

6.5.4 In addition to the fixed charge arrangements, there will also be a separate floating charge granted by SLAL in favour of SL Intl to secure SLAL's liabilities under the reinsurance arrangements. The floating charge will be over a wider pool of SLAL's assets and will ensure that, in the event of a SLAL default or insolvency, SL Intl will have a right to recover assets from SLAL to the extent that SLAL's outstanding liabilities under the reinsurance arrangements are not covered by the value of assets subject to the fixed charge.

6.5.5 Collateral provides security to SL Intl in the event that SLAL were to default on its reinsurance obligations. This is because, in the event SLAL defaults, SL Intl would be able to enforce the charges in accordance with their terms and thus receive assets from SLAL; SL Intl could then use these assets to provide liquidity to meet policyholder claims and benefits. This helps to ensure that the policyholders' security is not materially affected by the Proposed Transfer.

6.5.6 The collateral posted into the segregated accounts will be rebalanced at least monthly to ensure that it continues to provide the intended protection. To further support this, reinsurance agreements to be signed between SLAL and SL Intl include the requirement for assets subject to the fixed charge be no less than a specified value agreed between both parties. This ensures that the value of this security to SL Intl cannot be adversely affected by changing the assets currently covered by the fixed charge.

6.5.7 A **Quantum Provision** will be put in place on the floating charge and acts so to limit SL Intl's entitlement in the event of SLAL's insolvency to broadly the amount that would be payable if SL Intl policyholders were direct policyholders of SLAL. This provision is necessary to ensure that, in the event that SLAL were to become insolvent, both transferring and non-transferring policyholders will continue to be materially treated consistently. This maintains the current position of these policyholders and ensures neither the transferring nor non-transferring policyholders' recovery is materially adversely affected by the reinsurance arrangement.

6.5.8 In the event that SLAL were to become insolvent and, in addition, unable to pay policy liabilities commensurate with the fixed charge, payments to SLAL policyholders could be reduced due to the payments due to SL Intl under the fixed charge. SLAL has assessed the impact of this on policyholders is negligible because of the low likelihood that such circumstances will materialise.

6.5.9 Having considered the information presented to me from both SLAL's internal and external legal and actuarial advisors, I am satisfied that the reinsurance arrangements have been established to ensure that the security and benefit expectations of both transferring and non-transferring policyholders in SLAL are not materially adversely affected.

6.6 Termination of Reinsurance

6.6.1 There are currently no intentions to terminate the reinsurance arrangements described in Section 6.4. However, since the governance surrounding such an event is a key element of the reinsurance treaty, I have considered the protections that are in place to ensure the transferring and non-transferring policyholders are duly considered in the event of termination of the reinsurance arrangements between SLAL and SL Intl.

6.6.2 Under the reinsurance treaties, termination can occur in various situations including:

- As a result of an agreement between both parties;
- Failure of either firm to fulfil its obligations under the treaty;
- The downgrading of SLAL's credit rating below a certain level;
- SLAL fails to meet its Minimum Capital Requirement; and
- SLAL Insolvency.

6.6.3 Upon termination of any of the reinsurance arrangements, the treaties are structured such that SL Intl will receive a proportion of the assets within 3 days to ensure that it can continue to service policyholders. SL Intl will then receive the fair value of the assets associated to these policies at a later date.

6.6.4 The reinsurance treaties include cross-defaults such that following an **Event of Default** each of the three reinsurance treaties shall terminate automatically following termination of any of the other treaties.

6.6.5 The EFL retrocession agreement also includes a similar list of termination events; although under this agreement, the Events of Default are focused on the solvency of SL Intl (as reinsurer under this agreement), rather than SLAL.

6.6.6 The HWPF reinsurance treaty and the EFL retrocession agreement also include cross-default provisions in any circumstance. That is, termination of either of the HWPF reinsurance treaty or EFL retrocession arrangement will trigger termination of the other. This ensures that transferring policyholders in the HWPF that have the option to invest in unit linked funds will continue to have this option (i.e. this option could not be removed without also terminating the HWPF reinsurance). If the HWPF reinsurance arrangement was not in place, the EFL retrocession would not be required.

6.6.7 In the event of a termination of the reinsurance treaties due to SLAL's insolvency, SL Intl's recovery will be determined with reference to the Quantum Provisions.

6.6.8 Termination of the HWPF Reinsurance Arrangement

6.6.8.1 The termination of the HWPF reinsurance arrangement would result in SLAL and SL Intl being required to go to court. This is because a termination of the HWPF reinsurance arrangement would require the HWPF, including its Inherited Estate, to be split between SLAL and SL Intl. As previously highlighted, this would be complex and would require changes to both the Scheme and the 2006 Scheme.

6.6.8.2 As part of the termination of the HWPF reinsurance, it is likely that all affected policyholders would need to be contacted and an Independent Expert would be required to form an opinion on whether the policyholders' security and benefit expectations are materially adversely affected.

6.6.8.3 In the event of a termination of the HWPF reinsurance arrangement, the amount paid by SLAL to SL Intl will be based on a calculation method to be agreed between SLAL and SL Intl. In a scenario where SLAL is insolvent, SL Intl's recovery under its legal charges will be consistent with SLAL's non-transferring policyholders. As such the recapture value will be calculated as part of the insolvency proceedings based on fair value principles, and the recovery of a justifiable percentage of this recapture value should be effected through provision in the legal charges.

6.6.8.4 To ensure that policyholders are not materially adversely affected upon termination of the reinsurance arrangement, suitable controls have been embedded into the reinsurance treaties and the Scheme. Specifically the Scheme requires that, upon termination of the HWPF reinsurance, SL Intl must continue to manage the business in line with the UK-style with profits regime. SL Intl must therefore continue to adhere to a PPFM and will appoint both a WPA and a WPC (or equivalent). As stated in 6.6.6, the EFL retrocession arrangement would also terminate in this instance.

6.6.9 Termination of the GWPF and GSMWPF Reinsurance Arrangements

6.6.9.1 The termination of the GWPF and GSMWPF reinsurance arrangements will not automatically require court approval; for example in the event of SLAL and SL Intl mutually agreeing to terminate the reinsurance arrangement.

6.6.9.2 All the policyholders affected by this reinsurance will be policyholders of SL Intl. On termination of these reinsurance treaties, SL Intl will recapture these liabilities and take ownership of all the assets and liabilities associated with these policies.

6.6.9.3 To ensure that policyholders are not materially adversely affected upon termination of the reinsurance arrangements, suitable controls have been embedded into the reinsurance treaties and the Scheme. Specifically, the Scheme requires that, upon termination of the GWPF or GSMWPF reinsurance, SL Intl must continue to manage the business in line with the UK-style with profits regime. They must therefore continue to adhere to a IPPFM and will appoint both a WPA and a WPC (or equivalent).

6.6.10 Termination of the EFL Retrocession Arrangement

6.6.10.1 The reinsurance termination scenarios which apply to the EFL retrocession arrangement are more straight forward. The arrangement has been written such that the EFL retrocession arrangement will be terminated in the event the HWPF reinsurance arrangement terminates (and vice-versa).

6.6.10.2 If the EFL retrocession arrangement terminates the transferring HWPF policyholders' assets and liabilities will now be in the SL Intl HWPF and can access the SL Intl Eur PBF without the need for a retrocession arrangement.

6.6.11 The Proposed Transfer requires SL Intl to ensure that the following are in place at all times:

- PPFM documents or equivalent, covering each of the three blocks of transferring with profits business.
- A WPC or equivalent, providing independent advice on the management of its with profits business; and,
- A WPA or equivalent, liaising with the WPC and advising the SL Intl Board whenever preparations are being made for key decisions that affect with profits business.

Whilst any of the with profits reinsurance arrangements are in place SL Intl may rely on the SLAL PPFM, WPC and a qualified actuary with suitable with profits experience (expected to be the Head of Actuarial Function). If these reinsurance arrangements were to terminate, SL Intl would be required to establish its own, or equivalent, PPFM, WPC and WPA.

6.6.12 There has been extensive consideration given to the event of termination of the reinsurance arrangements. Having considered these, I am satisfied that suitable controls are embedded in the reinsurance arrangements such that, in the event of a termination of reinsurance, the security and benefit expectations of the transferring and non-transferring policyholders will be suitably protected.

6.7 Existing Reinsurance

6.7.1 The business being transferred to SL Intl has a number of existing reinsurance arrangements which cover product features such as mortality and morbidity. Whilst a number of such arrangements exist on the transferring business, they are not material.

6.7.2 If the Scheme is approved, it is intended that the various existing reinsurance arrangements associated with the transferring Euro-denominated business will continue to apply on the transferring business.

6.7.3 Where the treaties are in respect only of transferring business, they will be transferred from SLAL to SL Intl as part of the Proposed Transfer with no changes to the existing terms.

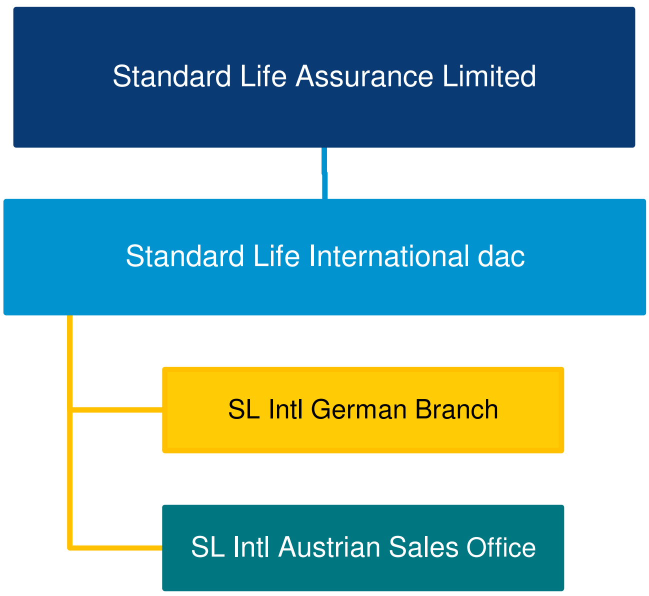
6.7.4 Where the treaties are in respect of both transferring and non-transferring policies, the treaties will be amended to add SL Intl as a co-cedant.

6.8 Post Transfer Governance Arrangements

6.8.1 SLAL

6.8.1.1 The operating model of SLAL following the Proposed Transfer is to remain broadly unchanged.

6.8.1.2 The servicing of policies currently carried out by SLAL Ireland will transfer to SL Intl and the servicing of the policies carried out by the SLAL branch in Germany will transfer across to a SL Intl branch in Germany. The services provided by the sales office in Austria will also transfer to SL Intl and will continue to be provided on a FOS basis. The structure of SLAL following the Proposed Transfer is shown in the following diagram:

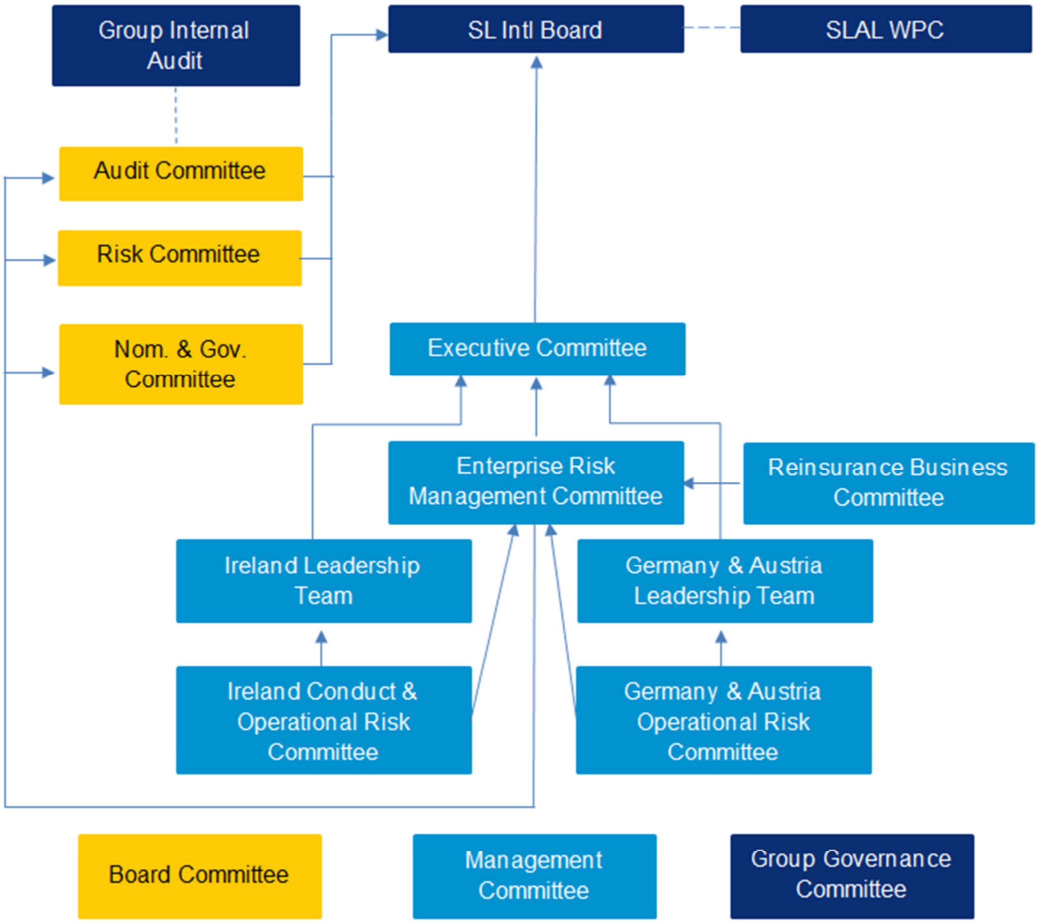


6.8.2 SL Intl

6.8.2.1 SL Intl's post-Brexit operating model is envisaged as a seamless continuation of business for SLAL's EU27 policyholders, with a new legal and corporate structure to oversee and govern a broader post-Brexit business model. This will deliver an end-to-end service and capability model to serve existing policyholders and continue to write business across the EU27 markets.

6.8.2.2 Oversight of the proposed SL Intl German Branch will be undertaken by the existing SL Intl Board of Directors and the CEO of SL Intl. Delegations of authority will be implemented; in particular SL Intl will appoint, subject to SL Intl Board and CBI approval, a Branch Manager for the proposed SL Intl German Branch. It is proposed that the Branch Manager will also be appointed as an Executive Director of the SL Intl Board.

6.8.2.3 The proposed governance framework of SL Intl is shown below with the dotted line between the SLAL WPC and the SL Intl Board explained in Section 6.8.3.



6.8.2.4 SL Intl's Head of Actuarial Function will change from being an outsourced function to an internal role in the new structure. It is proposed that this individual has suitable with profits experience.

6.8.2.5 It is proposed to establish a new Executive Committee who will have overall responsibility for the delivery of SL Intl Board approved strategy and oversight of the key operational areas for Ireland (including international bond business), Germany and Austria.

6.8.2.6 The Director of Europe will be supported by an Executive Committee comprising key positions and expertise from both the Irish and German Leadership teams. Appointments to the Executive Committee will be subject to review and recommendation and subsequent approval of the SL Intl Board. It is proposed that the Director of Europe will be the SL Intl CEO who is also a member of SLAL's Executive Committee.

6.8.3 With Profits Governance

6.8.3.1 As the Scheme proposes to transfer with profits business from SLAL to SL Intl, I have paid particular attention to the changes to the operating model surrounding those with profits policyholders. The following section considers the governance of all with profits funds to be established in SL Intl.

6.8.3.2 There is currently no equivalent with profits regime in Ireland to that of the UK. In particular, there is no requirement to appoint a WPA or a WPC.

6.8.3.3 As the governance of with profits helps maintain security of policyholder benefits, the Scheme requires SL Intl to have appropriate roles and documentation in place whether or not the reinsurance arrangements are effective. This is outlined in Section 6.6.11 above.

6.8.3.4 The role of the WPA is outlined in SUP 4.3.16A of the FCA handbook. In advising or reporting on the exercise of discretion, the WPA should cover the implications for the fair treatment of the relevant classes of the firm's with profits policyholders. Their opinion on any communication or report to the policyholders should also take into account their information needs and the extent to which the communication or report may be regarded as clear, fair and not misleading.

6.8.3.5 The SLAL WPA's role profile is to be updated to ensure that they continue to consider the interests of Euro-denominated policyholders.

6.8.3.6 The role of the SLAL WPC is to consider the interests of with profits policyholders and exercise independent judgement in advising the Group Board and SLAL Board on the achievement of fair treatment of those policyholders, reflecting a fair balance of interests amongst policyholders and between policyholders and shareholders in the ongoing management of with profits policies and with profits funds and in any proposed actions affecting those policyholders.

6.8.3.7 The reinsurance arrangements established as part of the Proposed Transfer allows the SLAL HWPF, GWPF and GSMWPF to continue to operate as they currently do. To ensure that these transferring policyholders continue to be provided the same level of security, it is important that the SLAL WPC continues to consider these policyholders.

6.8.3.8 The SLAL WPC's responsibilities will be to all with profits policyholders who participate in a SLAL with profits fund, including the Euro-denominated policyholders. These policyholders are either SLAL policyholders whose policies were written in the UK or SL Intl policyholders whose policies were written in Ireland, Germany or Austria and who participate in a SLAL with profits fund via reinsurance. This will be achieved by extending the WPC's constitution and terms of reference to continue to cover those transferring policyholders whose liability is reinsured back to a SLAL with profits fund.

6.8.3.9 The SLAL WPC does not itself exercise management responsibility for the with profits business. Its role is to assess, report on and provide clear advice (including where appropriate making recommendations) to the SLAL Board on the management of such business, whether written by SLAL in the UK or by SL Intl in Ireland or Germany, providing independent judgment on the fair treatment of with profits policyholders, and to take a proactive role in raising any issues that merit further consideration.

6.8.3.10 SL Intl will have a right to make representations to the SLAL WPC and SLAL Board on matters affecting the reinsured with profits policies, and to receive an explanation of the basis of decisions which affect the reinsured with profits policies. It is expected that this will be put into practice through a suitably qualified individual, likely to be the SL Intl Head of Actuarial Function or their delegate, attending the SLAL WPC for discussions that are relevant to SL Intl's reinsured with profits business. The individual will escalate matters within SL Intl as appropriate (e.g. the Reinsurance Business Committee, SL Intl ERMC, SL Intl Board) and the SL Intl Board will escalate matters to SLAL Board as appropriate.

6.8.3.11 If SLAL proposes to alter a principle in a PPFM or IPPFM in a way unacceptable to SL Intl, then SL Intl has the right to terminate the relevant reinsurance treaty.

6.8.4 Reinsurance Business Committee

6.8.4.1 The new reinsurance arrangements established between SLAL and SL Intl present a number of risks to each firms if not suitably governed. To mitigate this risk, and to ensure that the reinsurance arrangements operate as intended, both SLAL and SL Intl are to introduce additional governance focused on the reinsurance arrangements.

6.8.4.2 The reinsurance treaties will require SL Intl and SLAL to form a Reinsurance Business Committee, comprising three representatives of each company. This committee will oversee significant claims and the acceptability of pricing of the limited amount of new business allowed to be written into the with profits funds, and will provide a mechanism through which SL Intl can raise issues with the operation of the reinsurance and SLAL's performance of with profits practices. Issues arising are escalated to the SL Intl ERMC and SLAL ERMC as appropriate.

6.8.4.3 The Committee will help to ensure that the reinsurance arrangements will continue to operate as intended and protect the policyholders affected by the reinsurance.

6.8.5 Risk Management

6.8.5.1 The Risk management function within SL Intl will be strengthened to reflect the change in the risk profile as a result of the Proposed Transfer with the capital target framework developed to ensure SL Intl continues to hold sufficient capital to protect policyholders.

6.8.5.2 SL Intl will continue to operate under a "three lines of defence" model which is expected to include the same third line as currently applied to both SLAL and SL Intl. This framework ensures that policies continue to be governed under the same risk management framework both before and after the Scheme.

6.8.5.3 There is no change to risk management within SLAL as a result of the Proposed Transfer.

6.9 Changes to Legacy Schemes

6.9.1 2006 Scheme

6.9.1.1 As part of the Proposed Transfer, the 2006 Scheme requires changing to ensure that it continues to operate as intended.

6.9.1.2 The changes made to the 2006 Scheme are to recognise that a proportion of the HWPF business has been transferred to SL Intl and reinsured back. These changes do not alter the manner in which the HWPF is governed and operates nor do they have a material effect on either the transferring or non-transferring policyholders within the HWPF.

6.9.1.3 The SLAL WPA and Independent Expert have been made aware of, and formed an opinion on, the effect of the changes to the 2006 Scheme.

6.9.2 2011 Scheme

6.9.2.1 As part of the Proposed Transfer, the 2011 Scheme requires changing to ensure that it continues to operate as intended.

6.9.2.2 The changes made to the 2011 Scheme are to recognise that a proportion of the HWPF business has been transferred to SL Intl and reinsured back.

6.9.2.3 The SLAL WPA and Independent Expert have been made aware of, and formed an opinion on, the effect of the changes to the 2011 Scheme.

6.10 Servicing of Policyholders

6.10.1 Servicing of the Euro-denominated policyholders is currently carried out locally in Germany and Ireland. This is to continue following the approval of the Scheme. To support this, a number of **service level agreements** between SLAL and SL Intl are to be established and the investment management agreement between SL Intl and Standard Life Investments Limited ("**SLI**") is to be developed.

6.10.2 Service level agreements to be established between SLAL and SL Intl will ensure that SLAL continues to provide a number of services required in administering the Euro-denominated policies. Previously these were not required as the policies were administered through a SLAL branch in Germany and Ireland. As the administration is now to be done through a SL Intl branch in Germany and the SL Intl office in Ireland, service level agreements ensure that SLAL continues to provide the necessary services for SL Intl to continue to service its policies with no anticipated change to service standards.

6.10.3 SL Intl currently has an Investment Management Agreement with SLI. This appoints SLI as the investment manager of SL Intl's portfolio of assets and ensures that they adhere to specified terms and conditions. This agreement will be updated to reflect SL Intl's increased portfolio as a result of the Scheme however will not result in:

- A change in the operation of the agreement;
- The charges applied on the funds; or
- A reduction in the service provided at the detriment to the policyholder.

7 Effect of proposed changes on security of policyholder benefits

7.1.1 This section considers the effect of the Proposed Transfer and changes to the Legacy Schemes on both transferring and non-transferring SLAL policyholders with respect to the security of their benefits.

7.1.2 The security of policyholder benefits is dependent on the ability of the firm to meet the claims and benefits as they fall due. This can be affected by the risks that the firm faces. The impact of the Proposed Transfer on the risks faced by SLAL and SL Intl will therefore impact the security of policyholders.

7.1.3 The Solvency II framework provides a means of measuring exposure to certain risks. SLAL's Solvency II assessment uses an Internal Model based on methodology approved by the PRA. Given the Proposed Transfer results in a structural change to both SLAL and SL Intl, it is important that the methodology for calculating the solvency position is updated to reflect this. This is included as part of the Internal Model application outlined in Section 7.5 which is expected to be approved prior to the Effective Date.

7.1.4 Following the Proposed Transfer, SL Intl will continue to be a wholly owned subsidiary within the Phoenix Group, which will therefore continue to share in the risks and rewards associated with these policies following their transfer to SL Intl.

7.1.5 The Proposed Transfer does not materially change the risk profile of SLAL as the transfer of business is within SLAL and its subsidiaries.

7.2 Post Transfer Solvency

7.2.1 The Proposed Transfer results in a net reduction in SLAL's excess own funds, reflecting:

- The loss of diversification from transferring business which is not being reinsured back to SLAL;
- Requirement for SL Intl to hold capital for the risk that SLAL defaults on the reinsurance;
- Increased operational risk across both entities; and
- The subsequent increase in the Risk Margin arising from these higher capital requirements.

7.2.2 SLAL will be required to inject capital into SL Intl to meet SL Intl's target solvency coverage at the Effective Date.

7.2.3 The solvency of SLAL and SL Intl prior to the transfer, as at year-end 2017 (and assuming both were a member of Phoenix and including the HWPF), is shown below:

(£m)	SLAL	SL Intl
Own Funds	3,780	137
SCR	2,480	102
Excess Own Funds	1,300	35
Solvency Cover Ratio	152%	134%

7.2.4 I have seen the results for both SLAL and SL Intl as of 31 March 2018 and am comfortable that this does not alter the conclusions drawn from the year-end 2017 figures.

7.2.5 Following the Proposed Transfer, the proforma position had the transfer taken effect immediately before 31 December 2017 is:

(£m)	SLAL	SL Intl
Own Funds	3,885	570*
SCR	2,650	420
Excess Own Funds	1,235	150
Solvency Cover Ratio	147%	136%

* This includes a proforma capital injection of circa £250m from SLAL to SL Intl with this expected to be in cash. The amount injected may differ from that disclosed here and will dependent on the financial strength of SL Intl at the Effective Date.

7.2.6 These figures are shown using year-end 2017 data and use an exchange rate of £1 equals €1.12649. It assumes that the volatility adjustment application referenced in Section 7.5 is approved. If this is not the case, the above figures are not expected to be materially different.

7.2.7 The size of the capital injection into SL Intl will be dependent on SL Intl's solvency coverage ratio following the Proposed Transfer and in accordance with its capital target framework. SLAL will seek to ensure that SL Intl continues to be appropriately capitalised according to this metric, independent of the economic conditions at the Effective Date. SL Intl is an important part of Phoenix and due consideration has, and continues to be, made to ensure the size of the capital injection is sufficient.

7.2.8 The SCR and Own Funds within the HWPF are expected to remain materially unchanged as a result of the Proposed Transfer.

7.2.9 The reduction in the SLAL proforma solvency cover ratio is from 152% to 147%. I am confident that based on the analysis, in particular on the SLAL capital target framework set out in Section 7.3.1, that this reduction has no materially adverse effect on the non-transferring policyholders.

7.2.10 For transferring SLAL policyholders, they will have their contract changed from a company with a proforma solvency cover ratio of 152% to one with a cover ratio of 136%. Whilst SL Intl's solvency cover ratio is lower, SL Intl has a more stable business with SLAL accepting almost all of the risk associated to with profits business. SL Intl, as set out in Section 7.2.2, is expected to remain within its Board approved capital target range. I am therefore satisfied that the capital held within SL Intl is sufficient to not adversely affect the security of transferring policyholders.

7.2.11 The Proposed Transfer has the following expected high-level impacts on the solvency position of SL Intl as at the Effective Date:

- The Part VII transfer will increase the capital requirements for all risk modules currently held within SL Intl as well as introduce longevity risk to the business.
- This is a direct result of the volume of the business being transferred and the reinsurance arrangements established.
- The substantial increase in risks within SL Intl results in a significant increase in the SCR prior to diversification.
- This increase is partially offset as a result of the transferring business carrying a significant volume of longevity risk which diversifies with the other risks which SL Intl is exposed to.
- To ensure SL Intl has a suitable solvency cover ratio following the Proposed Transfer, SLAL will be required to inject capital into SL Intl.

7.2.12 The solvency position of SL Intl following the Proposed Transfer has been projected over the 3 year period following Brexit and I am comfortable that SL Intl will continue to meet its capital target as outlined in Section 7.3.2.

7.3 Capital Policy and Capital Support

7.3.1 SLAL Capital Target Framework

7.3.1.1 The SLAL Capital Target Framework will not be changed as a result of the Proposed Transfer.

7.3.1.2 It is projected that following the Proposed Transfer, and SLAL providing a dividend to its parent, SLAL's capital coverage would be expected to temporarily reduce to Amber before returning to Green the following year. This projection period assesses SLAL's capital coverage over a 3 year period following Brexit and assumes that no further management actions are taken.

7.3.1.3 I am comfortable that SLAL is in a sufficiently strong capital position such that the Proposed Transfer does not materially adversely affect the security of policyholder benefits.

7.3.2 SL Intl's Capital Target Framework

7.3.2.1 The Proposed Transfer will materially change the risk profile of SL Intl. In response to this a review of SL Intl's capital targets framework has been performed to ensure that SL Intl remains adequately capitalised in line with its risk appetite following the Proposed Transfer.

7.3.2.2 At present, SL Intl's business is entirely comprised of unit linked Offshore Bonds and, given the relative simplicity of this business model, SL Intl's capital target is a simple solvency coverage target range. SL Intl has reviewed the capital targets in light of the expected changes to its risk profile, resulting in a new framework expected to be adopted at the time of the Proposed Transfer. This new framework is similar to SLAL's current framework in that it considers solvency in stress scenarios.

7.3.2.3 Under the new framework, SL Intl's capital coverage will be given a rating based on both its current capital coverage and its coverage under appropriately severe stresses over the business planning horizon. The ratings can broadly be considered to be:

- Blue – SL Intl holds excess capital and will consider redistribution of capital to SLAL.
- Green – Capital coverage is appropriate and no action required.
- Amber – Risk appetite breached but still within risk tolerance. The SL Intl Board will be notified with proposed management actions to restore solvency coverage to target range.
- Red - Urgent action required. The SL Intl Board will be notified with proposed management actions to restore solvency coverage to target range. The CBI is to be notified of the breach within 5 working days.

7.3.2.4 This new framework will be reviewed annually to ensure that it remains appropriate.

7.3.2.5 It is projected that following the Proposed Transfer, SL Intl will maintain a capital coverage in line with its capital target framework over future years. It is possible that SL Intl would not maintain this level of capital coverage in the unlikely event that SLAL's credit rating is downgraded to BBB+ or lower prior to 2020. However, given that Fitch Ratings Limited have assigned to SLAL an expected Insurer Financial Strength Rating of A+, I view this scenario as extremely remote.

7.3.2.6 I am comfortable that SL Intl's new capital target framework is sufficiently robust so as not to materially adversely affect the security of SLAL's transferring policyholders. This is because:

- SL Intl has performed an assessment on the appropriate capital coverage to target following the Proposed Transfer and have therefore taken into consideration the change of SL Intl's risk profile.
- SL Intl's new capital target framework is structured so as to ensure SL Intl remains solvent on a severe downside scenario which is more onerous than a stress in SLAL's Internal Model equal to a 1-in-200 year event. Hence these policyholders will continue to have a policy with a company which is expected to remain solvent in a 1-in-200 year event.
- SL Intl's solvency continues to be taken into account within SLAL's capital target framework as outlined in Section 4.5.

7.3.3 Capital Support

7.3.3.1 The RCF, outlined in Section 4.3.6.8 and Schedule 3 of the 2006 Scheme, will be effectively unchanged by the Proposed Transfer. It will continue to be 100% allocated to the SLAL shareholder whilst the reinsurance arrangement between the SLAL and SL Intl HWPF's is in place.

7.3.3.2 This enables the Capital Support Mechanism of the SLAL HWPF to remain unchanged, the SLAL HWPF to continue to operate as it currently does and helps ensure that policyholders' benefits and expectations are not materially affected.

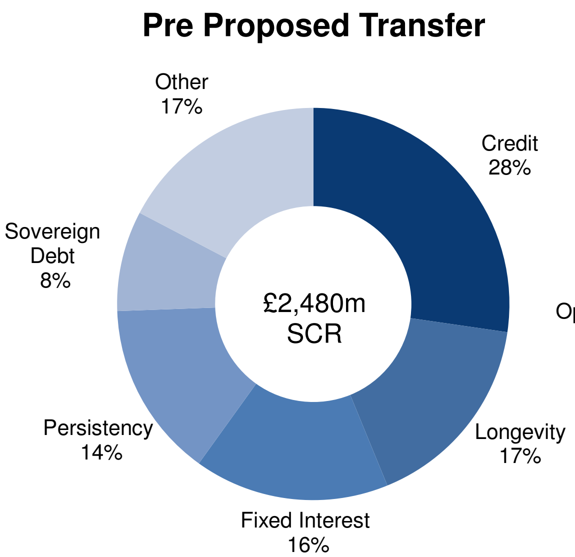
7.3.3.3 Whilst the reinsurance arrangement between the SLAL and SL Intl HWPF is in place, the 100% allocation to the SLAL shareholder remains appropriate. This is because if the SLAL HWPF were to have insufficient assets to meet policyholder obligations, the SLAL shareholder would be required to provide capital.

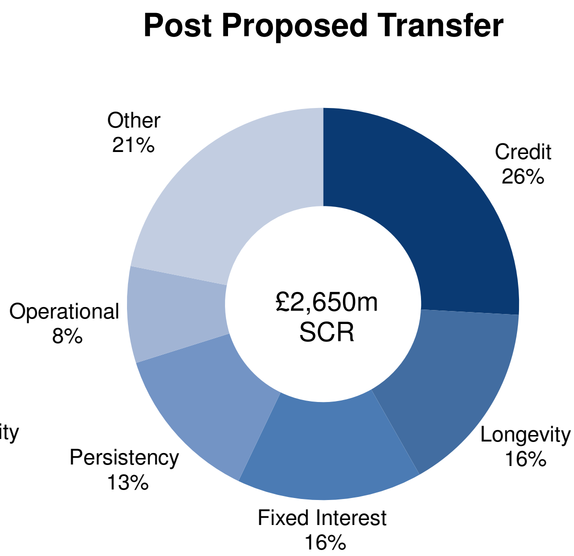
7.3.3.4 The X and Y charges, outlined in Section 4.3.6.10 and Schedule 2 of the 2006 Scheme will also remain 100% allocated to SLAL whilst the HWPF reinsurance arrangement remains in place.

7.3.3.5 The SLAL Board will continue to have the option to waive their right to future charges from the GWPF in order to provide additional assets to the fund if required.

7.4 Risk Profile

7.4.1 The effect of the Proposed Transfer on the top five risks for SLAL are shown in the figures below. This shows the overall SLAL SCR (including SL Intl) allocated to individual risk categories. The below is an approximate allocation of capital requirements to risk categories:

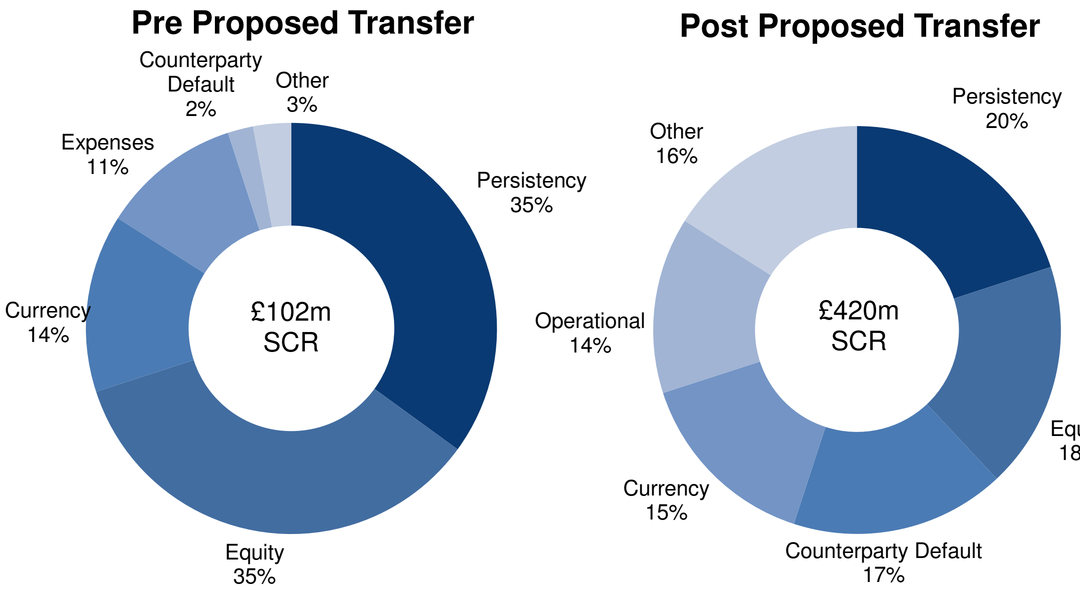




Note that these figures show the allocation of capital requirements allowing for the effects of diversification between risks.

7.4.2 The risk profile of SLAL is determined using a look-through basis, and therefore includes exposure to the risks arising in SL Intl (i.e. SLAL's participation in SL Intl is stressed in line with SL Intl's underlying exposures). As can be seen in the above figures, the Proposed Transfer results in Operational risk becoming SLAL's 5th largest risk (it was previously the 6th largest at 7%). This change is as a result of the Sovereign Debt risk primarily arising in the with profits funds that are being reinsured back to SLAL and therefore remaining relatively stable. In contrast, the capital requirements for Operational risk in SL Intl increases significantly which feeds through into SLAL's risk profile.

7.4.3 The effect of the Proposed Transfer on the top five risks for SL Intl is shown in the figures below:



Note that these figures show the allocation of capital requirements allowing for the effects of diversification between risks.

7.4.4 Capital requirements for Persistency and Equity risk are expected to double as a direct result of the increase in the volume of unit linked business.

7.4.5 Capital requirements for Counterparty Default risk will increase as a result of the existing reinsurance transferred from SLAL to SL Intl and the new reinsurance arrangements established between SLAL and SL Intl (outlined in Section 6.4). The associated capital requirement prior to allowing for the effects of diversification is circa £122m (up from circa £2m currently) with almost all of this increase resulting from the new reinsurance arrangements with SLAL.

7.4.6 The liabilities of the Euro-denominated business being transferred to SL Intl have substantially more exposure to the euro than pound sterling. If SL Intl were to continue to use pound sterling as its reporting currency, it would be subject to a further increase in its currency risk profile. Changing its reporting currency will partially mitigate this risk.

7.4.7 Following the Proposed Transfer, the pre diversification currency risk within SL Intl is projected to increase as a result of the increase in business. This increase will be somewhat offset by SL Intl changing its reporting currency to euro from pound sterling.

7.4.8 SL Intl's operational risk will change in nature as a result of the increased volume of business serviced and administered by SL Intl following the proposed transfer as well as the introduction of new processes within the operating model. Under the Standard Formula, the capital requirement for operational risk is formulaic based on cost base; hence the increase in unit linked business results in an increase in the operational risk capital requirement that is reflective of the significant increase in operational risk that SL Intl faces. Following the Proposed Transfer operational risk becomes the fifth largest risk faced by SL Intl (previously it was the sixth largest risk which, post transfer, is expense risk).

7.4.9 SL Intl will continue to be a wholly owned subsidiary within the Phoenix Group. It will therefore continue to operate under the same “Standard Life” brand as SLAL and will be subject to the same Group Risk and Audit oversight. It is my opinion that, in the unlikely event that SL Intl was unable to withstand a 1-in-200 year stress event, the likelihood that its parent would not provide capital to support SL Intl is remote.

7.5 Changes in methodology for calculating solvency position

7.5.1 As the Proposed Transfer results in a change in the business profile of SLAL and SL Intl, the methodology for calculating SLAL and SL Intl’s solvency position is to be updated. For SLAL, this involves an Internal Model Application to the PRA to update methodology and ensure the Internal Model remains appropriate for use. For SL Intl, this involves ensuring the existing Standard Formula methodology is appropriate for the transferring business and one application for use of a volatility adjustment to the CBI.

7.5.2 Phoenix intends to include SL Intl in its Group Solvency calculation using Method 1 (“Accounting Consolidation”) such that the Standard Formula capital requirement of SL Intl will be included in Phoenix Group SCR without allowing for the effects of diversification between SL Intl and the rest of the Group. If Phoenix were unable to use Method 1, alternative options for the consolidation of SL Intl into the Group Solvency position would be considered. This may involve a change to the corporate structure of Phoenix.

7.5.3 Under the Scheme, certain annuity liabilities currently in scope of the volatility adjustment are to be transferred by SLAL to SL Intl and not reinsured back. SL Intl is to apply to the CBI for the use of a volatility adjustment on all euro-denominated liabilities and confirmation of this is expected prior to the Effective Date.

7.5.4 In addition to the above applications SL Intl is proposing to use the euro as its reporting currency (instead of pounds sterling) from the Effective Date. As outlined in 7.4.6, this will reduce its currency risk profile following the Proposed Transfer.

7.6 Financial Services Compensation Scheme

7.6.1 The Financial Services Compensation Scheme (“**FSCS**”) provides protection to eligible policyholders, amongst other things, in respect of insurance policies issued by a relevant authorised insurer in the event of the failure of that firm. That is the FSCS provides protection to contracts written by a UK based insurance firm or by a European Economic Area firm passporting into the UK to a UK resident that, if the firm were to fail (and the policyholder satisfies the eligibility criteria), their contracts are protected and they will receive 100% of their claim. Currently Euro-denominated policies purchased after 2000 also have access to the FSCS as a result of having a contract with SLAL.

7.6.2 Following the Proposed Transfer, the Euro-denominated contracts will be transferred to a non-UK based firm, i.e. SL Intl, and will be deemed to have been issued by SL Intl. They will therefore no longer have access to the FSCS. This view is supported by both SLAL’s internal and external legal advisors.

7.6.3 SLAL has assessed that the impact of the loss of the FSCS to the policyholder is negligible because of the low likelihood that the policyholder would require such a compensation scheme. SL Intl will have a capital coverage target consistent with

SLAL's and which provides it with capital to withstand an event significantly stronger than a 1-in-200 year event.

7.6.4 SL Intl will also continue to be a subsidiary within the Phoenix Group following the Proposed Transfer, and it is considered unlikely that SL Intl's parent would be unwilling to provide capital support to SL Intl to prevent it failing as the companies are intrinsically linked, including from a brand perspective. Further, a proportion of these policyholders' liabilities will be reinsured back to SLAL which means that whilst this reinsurance is in place, in effect SLAL will continue to hold the liability of these policyholders (via its reinsurance with SL Intl). At year-end 2017, SLAL held excess own funds of £1.2bn. This provides a comprehensive buffer in addition to SL Intl's own capital; the likelihood of SL Intl failing, and a compensation scheme such as the FSCS being required, is therefore very low.

7.6.5 Notwithstanding this, SLAL did consider what options were available to mitigate the loss of FSCS. Each of these was deemed to either not be an appropriate mitigant for the loss of the FSCS or result in a more adverse impact to the policyholder (than the loss of the FSCS).

7.6.6 For example the Solvency II Branch structure was considered but not progressed as the uncertainty surrounding establishing a Solvency II branch and the requirement to split the HWPF would have had a greater impact on the customer than the loss of the FSCS (which would be retained under this option). Similarly, the use of Protektor in Germany was considered. Again this was dismissed as it was not viewed as a suitable alternative; it operates in a different way and would require either SLAL to establish a new subsidiary in Germany or SL Intl's Head office to be located in Germany. Given the expected immaterial effect on policyholders of the loss of FSCS compared with the immediate costs and challenges of creating a separate/ additional German subsidiary, this option was therefore dismissed.

7.6.7 Given the above, the likelihood of the situation whereby the protections currently provided by the FSCS would be called upon is deemed remote. Overall I am satisfied that the unavoidable loss of the FSCS to the transferring policyholders does not materially adversely affect the security of policyholder benefits.

7.7 Policy Terms and Conditions

7.7.1 The Proposed Transfer does not result in any material changes to the terms and conditions of the transferring policyholders (other than their contracts having been issued by SL Intl as opposed to SLAL). The use of Deed Polls that allow transferring SLAL policyholders to continue to share in the profits of the appropriate with profits funds as they currently do constitutes an addition to their terms and conditions. I am satisfied that this is to the benefit of transferring policyholders.

7.7.2 The Proposed Transfer does not result in any changes to the terms and conditions of the non-transferring policyholders. This includes the options and guarantees on with profits contracts.

7.8 Service Standards

7.8.1 The changes in governance and organisational structure are set out in Section 6. This ensures that following the Proposed Transfer, the management of transferring SLAL policies will continue be overseen by an appropriate level of governance. The policyholders will continue to be administered by the same staff as currently, with service level agreements established between SLAL and SL Intl such that SL Intl can continue to service its policyholders (with no anticipated change to service standards).

7.8.2 I consider that these changes within the governance of SL Intl will provide those transferring policyholders with the appropriate level of operational controls and that service standards will not be materially adversely affected by the Proposed Transfer.

7.9 Conclusions

7.9.1 Having considered the impact of the transaction in this section, I am satisfied that the Proposed Transfer does not have a materially adverse effect on the security of either the transferring or non-transferring policyholders of SLAL (despite the loss of the FSCS cover for the transferring policyholders).

7.9.2 This conclusion is based on the information presented and the comprehensive work performed but not reported within this document.

8 Effect of proposed changes on rights and expectations of transferring SLAL policyholders

8.1.1 This section considers the effect of the Proposed Transfer on the rights and expectations of the SLAL policyholders being transferred to SL Intl. This considers the effect of the transfer on their benefit expectations, ongoing communication, investment of policies and other significant factors.

8.1.2 Ongoing administration

8.1.2.1 Prior to the implementation of the Proposed Transfer, policies are administered from their regional branches. That is, SLAL policies in Ireland, Germany and Austria are administered from the branches in Ireland and Germany. The UK head office provides back-office services for these policies (for example financial reporting).

8.1.2.2 Following the implementation of the Proposed Transfer, policies will continue to be serviced from their regional office. That is, Irish policyholders will be serviced from SL Intl's head office in Ireland and German and Austrian policyholders from the SL Intl branch in Germany. SL Intl will be responsible for providing the back-office services with some elements being outsourced to SLAL.

8.1.2.3 The transferring policyholders are not expected to experience any material changes to the administration of their policies as a result of the Proposed Transfer.

8.2 HWPF With Profits Policyholders

8.2.1 With profits governance

8.2.1.1 The governance of the SLAL HWPF is set out in the PPFM with SLAL being advised on the exercise of discretion and on the benefit expectations and fair treatment of with profits policyholders by the SLAL WPA. The terms of reference of the WPC require it to provide an independent assessment of compliance with the PPFM.

8.2.1.2 Following the Proposed Transfer, and as set out in Section 6.8.3, the SLAL WPA and SLAL WPC will continue to consider the transferring HWPF policyholders as they currently do.

8.2.1.3 The SLAL HWPF's PPFM forms an important part of the governance arrangements. Those transferring policyholders within the HWPF will continue to be governed in accordance with these principles (with this continuing to be monitored by the SLAL WPC).

8.2.1.4 In addition to this, the SL Intl Board will be advised by a qualified actuary with appropriate skills and experience and who is internal to SL Intl, in exercising independent judgement on the achievement of fair treatment for with profits policyholders. A member of SL Intl, expected to be the Head of Actuarial Function, is expected to attend the SLAL WPC.

8.2.2 Investment management

8.2.2.1 The HWPF reinsurance arrangement enables the fund to be managed on the same basis as it is currently managed, including allowing the continuance of the sharing of experience between UK and Euro-denominated policyholder groups. As the HWPF will continue to be managed on the same basis, the Proposed Transfer will not materially impact the financial management of the HWPF, which will continue to be in accordance with SLAL's PPFM.

8.2.2.2 SL Intl will declare the bonuses that are paid to their HWPF policyholders with the Proposed Transfer ensuring that they do not pay a lower amount than SLAL declares. If SL Intl declares a higher bonus than SLAL declares, this amount will not be covered by the reinsurance arrangement and SL Intl must fund it. This ensures that the transferring policyholders in the HWPF cannot receive less than they would have had had the transfer not have taken place. Equally, it ensures that the non-transferring policyholders in the HWPF cannot have their proportion of the Inherited Estate reduced by SL Intl declaring higher bonuses.

8.2.3 Expenses

8.2.3.1 The expected expense base allocated to HWPF policyholders is not expected to materially change as a result of the Proposed Transfer. This is based on the allocation of expenses to the HWPF continuing to be performed in line with a method agreed by the SLAL Board and WPC. The change in the expected expense base has been estimated with analysis showing that there is no material adverse effect on policyholders as a result of a change in the expense of SL Intl following the Proposed Transfer.

8.2.4 Tax considerations

8.2.4.1 The basis on which tax is allocated to the policyholder will not change and the company will continue to allocate tax using a ring fenced calculation based on notional mutual calculations. The method of the calculation will require updating to reflect the new reinsurance structure, primarily to deal with pre 2001 Irish net business, Old Basis Business ("**OBB**").

8.2.4.2 The Irish OBB will continue to be taxed in Ireland. The annual movement in the reinsurance asset will be taxable rather than the taxation being calculated by reference to the investment assets of the with profits fund. SLAL expects the taxation of the reinsurance asset to produce materially the same result as the investment asset calculation. However there may be some timing differences.

8.2.5 New business

8.2.5.1 New business may be allocated to the HWPF subject to limitations set out in the 2006 Scheme. This is unaffected by the Proposed Transfer and transferring policyholders can continue to invest within the HWPF. The reinsurance arrangements outlined in Section 6.4 are automatic reinsurance treaties and therefore will automatically cover any new business written in the HWPF.

8.2.6 Benefit expectations

8.2.6.1 The reinsurance arrangement enables the SLAL HWPF to be managed on the same basis as it is currently managed as it avoids needing to formally split the fund. The Proposed Transfer is not expected to have a materially adverse effect on policyholder expectations as it does not alter:

- The right of the HWPF policyholder to participate in the profits of the HWPF; and
- Options and guarantees available to transferring policyholders.

8.2.7 Mortgage Endowment Promise

8.2.7.1 There are a small number of Irish Mortgage Endowment Promise ("**MEP**") policies within the SLAL HWPF which will be transferred to SL Intl with their liability reinsured back to SLAL (via the HWPF reinsurance arrangement).

8.2.7.2 There will be no change to the promise provided to the transferring MEP policyholders, nor to the processes in SLAL to administer and calculate pay-outs under the promise; transferring policyholders will continue to be treated as currently under the SLAL HWPF.

8.3 Unit linked contracts Invested in the HWPF

8.3.1 A number of Irish policyholders within the HWPF have the option to invest in unit linked funds in the PBF. These unit linked funds are to be transferred from SLAL PBF to SL Intl Eur PBF as part of the Proposed Transfer. The EFL retrocession ensures that these policyholders can continue to invest in the same funds as they currently are.

8.3.2 The pricing method for Irish net business will be changed to treat the funds as being part of an Irish tax resident company. The basis on which tax is allocated to the policyholder will not change and the company will continue to allocate tax using a ring fenced calculation as embedded in the daily pricing calculations. There will be a loss of the benefit to be able to reclaim UK income tax suffered by UK taxable funds. This is only for policyholders who invest in a small number of asset classes.

8.3.3 Based on year-end 2017, two Irish funds held assets which suffered UK income tax. The income received was €0.66m and associated tax reclaim was €0.13m.

8.3.4 The consideration of the Proposed Transfer in respect to the ongoing performance of the unit linked funds is considered in Section 8.5.

8.4 GWPF and GSMWPF Policyholders

8.4.1 The characteristics of investments within the GWPF and GSMWPF are similar with the effect of the Proposed Transfer on each considered within this section.

8.4.2 With profits governance

8.4.2.1 The GWPF and GSMWPF are currently managed by SLAL in line with the principles and practices that are to be outlined in the IPPFMs. This includes the WPC and WPA role to consider the interests of with profits policyholders and exercise independent judgement in advising the SLAL Board on the achievement of fair treatment for those policyholders.

8.4.2.2 The structure of the reinsurance arrangements ensures that the Proposed Transfer will not have a materially adverse effect on the security or expectations of transferring policyholders. The GWPF and GSMWPF will continue to be governed in line with the IPPFMs.

8.4.3 Investment management

8.4.3.1 The investment managers of the assets in the GWPF and GSMWPF and the asset selection processes will not be changed as a result of the Proposed Transfer. The funds will continue to invest in the same assets as they currently do with the analysis being performed by the same team as currently (subject to approval of the Service Level Agreements). The implementation of the Proposed Transfer is not likely to impact the investment performance of these funds, or the assets that they can be invested in.

8.4.4 Expenses

8.4.4.1 The expected expense base allocated to GWPF and GSMWPF policyholders is not expected to change as a result of the Proposed Transfer.

8.4.5 Tax considerations

8.4.5.1 The basis on which tax is allocated to the policyholder will not change and the company will continue to allocate tax using a ring fenced notional mutual basis calculation.

8.4.6 New business

8.4.6.1 Those products that are currently written into the SLAL PBF but invest in the SLAL GWPF or GSMWPF will instead be written into the SL Intl Eur PBF and invest in the SL Intl GWPF and GSMWPF respectively.

8.4.6.2 Both of these funds will continue to be closed to new business other than increments. The reinsurance arrangements outlined in Section 6.4 are automatic reinsurance treaties and therefore will automatically cover any new business written in the GWPF or GSMWPF.

8.4.7 Benefit expectations

8.4.7.1 The GWPF and GSMWPF will continue to be managed in line with current practice with SL Intl having appropriate oversight. The Proposed Transfer is not expected to have a materially adverse effect on policyholder expectations as it does not alter:

- The right of the policyholder to participate in the profits of the with profits fund to which they currently belong; and
- Options and guarantees available to transferring policyholders.

8.5 Unit Linked Policyholders

8.5.1 Investment management

8.5.1.1 The returns on unit linked policies depend on the investment performance and the charges that are made for expenses and other risks associated with the product.

8.5.1.2 The assets transferred from SLAL to SL Intl in respect of the unit linked policyholders will continue to be managed as separate portfolios under the updated investment management agreement. There will be no material changes to the investment strategy of these funds or the pricing practices as a result of the Proposed Transfer. Therefore there should be no materially adverse effect on the potential investment performance or unit pricing from the Proposed Transfer.

8.5.1.3 The expense charges under unit linked policies are not guaranteed and may be varied, subject to the terms and conditions outlined in policy documentation. The Proposed Transfer does not alter the terms and conditions of these policies and so does not alter this position.

8.5.1.4 A number of unit linked policies have the option to purchase rider-benefits. These provide different forms of protection in certain events such as falling ill. A charge is applied for these insurance risks and can be varied to reflect emerging experiences. The principles and practices under which such charges will be reviewed are not affected by the Proposed Transfer. There is no reason to suggest that the Proposed Transfer will alter the factors that may result in the charges being varied.

8.5.1.5 The profits that arise from the charges for expenses and reinsurance risks on transferring unit linked policyholders will contribute to the profit of SL Intl and ultimately to the shareholders of SLAL. The ultimate beneficiary is unaffected by the Proposed Transfer.

8.5.1.6 Both SLAL and SL Intl adhere to the same Unit Linked Policy which applies to the operation of all unit linked funds including the use of discretion. The principle that SLAL and SL Intl follow when applying discretion is to ensure that all stakeholders in the funds are treated reasonably and that, where applicable, the use of discretion is compatible with the Treating Customers Fairly regime. When making decisions that impact on policyholders, both SLAL and SL Intl seek to ensure fairness among the different groups of policyholders invested within the funds.

8.5.2 Expenses

8.5.2.1 As outlined in 8.5.1, the returns on unit linked policies are impacted by the expenses that occur. There is not expected to be a materially adverse effect on policyholders’ benefit expectations as a result of a change in the expense base of SL Intl.

8.5.3 Tax considerations

8.5.3.1 There will be a loss of ability to benefit from reclaims of UK income tax suffered by UK taxable funds. The pricing method for Irish net business will change but the economic impact should be broadly neutral.

8.5.3.2 Based on 2017, four Irish funds held assets which suffered UK income tax. The income received was €11.9m and associated tax reclaim was €2.4m.

8.5.4 New business

8.5.4.1 The products currently open to new business within the EU will be written into the SL Intl Eur PBF and continue to be open to new business.

8.5.5 Benefit expectations

8.5.5.1 The benefit expectations of unit linked policyholders are directly related to the value of the units underlying their policies. The Proposed Transfer is not expected to have a materially adverse effect on policyholder expectations as:

- Discretion, where it exists, is applied consistently across both SLAL and SL Intl; and
- The policyholders' investments are unchanged by the Proposed Transfer with there being no reason to suggest that the Proposed Transfer will alter the factors that may result in the charges or fund performance being materially affected.

8.6 Annuities

8.6.1 Management of policies

8.6.1.1 The Proposed Transfer will result in SL Intl servicing the Euro-denominated annuities currently in SLAL. As discussed in Section 7, I believe that the Proposed Transfer does not materially adversely affect the security or expectations of annuitants. The servicing will continue to be provided in the local jurisdictions as it currently is.

8.6.2 Tax considerations

8.6.2.1 There is no expected impact on transferring annuity policyholders. Practical considerations are being addressed with the Irish tax authority to ensure there is no policyholder disruption in respect of tax deductions from annuity payments.

8.6.3 New business

8.6.3.1 SL Intl has applied to extend its existing licences to include Class I – Annuities. This will provide SL Intl with the necessary regulatory permission to sell and service annuities. The substantial majority of the new business annuities are expected to arise from deferred annuities vesting including the exercise of rights to guaranteed annuity rates.

8.6.4 Benefit expectations

8.6.4.1 The impact of the Proposed Transfer on the solvency of SL Intl is shown in Section 7 with the Proposed Transfer not having a materially adverse effect on the benefit expectations of transferring annuitants. This is because policyholder benefits are defined in their contract with the ability of SL Intl to honour them dependent on its solvency.

8.7 Non-Profit

8.7.1 This section relates to non-profit policies that are not annuities or unit linked policies (for example protection policies). These policies can invest in either the HWPF or the PBF and are no longer sold by SLAL. The management of these policies will be as described above dependent on whether they're written in the HWPF or the PBF.

8.7.2 Tax considerations

8.7.2.1 There is no expected impact on transferring non-profit policyholders.

8.7.3 Benefit expectations

8.7.3.1 The impact of the Proposed Transfer will not have a materially adverse effect on the benefit expectations of transferring non-profit policies.

8.8 Other Tax Implications

8.8.1 I have been made aware of a small number of policyholders with German or Austrian policies who have moved to Ireland. SLAL is to discuss their tax position with the Irish tax authority as there is a risk that the Irish exit tax regime applies. If exit tax does apply, SLAL shall make the impacted policyholders aware of the change in tax status in order that they can review the suitability of the product.

8.8.2 For new domestic policyholders, both Irish and German, there will be no ability to reclaim UK income tax deducted from taxable distributions from UK funds. The policyholders will be in the same position as existing policyholders of SL Intl. The position regarding non-resident declarations, as explained above, will be confirmed with the Irish tax authority.

8.8.3 At date of writing, SLAL are in discussions regarding the requirement for new German customers to complete non residency tax declaration forms in order for Irish exit tax not to apply to these policies. SLAL have confirmed that the existing policies do not have to be issued with declaration forms. New customer onboarding procedures may have to include the issue of this additional form.

8.9 Conclusion

8.9.1 I have seen further detailed analysis of the effect of the Proposed Transfer on the transferring policyholders that is not reported here. This provides me with confidence that the Proposed Transfer will have no material adverse impact on the fair treatment, rights and expected benefits of these SLAL policyholders.

8.9.2 The effect of the Proposed Transfer on the with profits policyholders is also considered by the SLAL WPA with their conclusions set out in their report. I have read their report and am in agreement with their conclusions.

9 Effect of Proposed changes on rights and expectations of non-transferring SLAL policyholders

9.1.1 This section considers the effect of the Proposed Transfer on the rights and expectations of the non-transferring SLAL policyholders. This considers the effect of the transfer on their benefit expectations, administration, ongoing communication with them, investment of policies and other significant factors.

9.2 With Profits Funds Policyholders

9.2.1 Ongoing administration and governance

9.2.1.1 The administration and governance of non-transferring SLAL policies will be unaffected by the Proposed Transfer. The administration will continue to be performed by SLAL using the same processes and governance structure currently in place.

9.2.2 On-going financial management

9.2.2.1 Following approval of the Scheme, SLAL will have two with profits funds in which directly written SLAL policies are invested (the SLAL HWPF and the UKSMWPF). Policies within the UKSMWPF are not affected by the Proposed Transfer.

9.2.2.2 The HWPF reinsurance arrangement described in Section 6.4.4 between SLAL and SL Intl enables the HWPF to be managed on the same basis as it is currently managed. This will be in line with the PPFM and the Legacy Schemes and with the continuation of governance performed by the SLAL WPC and SLAL WPA.

9.2.2.3 The reinsurance ensures that the SLAL HWPF remains materially unchanged to the pre-transfer position and therefore allows the management of the fund for the benefit of policyholders to be subject to the minimum disruption. The non-transferring with profits policyholders will continue to maintain the same claim on the with profits fund as they did prior to the Proposed Transfer.

9.2.3 Expenses

9.2.3.1 The expense base allocated to HWPF policyholders is not expected to materially change as a result of the Proposed Transfer. This is based on the allocation of expenses to the HWPF continuing to be performed in line with a method agreed by the SLAL Board and WPC.

9.2.4 Tax considerations

9.2.4.1 The Proposed Transfer does not alter SLAL’s non-transferring with profits policies. SLAL’s internal Tax department have confirmed that they foresee no tax implications arising as a result of the Proposed Transfer for these policyholders.

9.2.5 New business

9.2.5.1 As outlined in Section 4, both the HWPF and UKSMWPF continue to be open to new business (although SLAL does not actively seek to write material volumes of with profits business in the UK). The Proposed Transfer has no impact on the business strategy of SLAL in relation to with profits policies in the UK.

9.2.6 Benefit expectations

9.2.6.1 The reinsurance arrangement enables the SLAL HWPF to be managed on the same basis as it is currently managed as it avoids needing to formally split the fund. The Proposed Transfer is not expected to have a materially adverse effect on policyholder expectations as it does not alter:

- The terms and conditions of the non-transferring policies;
- The right of the policyholder to participate in the profits of the sub-fund to which they belong; and
- Options and guarantees available to the non-transferring policyholders.

9.3 Unit Linked, Annuity and Non-Profit Policyholders

9.3.1 Ongoing administration and governance

9.3.1.1 The administration and governance of non-transferring SLAL policyholders will be unaffected by the Proposed Transfer. The administration will continue to be performed by SLAL using the same processes and governance structure currently in place.

9.3.2 On-going financial management

9.3.2.1 The investment managers of the assets of SLAL will remain unchanged following the implementation of the Proposed Transfer. The investment strategies and pricing practices of the unit linked funds will be unaltered as a result of the Proposed Transfer.

9.3.3 Expenses

9.3.3.1 There is not expected to be a materiality adverse effect on policyholders benefit expectations as a result of a change in the expenses following the Proposed Transfer.

9.3.4 Tax considerations

9.3.4.1 The Proposed Transfer does not alter SLAL's non-transferring unit linked policies. SLAL's internal Tax department have confirmed that they foresee no tax implications arising as a result of the Proposed Transfer for these policyholders.

9.3.5 New business

9.3.5.1 New annuity business within SLAL predominantly arises from vesting deferred annuities and it will continue to write unit linked policies within the UK following the Proposed Transfer.

9.3.5.2 There are therefore no material changes to the new business strategy of SLAL following the Proposed Transfer.

9.3.6 Benefit expectations

9.3.6.1 The solvency of SLAL is not materially adversely affected by the Proposed Transfer; the Proposed Transfer therefore does not have a materially adverse effect on the benefit expectations of non-transferring annuitants.

9.3.6.2 The non-transferring unit linked policyholders of SLAL are unaffected by the Proposed Transfer.

9.4 Conclusion

9.4.1 I have seen further detailed analysis of the effect of the Proposed Transfer on the non-transferring policyholders of SLAL that is not reported here. This provides me with confidence that the Proposed Transfer will have no material adverse impact on the fair treatment, rights and expected benefits of these policyholders.

10 Notification to Policyholders

10.1 Transferring Policyholders

10.1.1 The SLAL Board is intending to communicate to all transferring policyholders. This communication will explain the rationale for the Scheme as well as the Proposed Transfer itself. The Independent Expert's summary report will be included as well as details as to where the reports by the SL Intl Head of Actuarial Function, the SLAL WPA and myself can be found.

10.1.2 The communication to policyholders outlines the Court process as well as highlighting where the policyholder can raise further questions or objections if they choose to do so.

10.1.3 I have seen the main communication document to transferring policyholders and I am satisfied that this is reasonable given my opinions on the Proposed Transfer provided in this report.

10.2 Non-transferring policyholders

10.2.1 The SLAL Board, subject to agreement by the FCA, do not intend to communicate the Scheme to non-transferring policyholders of SLAL. This is based on the following rationale:

- The Proposed Transfer has no effect on the non-transferring SLAL policyholders in the PBF or UKSMWPF. This is because the Proposed Transfer will not impact the terms and conditions of these UK policies, nor will it impact the servicing or administration of these policies. This has been concluded to be immaterial as set out in Section 7.
- The Proposed Transfer will not impact the terms and conditions of the non-transferring policies in the HWPF. These policies invest in the HWPF alongside Euro-denominated policies which are being transferred to SL Intl and reinsured back to the SLAL HWPF. The UK and Euro-denominated policyholders benefit from the sharing of experience within the fund; the fund is operated in line with the 2006 Scheme and is managed as one. The design of the Proposed Transfer will enable this to continue unchanged. The collateral and security structure will also ensure that no policyholders are materially adversely affected by the Proposed Transfer, including in the event of the insolvency of SLAL. The non-transferring UK policies will continue to be serviced and administered as they currently are.

10.2.2 I am in agreement that it is appropriate that the UK policyholders of SLAL are not contacted directly as a result of the Proposed Transfer. This is based on the rationale, as set out in Section 9, that the Proposed Transfer has no material adverse effect on the security, service standards or benefit expectations of non-transferring UK policyholders.

11 Conclusions

Having considered the effect of the Proposed Transfers on the financial security of policyholders of SLAL and its effect on the fair treatment of these policyholders, including their legal rights and expected benefits, it is my opinion that:

11.1.1 The Proposed Transfer does not materially adversely affect the financial security of either the transferring or non-transferring SLAL policyholders.

11.1.2 The reinsurance arrangements established as part of the Proposed Transfer do not have a materially adverse effect on either the transferring or non-transferring policyholders within the with profits funds. Further, the arrangements have been structured so that in the event of termination, the policyholders' interests are suitably protected.

11.1.3 The unavoidable loss of eligibility to FSCS for transferring policyholders does not materially adversely affect the security of policyholder benefits.

11.1.4 For those transferring with profits policyholders, the Proposed Transfer ensures that they continue to participate in the profits of the appropriate SLAL with profits fund.

11.1.5 For the policyholders within the PBF, their investment strategy and management of funds will be unaffected by the Proposed Transfer.

11.1.6 The Proposed Transfer does not materially adversely affect the service standards, legal rights and expected benefits of either the transferring or non-transferring SLAL policyholders.

11.1.7 I therefore conclude that the Proposed Transfer does not result in a material adverse impact on the financial security of policyholders of SLAL (both transferring and not) or their legal rights and expected benefits.

12 Appendix: Glossary of Terms

Acronym	Meaning
2006 Scheme	The 2006 Scheme of Demutualisation
2011 Scheme	The 2011 Scheme that transferred insurance business from SLIF to SLAL on 31 December 2011.
AUM	Assets Under Management
BaFin	Federal Financial Supervisory Authority
BEL	Best Estimate Liability - The expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.
Brexit	The United Kingdom's withdrawal from the European Union.
Capital Event	If SLAL is at any time, in the reasonable opinion of the SLAL Board (having regard to the advice of the SLAL WPA and SLAL Chief Actuary), unduly exposed to a risk that SLAL will be unable to meet its SCR, or its capital needs (as determined in accordance with regulatory requirements to be adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due).
CBI	Central Bank of Ireland
CEO	Chief Executive Officer
COBS	Conduct of Business Rules
Effective Date	The date on which the Scheme comes into effect. This is expected to by the 28 February 2019.
EFL	External Fund Links
ERMC	Enterprise Risk Management Committee
Inherited Estate	The Inherited Estate means the surplus funds of the HWPF calculated in accordance with 3.1 of the Surplus Funds section of the PRA Rulebook.
EU	European Union
EU27	The 27 member states of the EU excluding the UK.
Event of Default	The downgrading of SLAL's credit rating below a certain level or non-payment or various other events which may indicate a weakening of SLAL's solvency.
FCA	Financial Conduct Authority

FMA	Financial Market Authority
FOE	Freedom of Establishment
FOS	Freedom of Services
FSCS	Financial Services Compensation Scheme
GSMWPF	German Smoothed Managed With Profits Fund
GWPF	German With Profits Fund
HWPF	Heritage With Profits Fund
Internal Model	Risk management system of an insurer for the analysis of the overall risk situation of the insurance undertaking, to quantify risks and/or to determine the capital requirement on the basis of the company specific risk profile.
IPPFM	Internal Principles and Practices of Financial Management
Ireland	Republic of Ireland
Lapse	Policyholders voluntarily discontinue their policies.
Legacy Schemes	The 2006 Scheme of Demutualisation and the 2011 Scheme.
MEP	Mortgage Endowment Promise
Notional Company	The continuation of the HWPF as if it were a mutual company (without obligation to a shareholder), defined in the 2006 Scheme.
OBB	Old Basis Business
PBF	Proprietary Business Fund
Phoenix	Phoenix Group Holdings
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulatory Authority.
Proposed Transfer	The proposed changes to the Legacy Schemes, the Scheme and reinsurance arrangements.
Proposed Transfer Amount	As defined in the 2006 Scheme of Demutualisation.
Quantum Provision	A provision that restricts SL Intl's recovery under the charges to such amount as SL Intl would have been entitled to recover, had SL Intl been a policyholder (rather than a secured creditor) of SLAL.
Quota Share	A form of pro-rata (proportional) reinsurance in which the reinsurer assumes an agreed percentage of each contract being reinsured and shares all premiums and losses in the same proportion regardless of

	the size of the risks.
RCC	Risk and Capital Committee
RCF	Recourse Cash Flow - As defined in the 2006 Scheme of Demutualisation
Risk Margin	The Risk Margin is the part of Technical Provisions in addition to the best estimate liability required to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.
Scheme	The Scheme of transfer under Part VII of the Financial Services and Markets Act 2000 of the euro-denominated life assurance business of SLAL to SL Intl.
SCR	Solvency Capital Requirements - The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime.
Service Level Agreements	A contract between a service provider (in this case SLAL) and the end user (in this case SL Intl) that defines the level of service expected from the service provider.
SHF	Shareholder Fund
SL Intl	Standard Life International designated activity company
SL Intl Eur PBF	The PBF established in SL Intl to hold the assets associated to the transferring Euro-denominated business and the new business sold into EU27 markets.
SLAL	Standard Life Assurance Limited
SLAESL	Standard Life Assets and Employee Services Limited
SLI	Standard Life Investments Limited (commonly referred to as Aberdeen Standard Investments)
SLIF	Standard Life Investment Funds Limited
Solvency II	The Solvency II Directive (2009//138/EC) is the set of regulations that regulate the insurance companies within the EU.
Standard Formula	In the context of the Solvency II regime, a set of calculations prescribed by the regulator for generating the Solvency Capital Requirement.
Standard Life Aberdeen	Standard Life Aberdeen plc
TAS	Technical Actuarial Standards
Technical	The Technical Provision is the sum of the BEL, TP as a Whole and

Provisions	Risk Margin less the TMTP adjustment.
The Court	Court of Session
The Group	The parent company of SLAL (Phoenix).
TMTP	Transitional Measure on Technical Provisions acts allow for the increase in Technical Provisions that must held for business written prior to 01 January 2016 over a 16 year period.
TP as a Whole	Technical Provisions as a Whole - Where the future cash flows can be replicated reliably using financial instruments for which a reliable market value is observable (such as unit linked fund values) then the value of technical provisions equals the market value of those financial instruments.
Transferred Policies	As defined in the Scheme of transfer
UK	United Kingdom
UKSMWPF	UK Smoothed Managed With Profits Fund
WPA	With Profits Actuary
WPC	With Profits Committee