Standard Life

Standard Life Assurance Limited

Report by the With Profits 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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1 Introduction

1.1 Purpose of the report

1.1.1 I have written this report for the Board of Standard Life Assurance Limited ("**SLAL**") in my capacity as SLAL's With Profits Actuary ("**WPA**").

1.1.2 I consider the effects on the with profits policyholders of SLAL of the Part VII 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 Market Act 2000. The terms of the Part VII transfer are set out in an insurance business scheme of transfer (the "**Scheme**") and, if approved, will come into effect on the "**Effective Date**" which is expected to be 28 February 2019.

1.1.3 As part of the proposed Part VII transfer a number of reinsurance arrangements between SLAL and SL Intl are to be established. I have assessed their appropriateness and the impact they have on both transferring and non-transferring with profits policyholders.

1.1.4 The proposed Part VII transfer and reinsurance arrangements are referred to in combination as the "**Proposed Transfer**".

1.1.5 This transfer requires changes to be made to the Scheme of Demutualisation (the "**2006 Scheme**") under which, pursuant to Part VII of the Financial Services and Markets Act 2000, substantially all of the long-term business of The Standard Life Assurance Company ("**SLAC**") was transferred to SLAL. Similarly, changes will be made to the **2011 Scheme** that transferred business from Standard Life Investment Funds Limited ("**SLIF**") to SLAL. The 2006 Scheme and 2011 Scheme are referred to in combination as the "**Legacy Schemes**".

1.1.6 The Proposed Transfer is a Related Transaction as defined in paragraph 35 of the 2006 Scheme. The 2006 Scheme allows SLAL to enter into such a transaction provided that it is on terms which, in the opinion of the SLAL Board (having regard to the advice of the SLAL WPA), are unlikely to have a material adverse effect on the interests of the holders of HWPF with profits policies. This report includes the advice required by the 2006 Scheme.

1.1.7 I have considered all aspects of the Proposed Transfer, and in particular the effects on the benefit security and **Reasonable Expectations** of with profits policyholders. I consider separately the effects on transferring with profits policyholders from each of the three affected with profits funds. I also consider the effects on the with profits policyholders who are remaining in SLAL.

1.1.8 This report will also be presented to the Board of SL Intl as its scope includes the treatment of the transferring with profits policyholders once they have become policyholders of SL Intl. This approach has been confirmed with the Financial Conduct Authority ("**FCA**") in the UK. SL Intl does not currently have any with profits business or a WPA.

1.1.9 This report will also be made available to the Court of Session in Edinburgh (the "**Court**"), the relevant regulators and to SLAL's policyholders (on request or via the website www.standardlife.eu)

1.2 Personal credentials

1.2.1 I am a Fellow of the Institute and Faculty of Actuaries having qualified as a Fellow of the Faculty of Actuaries in 1996.

1.2.2 I have over 27 years of experience in the life assurance industry and have been employed by **Standard Life**, or the company providing employee related services to Standard Life, since 1991. I became the SLAL WPA in 2006.

1.2.3 I am an employee of Standard Life Assets and Employee Services Limited ("**SLAESL**"). SLAESL is a subsidiary of **Phoenix** and provides employee-related services to SLAL.

1.2.4 As an employee I have benefits including bonuses that are dependent on the financial performance of Standard Life.

1.3 Reliances

1.3.1 In this report I have based my understanding of the Proposed Transfer on the legal documentation and on the description in the report of the SLAL Chief Actuary, Mr Brian Peters ("**Chief Actuary Report**"). Further, I refer to some of the calculations and projections presented in the Chief Actuary Report and I have relied on their accuracy and completeness.

1.3.2 I have read the report prepared by the Independent Expert, Mr Tim Roff and the report prepared by the SL Intl Head of Actuarial Function, Mr Eamonn Phelan. I have considered their comments on the effect of the Scheme and changes to the Legacy Schemes on policyholders.

1.3.3 This report is based on information made available to me up to 17 September 2018 and takes no account of developments after this date. An updated view will be provided within the Supplementary Report which will be prepared after the Initial Court Hearing and before the Final Court Hearing (expected to be in February 2019) to sanction the Scheme.

1.4 Compliance with professional standards

1.4.1 This report has been prepared in accordance with the applicable Technical Actuarial Standards ("**TAS**") issued by the Board for Actuarial Standards:

i. Principles for Technical Actuarial Work (TAS 100)

ii. Insurance (TAS 200)

1.4.2 This report, and the work underlying it, has been completed in accordance with the Actuarial Profession Standard X2: Review of Actuarial Work (APS X2).

2 Proposed Transfer

2.1 Chief Actuary Report

2.1.1 The Chief Actuary Report provides a detailed explanation of the Proposed Transfer and how it affects SLAL and SL Intl. I give a short summary in this section before commenting on its effect on with profits policyholders.

2.2 Overview

2.2.1 SLAL currently transacts long-term life insurance business in the United Kingdom (“**UK**”) and elsewhere in Europe, on both a Freedom of Services basis and a Freedom of Establishment basis. SLAL operates in **Ireland** and Germany and through a sales office in Austria. SLAL’s wholly owned subsidiary, SL Intl, currently sells international bonds into the UK from its head office in Ireland.

2.2.2 The Scheme transfers all Euro-denominated business at the Effective Date of the Scheme from SLAL to SL Intl. Once the transfer is complete, SLAL will cease writing business in Austria, Germany and Ireland with all Standard Life new business in those countries then being written by SL Intl. Euro-denominated business comprises contracts issued in Ireland, Germany and Austria. “Euro-denominated business” can be read interchangeably with “**Transferred Policies**” as defined in the Scheme.

2.2.3 To enable this transfer to be completed, a 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. These will be operated by the same people as currently operate the SLAL business.

2.3 Rationale for Proposed Transfer

2.3.1 On 23 June 2016 the UK voted to leave the European Union (“**EU**”). The consequences of this decision for SLAL, a company servicing policyholders in EU countries other than the UK (“**EU27**”), are unclear with the final outcome dependent on the result of the negotiations between the UK and the EU.

2.3.2 To ensure that it can continue to service its EU27 policyholders, SLAL is to transfer all of its Euro-denominated business to its Dublin based subsidiary, SL Intl.

2.3.3 As part of the Proposed Transfer, SL Intl will reinsure the policies written or invested in its with profits funds to SLAL. It will also enter into an External Fund Link (“**EFL**”) retrocession arrangement to enable Irish HWPF policyholders’ investment linked fund choices to remain materially unchanged.

2.3.4 The reinsurance of the with profits business keeps it with other business that is managed by SLAL under the UK with profits regulatory regime; there is no equivalent regime in Ireland. It enables the Heritage With Profits Fund (“**HWPF**”) to continue to be managed on the same basis as it has been to date, which allows the sharing of experience between sterling and Euro-denominated policies. The HWPF reinsurance arrangement avoids the need to split the **Inherited Estate** between these two groups of policyholders and any excess Inherited Estate can continue to be distributed as an enhancement to payouts on all eligible with profits policies.

2.3.5 The with profits reinsurance arrangements will be collateralised in a structure designed to maintain broadly the current security of the Euro-denominated policyholders in the event of the insolvency of SLAL. In the absence of such a structure, the reinsured benefits of Euro-denominated policyholders would rank below the benefits of direct UK policyholders on insolvency.

2.4 SLAL

2.4.1 An overview of SLAL can be found in Section 4 of the Chief Actuary Report.

2.4.2 Legacy Schemes

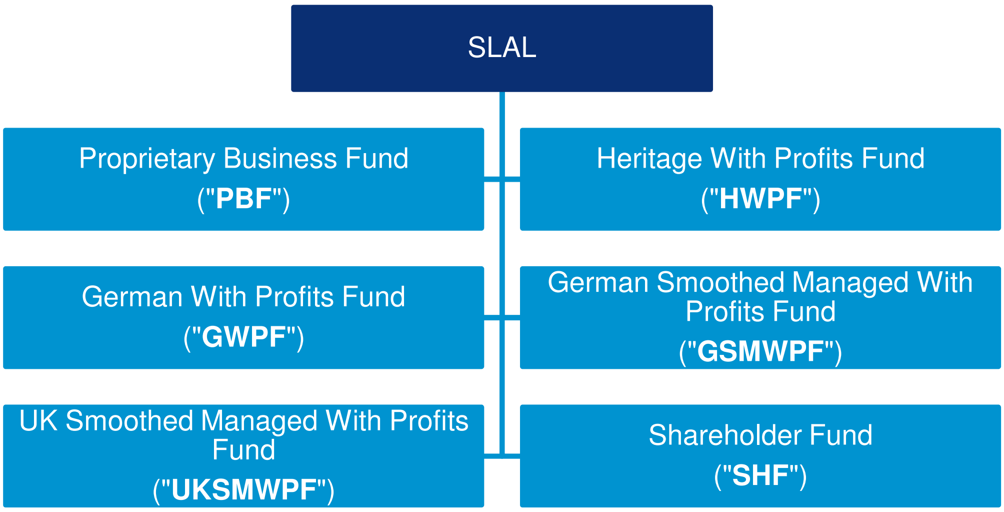
2.4.2.1 SLAL has two Legacy Schemes: the 2006 Scheme and the 2011 Scheme.

2.4.2.2 The 2006 Scheme includes 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. The 2011 Scheme transferred the substantial majority of the assets and liabilities of SLIF to SLAL.

2.4.2.3 The Proposed Transfer includes the necessary changes to the Legacy Schemes.

2.4.3 Background to SLAL With Profits

2.4.3.1 SLAL has four with profits funds and two other (“**non-profit**”) funds. This report considers the with profits policyholders who are invested in any of the four with profits funds.



2.4.3.2 At demutualisation, the 2006 Scheme allocated to the HWPF all of the Irish, German and Austrian business and most of the UK business (both with profits and non-profit) written by SLAC. Since demutualisation, increments have been written in the HWPF together with the investment content of a small amount of UK and Irish new business in line with the conditions set out in the 2006 Scheme.

2.4.3.3 Since demutualisation new with profits business (other than increments to HWPF policies) is written in the PBF, with the investment content invested in the GWPF, the GSMWPF, the UKSMWPF or the HWPF as relevant.

2.4.3.4 Other than through any effect of the Proposed Transfer on the overall security of SLAL, the UKSMWPF is not directly affected by the Proposed Transfer as it has only UK business. The UKSMWPF policyholders' service standards, security and benefit expectations would only be materially affected by the Proposed Transfer if it resulted in SLAL being at a materially higher risk of default. As explained later in this report, this is not the case and UKSMWPF policyholders are not considered further in this report.

2.4.3.5 The with profits policyholders of each with profits fund share in the experience of that fund. Bonuses in the HWPF and the GWPF can account for a substantial proportion of policy proceeds.

2.4.3.6 The allocation of bonuses, and various management actions that can affect the amount of surplus that is available for distribution through bonuses, are discretionary.

2.4.3.7 All UK with profits providers are required by the FCA to document and make available their Principles and Practices of Financial Management ("**PPFM**"). The requirement to maintain PPFM for the HWPF is also included in the 2006 Scheme. The PPFM not only provides an explanation of how the with profits business is operated, but also plays an important role in the governance arrangements of the HWPF.

2.4.3.8 As the GWPF and GSMWPF have no UK with profits business, they are not required by regulation to document their PPFM. Before the Proposed Transfer, SLAL will document how it operates these funds as Internal Principles and Practices of Financial Management ("**IPPFM**"). These will set out how the GWPF and GSMWPF business is operated and will form an important part of the governance of these funds.

2.4.3.9 The WPA and the With Profits Committee ("**WPC**") advise the SLAL Board on its use of discretion in the management of the with profits business. This applies to any proposed actions affecting with profits policyholders in the UK, Ireland, Germany or Austria in any of SLAL's with profits funds. The role of the WPA and WPC are as follows:

- The WPA is appointed by the SLAL Board to advise on the fair treatment of with profits policyholders. The WPA also has specific responsibilities under the 2006 Scheme.

- The WPC is appointed by SLAL to provide independent advice to the SLAL Board on the fair treatment for with profits policyholders, as set out in its terms of reference ("**ToR**").

2.4.3.10 The WPC reviews all material recommendations as to how the SLAL Board might exercise its discretion for with profits business. The SLAL Board decides on the actions to be taken, after taking into account the advice of the WPC and the WPA.

2.4.3.11 The term “**GWPF policyholders**” refers to policyholders of the SLAL PBF with investment in SLAL’s GWPF. Similarly, “**GSMWPF policyholders**” are policyholders of the SLAL PBF with investment in SLAL’s GSMWPF and the term “**HWPF policyholders**” includes both the policyholders of the SLAL HWPF and those policyholders of the SLAL PBF with investment in SLAL’s HWPF.

2.4.3.12 Throughout this report “**with profits policyholders**” includes both current with profits policyholders and those UK and Irish policyholders within the HWPF or PBF who currently invest only in unit linked funds in the PBF but have the right to switch into with profits investments.

2.4.3.13 The security of a SLAL policyholder’s investment depends on the solvency of SLAL. I note the current solvency position of SLAL as set out in the Chief Actuary Report.

2.5 SL Intl

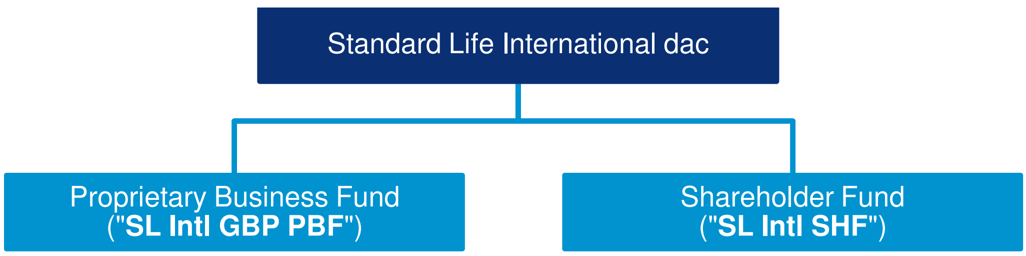
2.5.1 An overview of SL Intl can be found in Section 5 of the Chief Actuary Report.

2.5.2 Previous Schemes

2.5.2.1 SL Intl has no previous schemes.

2.5.3 Fund Structure of SL Intl

2.5.3.1 SL Intl has no with profits business. All its business is in the SL Intl GBP PBF.



2.5.3.2 The security of a SL Intl policyholder’s investment depends on the solvency of SL Intl. I note the current solvency position of SL Intl as set out in the Chief Actuary Report.

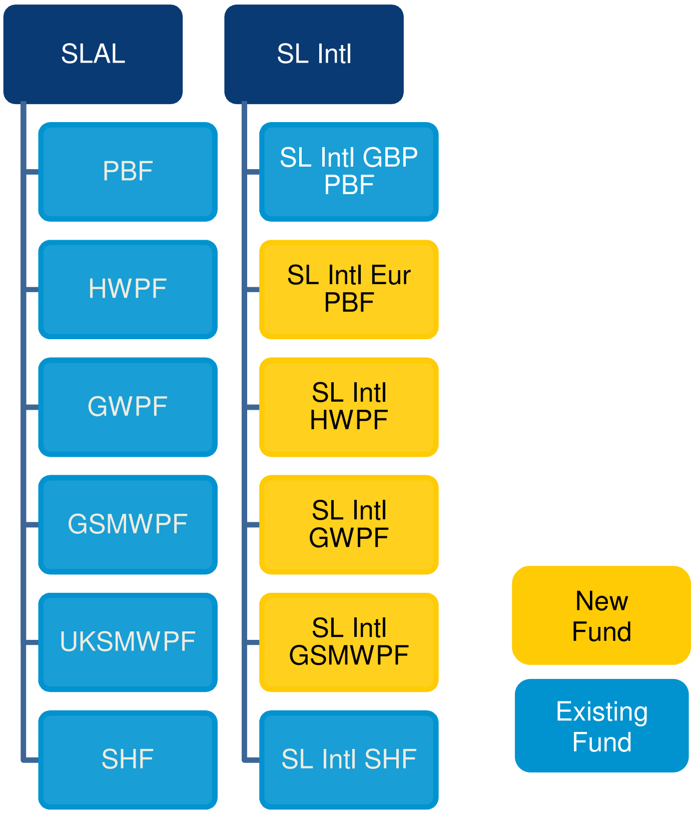
2.6 Proposed Transfer

2.6.1 Section 6 of the Chief Actuary Report provides a comprehensive description of the Proposed Transfer. I have provided a summary of the Proposed Transfer in this section drawing out the key elements that are of importance to the with profits policyholders.

2.6.2 Following the Proposed Transfer, Standard Life will continue to be able to service the approximately 600,000 existing policyholders in Germany, Austria and Ireland via SL Intl and write new business in these markets, by way of varying and extending SL Intl’s existing regulatory permissions.

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

2.6.4 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 with profits funds within SL Intl and a new PBF for the transferring policyholders (referred to as the "**SL Intl Eur PBF**"). The fund structure of SLAL and SL Intl following the Proposed Transfer is as follows:



2.6.5 In order to maintain policyholder benefit expectations for both transferring and non-transferring policyholders, new reinsurance arrangements are to be made.

2.6.6 New Reinsurance Arrangements and Deed Polls

2.6.6.1 The with profits business of SL Intl will be fully reinsured back to SLAL via three treaties referred to as the HWPF, GWPF and GSMWPF reinsurance arrangements. The GWPF and GSMWPF arrangements include the SL Intl Eur PBF elements of the policies together with the investment content in the SL Intl GWPF or SL Intl GSMWPF. In addition there is an EFL retrocession arrangement that gives SL Intl HWPF policyholders access to the investment funds in the SL Intl Eur PBF.

2.6.6.2 The HWPF, GWPF and GSMWPF reinsurance arrangements will be collateralised in a structure designed to maintain broadly the current security of the Euro-denominated policyholders in the unlikely event of the insolvency of SLAL after the Effective Date.

2.6.6.3 Collateral will be posted by SLAL into a single set of segregated accounts covering the three arrangements, with a custodian appointed to hold the assets. The segregated accounts and relevant derivative contracts will be subject to a fixed charge. If SLAL were to become insolvent or otherwise default on its payment obligations to SL Intl under the reinsurance arrangements, SL Intl would have a right to enforce the charge and thereby receive these assets. SLAL will also grant SL Intl a floating charge over a wider pool of assets to secure payment of the termination amounts.

2.6.6.4 Under UK insolvency law, reinsurance counterparties rank below direct policyholders in the event of wind-up. Without the security provided by the collateral and the charges, transferring policyholders would therefore have benefits secured behind those of non-transferring UK policyholders should SLAL become insolvent. However, the collateral and charges alone would result in transferring policyholders securing their benefits ahead of direct policyholders.

2.6.6.5 The floating charge includes a "**Quantum Provision**" to protect SLAL's direct policyholders by limiting SL Intl's entitlement in the event of SLAL's insolvency to broadly the amount that would be payable if the SL Intl policyholders were direct policyholders of SLAL. The quantum provision does not apply to the payment under the fixed charge. In the highly unlikely circumstances that the theoretical total payout to SL Intl was lower than the amount paid under the fixed charge, SL Intl policyholders will therefore receive more than they would have done as direct policyholders. Any such excess payout would reduce payouts to all of SLAL's direct policyholders.

2.6.6.6 The EFL retrocession arrangement will not be collateralised. The assets backing SL Intl liabilities will be held in SL Intl and on SLAL's insolvency will be retained by SL Intl and so no collateral is needed.

2.6.6.7 SL Intl will issue three **Deed Polls** which will have the effect of ensuring that the transferring with profits policyholders continue to participate in the profits of the appropriate SLAL with profits fund. The Deed Polls also ensure that SL Intl's obligation under a Transferred Policy is no less than the amount SLAL pays SL Intl for that policy under the reinsurance arrangements.

2.6.7 Existing External Reinsurance Arrangements

2.6.7.1 There are existing external reinsurance arrangements that will continue to apply to the transferring business.

2.6.7.2 Treaties that are in respect of transferring business only will be transferred from SLAL to SL Intl as part of the Proposed Transfer with no material changes to their existing terms. If an external reinsurer were to default on a policy which is reinsured from SL Intl to SLAL, then SLAL would bear this cost under the reinsurance arrangements between SLAL and SL Intl. Such cost would affect with profit policyholders only to the extent that it was properly chargeable to the HWPF, where it would fall on the estate. The circumstances in which this could happen and the potential effects on HWPF policyholders (whether SL Intl or SLAL) would be the same as they currently are.

2.7 Post transfer solvency

2.7.1 Section 7 of the Chief Actuary report outlines the effect of the Proposed Transfer on the solvency and risk profiles of SLAL and SL Intl. Having reviewed this information I conclude that the solvency of SLAL and SL Intl, as well as the risk profiles of these companies, do not expose the with profits policyholders to any significant change in security on the Proposed Transfer. This conclusion relies on SL Intl being a subsidiary of Phoenix and the reinsurance of the with profits business back to SLAL. These will ensure that the with profits business continues to have access to support as it does currently.

2.7.2 The capital injection provided to SL Intl to support its solvency capital coverage is provided by the SLAL shareholder and not the with profit funds. As outlined in the SLAL Chief Actuary report, this capital injection will be such as to ensure that SL Intl is suitably capitalised at the Effective Date irrespective of the economic conditions at the time.

3 Transferring with profits policyholders

3.1 General

3.1.1 This section covers the issues raised by the Proposed Transfer that affect transferring with profits policyholders in all with profits funds. Sections 4, 5 and 6 consider issues specific to transferring policies in the HWPF, GWPF and GSMWPF respectively.

3.2 Policy terms and conditions

3.2.1 The Proposed Transfer does not result in any material adverse changes to the terms and conditions of the transferring policies. The Deed Polls, which allow transferring SLAL with profits policyholders to share in the profits of the same with profits funds as currently, constitute an addition to the terms and conditions of the policies. I am satisfied that this is in line with the Reasonable Expectations of the transferring policyholders.

3.2.2 The Proposed Transfer will not result in any change to the:

- rights of any with profits policyholder to participate in the profits of the fund in which they expect to participate; and
- options and guarantees available to any with profits policyholder.

3.2.3 The Proposed Transfer entails no change in the staff or systems involved in servicing the transferring policies. It is therefore not expected to cause any change in service standards for the transferring policyholders.

3.3 Financial Services Compensation Scheme

3.3.1 The Financial Services Compensation Scheme ("**FSCS**") protects eligible customers with contracts written by SLAL as a UK based firm such that, if SLAL were to fail, the customers would receive 100% of their claim through the FSCS. This protection applies to all UK policies and to Euro-denominated policies purchased after 2000.

3.3.2 Following the Proposed Transfer, the Euro-denominated contracts will be in SL Intl, a non-UK based firm, and will be deemed to have been issued by it. The transferring policyholders will therefore no longer have access to the FSCS.

3.3.3 This issue is not specific to with profits policyholders and is addressed in Section 7.6 of the Chief Actuary report, which concludes that the impact of the loss of the FSCS on a policyholder is negligible because of the low likelihood of such compensation being needed.

3.3.4 The likelihood of customers suffering as a result of the loss of FSCS protection is remote because of the financial strength of SLAL, the reinsurance between SLAL and SL Intl and the low likelihood that Phoenix would fail to act to support SL Intl if there was significant risk of it defaulting on its obligations to policyholders.

3.3.5 The purpose of the Proposed Transfer is to ensure that SLAL can continue to meet its commitments to its policyholders after Brexit, and loss of this protection is an unavoidable consequence.

3.3.6 I note that thorough consideration has nevertheless been given to arrangements that might replace in some way the protection that is currently provided by the FSCS, with the conclusion that no such arrangements are feasible. However, my report concerns with profits benefits payable by SLAL or SL Intl. As access to the FSCS is not in the control of either company, I have not taken it into account in reaching my opinion.

3.4 Security

3.4.1 The security of transferring policyholders' benefits depends upon the ability of the companies to meet the benefits as they become due. Section 7 of the Chief Actuary Report for SLAL considers the effect of the Scheme and changes to the Legacy Schemes on the security of SLAL policyholders' benefits.

3.4.2 The Scheme requires SL Intl to carry on its business (to the extent reasonably practicable) so that there is no significant foreseeable risk that it becomes unduly exposed to a risk that it will be unable to meet its capital needs. This is the same as a requirement imposed on SLAL by the 2006 Scheme.

3.4.3 Reinsurance of the transferring with profits business back to the SLAL with profits funds will maintain the existing composition of these funds and so maintain their existing strength.

3.4.4 The reinsurance arrangements 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 any concerns about the operation of the reinsurance and SLAL's management of the with profits business.

3.4.5 As SL Intl is currently wholly owned by SLAL, the Scheme does not materially change the risk profile of SLAL since the transferring business will stay within the SLAL group and the with profits business will be reinsured back to SLAL's with profits funds.

3.4.6 After the Proposed Transfer SLAL will continue to provide capital support if required under existing arrangements to each of the SLAL HWPF and SLAL GWPF. The SLAL GSMWPF does not have material guarantees and therefore does not have an arrangement in place. Irrespective of the existence of specific support arrangements, SLAL will continue to be liable for the benefits payable under all of its policies including the reinsurance from SL Intl.

3.4.7 I am satisfied that the Proposed Transfer does not have a materially adverse effect on the security of the with profits benefits of the transferring policyholders.

3.5 Governance

3.5.1 One of the defining features of with profits business is the use of discretion in its management. The Proposed Transfer is designed to allow the current governance of the with profits business (as described in Section 2.4.3) to continue for the transferring business. I consider these arrangements to be one of the most important safeguards for the transferring policyholders in the Proposed Transfer.

3.5.2 Following the Proposed Transfer, SL Intl will become responsible for all of the duties and liabilities under all of the transferring policies including the with profits business that will be reinsured back to SLAL.

3.5.3 While the with profits reinsurance arrangements with SLAL remain in place, the SL Intl IPPFMs, required under the Scheme, will refer to and rely on the SLAL PPFM or IPPFM document for the equivalent fund (which will be altered to include reference to reinsured policies). The Proposed Transfer requires SLAL to maintain such documents and manage the with profits funds in line with them. If any of the reinsurance arrangements are terminated, SL Intl is required under the Scheme to establish its own detailed IPPFM for each fund and appoint its own WPC and WPA or equivalent.

3.5.4 SL Intl will have access to the SLAL WPC and relevant management, with the opportunity to comment on proposed actions.

3.5.5 SLAL will provide SL Intl with evidence that it is meeting its obligations under the reinsurance and in particular that it is complying with the HWPF PPFM and the GWPF and GSMWPF IPPFMs.

3.5.6 The SLAL WPA will continue to advise the SLAL Board. The SLAL WPA's duties will include consideration of SLAL's obligations to SL Intl under the reinsurance as if the SL Intl with profits policyholders (who participate in the SLAL with profits funds via reinsurance) were still SLAL with profits policyholders.

3.5.7 The SLAL WPC will continue to advise the SLAL Board. Its ToR will be updated to:

- clarify that its responsibilities extend to the interests of all with profits policyholders who participate in a SLAL with profits fund irrespective of whether those policyholders are SLAL policyholders whose policies were written in the UK or SL Intl policyholders whose polices were written in Ireland or Germany and who participate in a SLAL with profits fund via reinsurance; and

- provide a right of access for SL Intl to make representations to the WPC and to receive relevant WPC agendas, papers and minutes.

3.5.8 The SLAL Board will continue to be responsible for the appropriate management of HWPF, GWPF and GSMWPF business, taking the advice of the WPA and the WPC.

3.5.9 The reinsurance arrangements oblige the SLAL Board to consult SL Intl prior to changing any Principles in the PPFM or IPPFM for any of SLAL's with profits funds which have business reinsured from SL Intl. If the SL Intl Board does not agree with any proposed change, then it will have the right to make representations to the SLAL WPC and SLAL Board. If SLAL nevertheless makes a change to a Principle which is unacceptable to SL Intl, then SL Intl will have the right to cancel its reinsurance arrangement with SLAL in respect of the affected with profits fund or funds.

3.5.10 The SL Intl Board can express its views or concerns on any aspect of the management of the with profits funds to the SLAL Board.

3.5.11 The proposed governance is appropriate, as transferring with profits policyholders would have reasonably expected their policy to continue to be managed within the context of the UK with profits regime. While the reinsurance arrangements are in place, the governance remains in that UK context. If any of the arrangements are terminated then SL Intl is required to put in place equivalent governance and continue to maintain and abide by the IPPFMs.

3.5.12 I therefore conclude that the proposed governance will maintain the appropriate protection of with profits policyholders' benefit expectations.

3.6 Termination of reinsurance

3.6.1 There are no plans to terminate any of the reinsurance arrangements. However it is important to consider how termination could affect the transferring business.

3.6.2 The reinsurance arrangements set out a number of circumstances in which they may terminate. If SLAL insolvency or payment default causes termination then the amount that SL Intl recovers will be limited by the Quantum Provision in the floating charge, as discussed in Section 2.6.6.

3.6.3 On termination in other circumstances (including irreconcilable disagreement between SLAL and SL Intl as to the investment of the assets subject to the fixed charge or a specified substantial deterioration in SLAL's financial strength), the reinsurance arrangements allow for a series of payments from SLAL to SL Intl. These are designed to balance SL Intl's wish to recover assets without delay and the need to treat both SLAL and SL Intl policyholders fairly. Protections are being introduced to the 2006 Scheme to limit the extent to which the HWPF can be called on to meet SLAL's liability for such payments.

3.6.4 Termination of the HWPF reinsurance arrangement will require a split of SLAL HWPF's assets and liabilities, including the Inherited Estate, and variations to the Scheme and the Legacy Schemes. These will take time to finalise and will require Court consent. The EFL retrocession arrangement and the HWPF reinsurance arrangement are written so that if one terminates the other also does so.

3.6.5 Termination of the GWPF or GSMWPF reinsurance arrangements will not necessarily require additional Scheme changes and therefore may not require Court consent. The Scheme specifies governance arrangements following termination that offer suitable protection for policyholder benefit expectations, as described in Section 3.5 above.

3.6.6 Unless otherwise stated, the analysis presented in all other sections of this report covers the position when all the reinsurance arrangements remain in place.

3.6.7 I conclude that the arrangements for the payment of termination amounts appropriately allow for the interests of all of the with profits policyholders of SLAL and SL Intl.

4 Transferring HWPF policyholders

4.1 Background

4.1.1 The HWPF is the With Profits Fund as defined in the 2006 Scheme of Demutualisation. It has both with profits and non-profit business.

4.1.2 This fund holds all of SLAL's Irish, German and Austrian business written by SLAC prior to demutualisation together with all such UK business apart from Pension Contribution Insurance, Income Protection Plan, and some Self Invested Personal Pension policies. Since demutualisation, increments have been written in the HWPF together with the investment content of a small amount of UK and Irish new business in line with the conditions set out in the 2006 Scheme. Other new business may be allocated to the HWPF in future subject to limitations set out in the 2006 Scheme.

4.1.3 A split of the fund at 31 December 2017 is given in the table below. This includes the Best Estimate Liabilities ("**BEL**") assessed under Solvency II regulations.

Country	Transferring Policies (thousands)	BEL (£m)
Ireland	38	1,231
Germany	271	7,314
Austria	28	874
UK	0	24,358
Total	**337**	**33,777**

4.1.4 The Own Funds in the HWPF at 31 December 2017 measured on the Solvency II basis was about £1,320m.

4.1.5 The reinsurance results in the capital position (that is the Solvency Capital Requirements ("**SCR**"), BEL and size of the Inherited Estate) of the HWPF remaining materially unchanged by the Proposed Transfer.

4.1.6 The HWPF has various types of with profits policies. These are described in the PPFM and include conventional and unitised life and pension policies and with profits pension annuities.

4.1.7 Some UK and Irish unitised policies can invest in with profits and unit linked funds. The unit linked elements of these policies are held in the SLAL PBF.

4.1.8 Non-profit business in the HWPF is backed by assets of an appropriate nature and term with the investment strategy regularly reviewed by the SLAL Board.

4.1.9 Assets in the HWPF, other than those backing non-profit business, comprise the following:

- Assets backing the **Asset Shares** of with profits policies both in the UK and overseas;

- Assets backing provisions made for other liabilities of the HWPF (including the options and guarantees of the with profits policies); and

- Assets constituting the Inherited Estate.

4.1.10 The primary role of the Inherited Estate is to provide for the possibility that the provisions made for the liabilities of the HWPF may prove to be insufficient and for any unforeseen liabilities attributable to the HWPF. To the extent that the SLAL Board is satisfied that the Inherited Estate exceeds the amount required to meet its primary role, any excess Inherited Estate is distributed over time as an enhancement to payouts.

4.1.11 The 2006 Scheme defines cashflows that are transferred from the HWPF to the benefit of shareholders, if not required to meet HWPF liabilities. If a calculated shareholder cashflow were to be negative, then the SLAL Board is required to provide a contingent loan to the HWPF equal in size to the negative cashflow. The Scheme also defines additional expenses to be regularly transferred from the HWPF in respect of the German business.

4.1.12 Management of with profits funds directly affects the benefits of policyholders, and the security of those benefits. Many of the management actions that can be exercised by SLAL in the operation of the HWPF are required by the 2006 Scheme to be appropriate to a mutual company: the "**Notional Company**". This is defined in detail in the 2006 Scheme but is essentially the HWPF with no shareholder and with some specified additional capital. Matters in which the Notional Company is used include:

- Investment policy;

- Regular bonus rates;

- Smoothing, when the HWPF aims to smooth the effects of fluctuations in investment returns that arise in the final years before a claim is paid;

- Maturity and other payouts; and

- Deductions for the assessed cost of guarantees.

4.1.13 The role of the Inherited Estate, the shareholder cashflows, the additional expenses and the application of the Notional Company will not be changed by the Proposed Transfer.

4.1.14 As a UK with profits provider, SLAL is required by the FCA to document and make available the PPFM that describes how it operates the HWPF. This requirement applies to UK with profits business within the fund. The 2006 Scheme also requires SLAL to maintain PPFM for the whole HWPF. The same Principles apply to SLAL's management of non-UK business, and the published PPFM indicates how the Practices for Irish, German and Austrian policies written in or allocated to the HWPF differ from those relating to UK business.

4.1.15 Following the Proposed Transfer, the HWPF will continue to be governed by SLAL in accordance with the PPFM with this continuing to be monitored by the SLAL WPC and SLAL WPA.

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4.2 Fund operation

4.2.1 The reinsurance arrangement allows the HWPF to continue without division and the existing sharing of experience to be maintained, in particular between UK, German and Irish policyholder groups.

4.2.2 The reinsurance arrangement will not change the operation of the HWPF and hence the ability of the fund to meet its guarantees itself. If it is ever unable to do so then it will have access to the same support from SLAL as currently.

4.3 Investment policy

4.3.1 In the long run the investments backing the Asset Shares are expected to have more influence than anything else on the benefits that with profits policyholders receive.

4.3.2 Reinsurance of transferring policies back to the HWPF will maintain its current composition and will allow continuity of investment strategy under the framework of the 2006 Scheme and as described in the PPFM.

4.4 Bonus practice and distribution of the Inherited Estate

4.4.1 Reinsurance of transferring policies back to the HWPF will maintain the fund in its pre transfer position, so that bonuses can continue to be set in line with existing practices for all policyholders. Bonus rates are set by class of with profits policy to reflect underlying characteristics such as type of guarantee.

4.4.2 The SLAL WPC and the SLAL WPA will continue to advise the SLAL Board on bonus policy in line with the PPFM and the 2006 Scheme. SL Intl will have access to this advice in order to monitor the operation of the SLAL HWPF in line with its PPFM.

4.4.3 If the SL Intl Board declares a higher bonus than the one declared by SLAL, it must fund the increase in bonus itself (i.e. the SLAL HWPF will not provide this increased bonus amount). This ensures that SL Intl is unable to increase the distribution of the Inherited Estate to its HWPF policyholders to the detriment of SLAL HWPF policyholders. Such increased bonuses to SL Intl policyholders are unlikely as SL Intl is not expected to have any source of funds to pay more than it receives from SLAL.

4.4.4 The Proposed Transfer (and in particular the Deed Poll) ensures that the transferring policyholders receive bonuses from SL Intl that are no less than SLAL pays SL Intl under the reinsurance in respect of their policy.

4.4.5 Distribution of the Inherited Estate will, like bonus policy, be able to continue to follow existing practices, applying consistently across transferring and non-transferring eligible HWPF policyholders.

4.4.6 I conclude that the Proposed Transfer will not have a material adverse effect on bonuses and estate distribution for the transferring HWPF policyholders as the policies will continue to share in the fortunes of the SLAL HWPF as they do now, with the management of the fund continuing to follow its established practices.

4.5 Smoothing

4.5.1 Payouts from the HWPF include discretionary adjustments for smoothing to reduce the effects of fluctuations in investment returns that arise in the final years before a claim is paid on maturity and usually on earlier withdrawal. Smoothing will never reduce any guaranteed benefits. The details are set out in the HWPF PPFM.

4.5.2 Reinsurance of the transferring business back into the SLAL HWPF allows the fund to continue to operate as it does currently. The governance of decisions on smoothing is identical to that for bonus policy.

4.6 Deductions for guarantees

4.6.1 As described in the PPFM, deductions are made from Asset Shares for the assessed cost to the HWPF of providing guarantees on with profits policies in the fund.

4.6.2 The deductions are reviewed regularly, taking into account the past experience of with profits business written in the UK, Ireland and Germany and an assessment of the prospects for the future experience of the business. A change in actual or assumed experience that increases the assessed cost of guarantees for one type of with profits business or the business written in one country can result in an increase in the guarantee deductions for all types of with profits business written in the UK, Ireland and Germany. After the Proposed Transfer the current process as described in the PPFM will continue.

4.6.3 Guarantee deductions are capped. SLAL shareholder funds bear the residual (or burnthrough) risk for guaranteed benefits that the HWPF cannot meet from guarantee deductions or the Inherited Estate. This support from SLAL continues following the Proposed Transfer.

4.6.4 In summary, the Proposed Transfer allows the current management of guarantee deductions in the HWPF to continue. Combined with SLAL's continuing support of residual burnthrough costs, this means that the Proposed Transfer will have no material effect on transferring or non-transferring policyholders in this respect.

4.7 Cost of Proposed Transfer and ongoing expenses

4.7.1 SLAL's expenses are currently attributed to the UK, Germany and Ireland business units, who in turn allocate them between products and funds. For expenses allocated to the HWPF, the 2006 Scheme sets out which expenses are taken into account in the Recourse Cash Flow ("**RCF**") payments between the HWPF and SLAL (and are effectively borne by the shareholder) and which ones do not (and are borne by HWPF policyholders).

4.7.2 Project expenses relating to the Proposed Transfer will be allocated between the HWPF and other funds in line with established practice. The allocation of expenses to the HWPF is reviewed by the SLAL WPC annually.

4.7.3 Additional work in operating the HWPF reinsurance may mean that costs are higher than would be expected without the Proposed Transfer. The HWPF will be charged the actual costs incurred by SL Intl in line with the 2006 Scheme.

The allocation of expenses to the HWPF will continue to be reviewed by the WPC annually.

4.7.4 No other costs from the Proposed Transfer will be charged to the HWPF.

4.7.5 This allocation of expenses is fair to with profits policyholders and is in line with the 2006 Scheme. It maintains appropriate protection of policyholders' interests as the allocated costs associated with the Proposed Transfer will have been incurred in the operation of the HWPF as necessary to ensure the continued servicing of the transferring policyholders.

4.8 Vesting annuities

4.8.1 The 2006 Scheme provides for annuities that come into payment to be usually provided outwith the SLAL HWPF. For policies with guaranteed annuity rates (including those written as deferred annuities) there are protections for the SLAL HWPF as to the rate to be offered, and the option, if the WPA considers the rate unreasonable, for the annuity to be provided by the SLAL HWPF.

4.8.2 This option for the HWPF will be maintained through the HWPF reinsurance arrangement. That is, the SLAL HWPF can either:

- accept the rate offered by the SL Intl Eur PBF and have no further liability for the policy; or
- retain the annuity liability and provide SL Intl the annuity payments under the reinsurance.

4.9 Mortgage Endowment Promise

4.9.1 The Mortgage Endowment Promise ("**MEP**") covers some conventional and unitised with profits policies in the SLAL HWPF. MEP applies to a small number of transferring Irish HWPF policyholders. There will be no change to the operation of the MEP for these policyholders.

4.9.2 The transferring MEP policies will be reinsured back to the SLAL HWPF and the SLAL HWPF will therefore continue to meet its commitment under the MEP.

4.10 Taxation

4.10.1 Standard Life will continue to allocate tax using a ring fenced calculation based on notional mutual calculations as specified by the 2006 Scheme. Within this the reinsurance arrangement will affect the taxation of the pre 2001 Irish net business, Old Basis Business ("**OBB**"). The Irish OBB will continue to be taxed in Ireland but the annual movement in the reinsurance asset will be taxable rather than the tax being calculated by reference to the investment assets of the HWPF. SLAL expects the taxation of the reinsurance asset to produce materially the same result as the investment asset calculation.

4.10.2 A number of Irish with profits policyholders within the SLAL HWPF also have the option to invest in unit linked funds in the SLAL PBF. These unit linked funds are to be transferred from SLAL PBF to SL Intl Eur PBF as part of the Scheme (and the policies from the SLAL HWPF to the SL Intl HWPF and reinsured back). The EFL retrocession ensures that these policyholders will continue to be able to invest in the same funds as currently. There is a slight change to the taxation of these funds which is covered in the Chief Actuary Report – it is not specifically a with profits policyholder issue.

4.11 Other issues

4.11.1 The 2006 Scheme has a **sunset clause** for the HWPF – that is a clause that releases SLAL from its obligation to maintain the HWPF when the fund falls below a given size and allows for the remaining with profits policies to be converted to non-profit. This is not expected to occur until after 2050.

4.11.2 The Scheme will include a similar sunset clause for the SL Intl HWPF that will release SL Intl from its obligation to maintain the SL Intl HWPF and convert its remaining with profits policies to non-profit when the SLAL HWPF sunset clause is triggered.

4.11.3 All other provisions of the 2006 Scheme will continue to apply. Some minor variations in wording are proposed to ensure that this is the case and I confirm that these variations are appropriate and do not have any material adverse effects on with profits policyholders.

4.12 Conclusion

4.12.1 I conclude that the Proposed Transfer will have no material adverse effect on the Reasonable Expectations of the SLAL HWPF with profits policyholders transferring to SL Intl.

4.12.2 My assessment of the impact of the Proposed Transfer on the non-transferring policyholders in the SLAL HWPF can be found in Section 7.

5 Transferring GWPF policyholders

5.1 Background

5.1.1 The GWPF is allocated the with profits investment element (and corresponding guarantees) of all of the with profits business, other than smoothed managed with profits business and increments to HWPF contracts, in Germany (including plans originating in Austria) written by SLAL in its PBF after demutualisation. Policies are written in the PBF and their investment content is allocated to the GWPF.

5.1.2 All of this business is of one type: 'Freelax'. This is a with profits single or regular premium deferred annuity product providing a maturity value and annuity amount that are guaranteed at outset. The fund is closed to new business other than increments and certain prescribed situations (for example splitting policies on divorce or rectification of policy errors).

5.1.3 A split of the fund at 31 December 2017 is given in the table below. This includes the Best Estimate Liabilities assessed under Solvency II regulations.

Country	Transferring Policies (thousands)	BEL (£m)
Germany	124	1,768
Austria	19	211
Total	**143**	**1,979**

5.1.4 The GWPF does not have an estate or an SCR. This is unchanged as a result of the Proposed Transfer.

5.1.5 The with profits investment element of policies in the GWPF is unitised, with the unit price increasing in line with a regular bonus rate (subject to a minimum rate of 0% per annum).

5.1.6 In order to meet the guarantees in GWPF business, a deduction is made to meet their assessed cost. These deductions are accumulated separately within the GWPF. To the extent that the accumulated guarantee deductions do not meet the cost of guarantees, then these costs are met by SLAL PBF.

5.1.7 As the GWPF has no UK with profits policyholders, it is not required by regulation to have PPFM. SLAL is putting in place IPPFM for the GWPF that will set out how the GWPF business is operated and will form an important part of the future governance of the fund.

5.2 Investment policy

5.2.1 As for the HWPF, the benefits policyholders receive depend on the investments backing Asset Shares and so investment strategy is an important component of policyholders' expectations.

5.2.2 Investments relate solely to transferring business. Reinsurance of all the business back to the GWPF means the fund will continue essentially in its current form in SLAL and hence its investment strategy can be maintained.

5.3 Bonus practice

5.3.1 The current approach to setting bonus levels will continue as all the transferred policies will be reinsured back to SLAL.

5.3.2 The governance process to approve GWPF bonuses is as described for the HWPF.

5.4 Smoothing

5.4.1 The GWPF includes discretionary adjustments for smoothing as described for the HWPF. Smoothing will never reduce any guaranteed benefits.

5.4.2 Since all transferring GWPF policies are reinsured back to SLAL, there will be no change to the current smoothing principles as a result of the transfer.

5.4.3 The smoothing methodology will continue to be set and regularly reviewed by the SLAL Board with advice from the SLAL WPA and the SLAL WPC.

5.5 Deductions for guarantees

5.5.1 Deductions are made from Asset Shares for the assessed cost of providing guarantees on with profits policies in the fund. The levels of deductions are reviewed regularly by the SLAL Board with advice from the SLAL WPA and SLAL WPC. There is a cap on the level of deductions and past deductions can be refunded if the cost of providing guarantees proves lower than expected.

5.5.2 Again, since all transferring GWPF policies are reinsured back to SLAL, there will be no change from the current approach to setting guarantee deductions as a result of the transfer.

5.6 Ongoing expenses

5.6.1 The only expenses charged to the GWPF are some direct investment expenses mainly relating to dealing costs, custodian fees and hedging costs. There is no change expected to the level of expenses charged to the GWPF as a result of the Proposed Transfer.

5.7 Vesting annuities

5.7.1 There are guaranteed annuity terms at vesting of contracts written in the SLAL GWPF. Currently, when a deferred annuity vests in the GWPF, the GWPF effectively purchases an annuity from the SLAL PBF. Following the Proposed Transfer, a similar process is proposed for vesting GWPF annuities as described above for the HWPF.

5.7.2 SLAL GWPF will be offered the best annuity rate available from the SL Intl Eur PBF. The SLAL Board with appropriate advice including from the SLAL WPC and the SLAL WPA will either accept the rate offered (with no further liability to SLAL for that policy) or provide the annuity from SLAL. If SLAL provides the annuity, this may be from either the SLAL PBF or the SLAL GWPF.

5.7.3 In this way guaranteed annuity provisions will continue to be met for transferring GWPF policyholders.

5.8 Other issues

5.8.1 There is no Inherited Estate in the SLAL GWPF. There is no intention to build up an Inherited Estate within either the SLAL or SL Intl GWPF.

5.8.2 The GWPF does not currently have a sunset clause and the Proposed Transfer does not introduce one.

5.9 Conclusion

5.9.1 I conclude that there will be no material adverse effect on the Reasonable Expectations of the SLAL GWPF with profits policyholders transferring to SL Intl.

6 Transferring GSMWPF policyholders

6.1 Background

6.1.1 The GSMWPF was established in 2006 to allow SLAL to write smoothed managed with profits business in the German and Austrian markets after demutualisation.

6.1.2 The GSMWPF is allocated the with profits investment element of all the new smoothed managed with profits business written by SLAL in Germany (including plans originating in Austria) after demutualisation. Policies are written in the PBF and their investment content is allocated to the GSMWPF.

6.1.3 The only product which invests within the GSMWPF is Suxxess. This is a smoothed managed single or regular premium deferred annuity.

6.1.4 The GSMWPF is closed to new business other than increments and certain prescribed situations (for example splitting policies on divorce or rectification of policy errors).

6.1.5 A split of the fund at 31 December 2017 is given in the table below. This includes the Best Estimate Liabilities assessed under Solvency II regulations.

Country	Transferring Policies (thousands)	BEL (£m)
Germany	7	114
Austria	<1	9
Total	**7**	**123**

6.1.6 The with profits investment elements in the GSMWPF are unitised. However, these policies do not receive regular bonuses and payouts depend on unit values that are determined from individually calculated Asset Shares. No minimum investment return applies, so unit values and payout values can fall as well as rise.

6.1.7 Some of these policies have guaranteed annuity terms for taking pension benefits. The cost of this guarantee does not fall on the GSMWPF; it is borne by the SLAL shareholder.

6.1.8 As for the GWPF, IPPFM are being introduced for the GSMWPF to describe its management. The nature of smoothed managed business means that there is considerably less discretion in its management than in that of the HWPF or GWPF.

6.2 Investment policy

6.2.1 As for the GWPF, the reinsurance arrangement for the transferring GSMWPF policyholders will mean that the SLAL GSMWPF effectively maintains its pre transfer position.

6.2.2 The GSMWPF usually has a higher proportion of its assets in equities than the GWPF as it does not offer the investment guarantees that the GWPF provides.

6.2.3 The Proposed Transfer is not expected to result in a material change in investment management and hence expectations of Transferring Policyholders.

6.3 Smoothing

6.3.1 There are discretionary adjustments for smoothing applied to GSMWPF policies similar to those described for the GWPF and HWPF.

6.3.2 Since all transferring GSMWPF policies are reinsured back to SLAL, there will be no change to the current smoothing principles as a result of the transfer.

6.3.3 The smoothing methodology will continue to be set and regularly reviewed by the SLAL Board with advice from the SLAL WPA and the SLAL WPC.

6.4 Ongoing expenses

6.4.1 The only expenses charged to the GSMWPF are some direct investment expenses mainly relating to dealing costs and custodian fees. There is no change expected to the level of expenses charged to the GSMWPF as a result of the Proposed Transfer.

6.5 Other issues

6.5.1 The GSMWPF reinsurance arrangement allows SLAL to decide whether to accept the terms offered by SL Intl on vesting of an annuity or to provide the annuity from the SLAL PBF. In this way guaranteed annuity provisions will continue to be met for transferring GSMWPF policyholders. Since, as explained in 6.1.7, the cost is met from SLAL shareholder funds this has no effect on the GSMWPF.

6.5.2 There is no Inherited Estate in the SLAL GSMWPF. There is no intention to build up an Inherited Estate within either the SLAL or SL Intl GSMWPF.

6.5.3 The GSMWPF does not currently have a sunset clause and the Proposed Transfer does not introduce one.

6.6 Conclusion

6.6.1 I conclude that there will be no material adverse effect on the Reasonable Expectations of the SLAL GSMWPF with profits policyholders transferring to SL Intl.

7 Non-transferring HWPF policyholders

7.1 General

7.1.1 This section covers the UK HWPF policyholders (also referred to as the non-transferring policyholders) who will all remain in SLAL after the Proposed Transfer.

7.1.2 There will be no change to the UK policyholders' policy terms and conditions as a result of the Proposed Transfer.

7.2 Financial Services Compensation Scheme

7.2.1 The Proposed Transfer causes no change to the FSCS protection for UK policyholders. The terms of the FSCS are set by the PRA.

7.3 Security

7.3.1 Section 7 of the Chief Actuary Report considers the effect of the Scheme and changes to the Legacy Schemes on the security of benefits of SLAL transferring and non-transferring policyholders.

7.3.2 Section 3 of this report describes the collateral and related Quantum Provision introduced to provide security to transferring HWPF policyholders. The introduction of these will ensure that the Proposed Transfer does not have a material impact on remaining policyholders and will maintain fairness between SL Intl HWPF and SLAL HWPF policyholders.

7.3.3 I conclude that the Proposed Transfer does not have a materially adverse effect on the security of the non-transferring policyholders.

7.4 Governance

7.4.1 Proposed changes in governance of the HWPF are covered in Section 3. As outlined above, the SLAL Board, taking advice from the SLAL WPA and SLAL WPC will continue to govern the HWPF and ensure that all HWPF policyholders are treated fairly.

7.4.2 SLAL will provide SL Intl with evidence that it is complying with the HWPF PPFM. SL Intl will have access to the SLAL WPC and relevant management, with the opportunity to comment on proposed actions.

7.4.3 The HWPF reinsurance arrangement obliges the SLAL Board to consult SL Intl prior to changing any Principle in the HWPF PPFM. If the SL Intl Board does not agree with the proposed change, then it will have the right to make representations to the WPC and SLAL Board. If SLAL nevertheless makes a change to a Principle which is unacceptable to SL Intl, then SL Intl will have the right to terminate the HWPF reinsurance arrangement. This will require a split of the fund's assets and liabilities including the Inherited Estate and variations to the Scheme and the Legacy Schemes. This will require Court consent in a process akin to a Part VII transfer which will ensure that the interests of the UK HWPF policyholders are protected.

7.4.4 I conclude that the Proposed Transfer does not have a materially adverse effect on the governance of the HWPF and hence on the Reasonable Expectations of the non-transferring policyholders.

7.5 Fund operation

7.5.1 The main feature of the HWPF reinsurance is that it allows the existing sharing of experience in the HWPF to be maintained.

7.5.2 This will allow continuity in:

- Investment strategy;
- Bonus practices;
- The estate available for distribution;
- Guarantee costs and the deductions SLAL makes towards the assessed cost of guarantees; and
- Capital support being provided if the HWPF is unable to meet its guarantees.

7.5.3 Maintaining the HWPF by the reinsurance arrangement allows it to continue to operate as it does currently, with risks and rewards shared as they are now. This keeps the same balance as set by the 2006 Scheme between policyholder and shareholder interests.

7.6 Investment policy

7.6.1 Reinsurance of transferring policyholders back to the HWPF will maintain its current composition and will allow continuity of investment strategy under the framework of the 2006 Scheme and as described in the PPFM.

7.6.2 The Proposed Transfer is not expected to result in a material change in investment management and hence Reasonable Expectations of non-transferring policyholders.

7.7 Bonus practice and distribution of the Inherited Estate

7.7.1 As the SLAL HWPF will be maintained in its pre transfer position, bonuses can continue to be set in line with existing practices for all policyholders.

7.7.2 SLAL is only liable under the reinsurance arrangement for payments to SL Intl policyholders that are consistent with SLAL's established principles and practices. In addition if SL Intl increases the benefit expectations of its policyholders through communications that SLAL has not approved before issue, then SLAL has no liability for the increased payments.

7.8 Smoothing

7.8.1 Reinsurance of the transferring business back into the SLAL HWPF allows the fund to continue to operate as it does currently. The governance of decisions on smoothing is identical to that for bonus policy.

7.9 Deductions for guarantees

7.9.1 The guarantees in UK HWPF with profits policies will not change as a result of the Proposed Transfer.

7.9.2 The current management of guarantee deductions in the HWPF can continue. Combined with SLAL's continuing support of any residual burnthrough costs, this means that the Proposed Transfer will have no material effect on non-transferring policyholders in this respect.

7.10 Cost of Proposed Transfer and ongoing expenses

7.10.1 As explained in Section 4.7, some additional expenses will be charged to the HWPF in relation to the Proposed Transfer.

7.10.2 This allocation of expenses is fair to with profits policyholders and is in line with the 2006 Scheme. It maintains appropriate protection of policyholders' interests as the allocated costs associated with the Proposed Transfer will have been incurred in the operation of the HWPF as necessary to ensure the continued servicing of the transferring policyholders.

7.10.3 The effect will be to reduce the Inherited Estate and hence the amount available for distribution to all eligible policyholders (including the UK policyholders). This is consistent with the primary role of the Inherited Estate as defined in the 2006 Scheme.

7.11 Vesting annuities

7.11.1 There are no changes to the provisions in the 2006 Scheme regarding UK vesting annuities.

7.12 Mortgage Endowment Promise

7.12.1 There are no changes to the MEP for UK policyholders.

7.13 Taxation

7.13.1 The basis on which tax will be allocated to the HWPF after the Proposed Transfer is described in Section 4.10. The amount allocated is not expected to change materially as a result of the Proposed Transfer and therefore it will not have a material effect on the UK policyholders in this respect.

7.14 Termination of reinsurance

7.14.1 As stated in Section 3.6, there are no plans to terminate the HWPF reinsurance. However it is important to consider how termination would affect the non-transferring policyholders.

7.14.2 As described in Section 3.6.3, protections are being introduced to the 2006 Scheme to limit the extent to which the HWPF can be called on to meet SLAL's obligations on termination of the HWPF reinsurance. Further, as described in Section 7.4.3, termination of the HWPF reinsurance arrangement will result in a Court process to ensure appropriate protection of policyholders' interests.

7.14.3 After termination of the HWPF reinsurance arrangement, SL Intl will have no further interest in the management of the HWPF.

7.14.4 I conclude that in the event of termination the interests of the UK HWPF policyholders would be appropriately protected.

7.15 Other issues

7.15.1 All provisions of the 2006 Scheme will continue to apply. Some minor variations in wording are needed for this to be the case and I confirm that the proposed variations are appropriate and do not have any material adverse effects for with profits policyholders.

7.16 Conclusion

7.16.1 I conclude that there will be no material adverse effect on the Reasonable Expectations of the non-transferring HWPF with profits policyholders.

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8 Communications with policyholders

8.1 Transferring policyholders

8.1.1 The SLAL Board intends to communicate with transferring policyholders to explain what is being proposed and why. It will outline the Court process that will be followed in order to gain consent for the Proposed Transfer and highlight how policyholders can obtain further information or object to the Scheme.

8.1.2 I have seen the letters and booklet to be sent to transferring policyholders and I am satisfied that these are reasonable given my opinions on the Proposed Transfer provided in this report. The letters can be found on SLAL's website:

www.standardlife.eu

8.2 Non-transferring policyholders

8.2.1 Subject to the agreement of the FCA, the SLAL Board does not intend to communicate details of the proposed transfer to SLAL UK policyholders individually although it will publish notices in the press and on its website stating that further details are available. Given my opinion on the effects of the Proposed Transfer on the UK with profits policyholders as expressed in Section 7, I am satisfied that this is reasonable.

9 Summary and Opinion

9.1.1 In summary, it is my opinion that the Proposed Transfer will not have a material adverse effect on the interests and in particular the benefit security or Reasonable Expectations of any current SLAL with profits policyholder.

9.1.2 It is my opinion that:

i. There will be no material changes to the terms and conditions of any SLAL with profits policy.

ii. The governance for with profits business in SLAL and SL Intl will be sufficient to maintain the Reasonable Expectations of with profits policyholders. The Proposed Transfer provides for this to continue even in the event of the termination of any of the reinsurances.

iii. The reinsurance termination arrangements (on SLAL insolvency and in other circumstances) appropriately balance the interests of the with profits policyholders of SL Intl and SLAL.

iv. While the HWPF reinsurance arrangement is in place, the HWPF can continue to be managed as it has been since its inception at demutualisation. The existing sharing of experience between with profits policies from the UK, Germany, Austria and Ireland will continue.

v. The allocation of expenses to the HWPF will continue in line with the 2006 Scheme. The project expenses of the Proposed Transfer and the costs of additional work needed to operate the HWPF reinsurance arrangement will result in some additional expenses being charged to the HWPF.

vi. The proposed variations to the Legacy Schemes will not materially and adversely affect the Reasonable Expectations of any SLAL with profits policyholder.

9.1.3 I am satisfied that SLAL's planned communication with policyholders is appropriate and, in particular, that it is reasonable not to contact UK with profits policyholders individually.

Douglas Morrison, FFA

18 September 2018

Appendix: Glossary

Term	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
Asset Share	The asset share of a policy is the accumulation of premiums (less any amounts in respect of withdrawals) at the investment returns on the with profits assets, less deductions for expenses and charges (including any deductions for guarantees or contributions to the capital of the fund), tax and any other experience adjustments
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
Effective Date	The date on which the Scheme comes into effect. This is expected to be the 28 February 2019.
EFL	External Fund Links
FCA	Financial Conduct Authority
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
FSCS	Financial Services Compensation Scheme
GSMWPF	German Smoothed Managed With Profits Fund
GSMWPF policyholders	Policyholders of the SLAL PBF with investment in SLAL's GSMWPF
GWPF	German With Profits Fund
GWPF policyholders	Policyholders of the SLAL PBF with investment in SLAL's GWPF
HWPF	Heritage With Profits Fund
IPPFM	Internal Principles and Practices of Financial Management

Ireland	Republic of Ireland
Legacy Schemes	The 2006 Scheme of Demutualisation and the 2011 Orient Scheme.
MEP	Mortgage Endowment Promise
Non-profit	Not with profits
Notional Company	Defined in detail in the 2006 Scheme but essentially the HWPF with no shareholder and with some specified additional capital.
OBB	Old Basis Business
PBF	Proprietary Business Fund
Phoenix	Phoenix Group Holdings
PPFM	Principles and Practices of Financial Management
Proposed Transfer	Proposed Part VII transfer and reinsurance arrangements.
Quantum Provision	A provision that restricts SL Intl's recovery under the floating charge 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
RCF	Recourse Cash Flow - as defined in the 2006 Scheme
Reasonable Expectations	The concept of Policyholders' Reasonable Expectations has been a feature of the management of with profits business for many years because of the extent to which the benefits ultimately received by policyholders depend on decisions by the firm that are not explicitly constrained by the contract terms and conditions. Although to some extent PRE has been superseded in the UK by the concept of treating customers fairly that is now enshrined in regulations, the 2006 Scheme makes repeated reference to it in provisions that protect policyholders' interests. With profits policyholders' reasonable expectations depend materially on the firm's past practices in managing the business as well as on the representations made at the point of sale and subsequently.
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 Requirement
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
SLIF	Standard Life Investment Funds Limited
Solvency II	The Solvency II Directive (2009//138/EC) is the set of regulations that regulate the insurance firms within the EU.
Standard Life	The combination of SLAL and its subsidiaries.
Sunset Clause	A clause that releases a company from its obligations to maintain a fund
TAS	Technical Actuarial Standards
The Court	Court of Session
ToR	Terms of Reference
Transferred Policies	As defined in the Scheme
UK	United Kingdom
UKSMWPF	UK Smoothed Managed With Profits Fund
With profits policyholders	Includes both current with profits policyholders and also those policyholders who currently invest only in unit linked funds but have the right to switch into with profits investments
WPA	With Profits Actuary
WPC	With Profits Committee