PHOENIX LIFE LIMITED

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

Report by the Chief Actuary on the impact of the Scheme on Policyholders of Phoenix Life Limited

18 April 2023

Contents

1. INTRODUCTION

1.1. Purpose and Scope of Report

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

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

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

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

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

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

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

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

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

1.2. Status

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as Actuarial Function Holder of Phoenix on 30 July 2010 and I became the Chief Actuary when changes were introduced to the regulatory regime on 1 January 2016.

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

I am not a direct policyholder of any of the companies involved in the Scheme but I have accrued benefits under the defined benefit section of the staff pension scheme, which the trustees of the scheme have secured through a buy-in policy with Phoenix. The trustees and Phoenix are progressing towards a buy-out in 2023, at which point I will become a direct policyholder of Phoenix. I also have defined contribution benefits which are provided by my employer through a master trust arrangement with SLAL.

The proposed transfer will not change my pension arrangements, in particular there are no changes to policy terms and conditions or the way the policies are invested. Should the transfer go ahead, these policies will be treated in the same way as all other policies of the same type, in particular, like all other policies they will have the same value after the transfer as before.

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

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

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

On 1 October 2022 I also became the Chief Actuary of PLAL. In this report I consider the impact of the Scheme solely from the perspective of the policyholders of Phoenix and I have written a separate report which considers the impact of the Scheme on the policyholders of PLAL. Both companies have been part of the Phoenix Group for many years and, while their business characteristics are different, the underlying approach to financial management is similar. I am comfortable that I can fairly consider the impact of the Scheme on each company and its groups of policyholders in turn. My reports have been subject to internal review within Phoenix and the Independent Expert has provided his own report covering all of the companies which are subject to the Scheme.

1.3. Technical standards

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

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

2. EXECUTIVE SUMMARY AND CONCLUSION

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

This report is structured as follows.

In section 3, I have provided background information on PLAL, Phoenix, SLAL and SLPF.

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

- No business will transfer into the existing Phoenix WPFs and no existing Phoenix business will transfer under the Scheme. All of the policies, assets and liabilities in the Non-Profit Fund of PLAL ("PLAL Non-Profit Fund"), the Proprietary Business Fund of SLAL ("SLAL PBF") and certain annuities in SLPF will transfer to the Non-Profit Fund of Phoenix (the "Phoenix NPF") so that following the Transfer Date Phoenix will have a single non-profit fund.
- The Scheme will not change the terms and conditions of policies currently within Phoenix.
- The management of Phoenix business will be generally unchanged as the frameworks under which Phoenix, PLAL and SLAL policies are managed, such as the governance, capital policy and risk management frameworks, are already harmonised across the parties to the Scheme with the exception that the capital policy framework will be extended to include a Capital Events test as described in section 4.3.

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

- Phoenix will become a much larger company and the risk profile of Phoenix post-transfer will be different from its current risk profile. However, the risks to which Phoenix business will be exposed are not materially different from the risks to which it is currently exposed. Further, the parties to the Scheme already hold sufficient capital to meet both their regulatory and capital policy requirements in relation to their risks and operate under the same Risk Management Framework ("RMF") so have similar risk monitoring and mitigation processes in place.
- Importantly, Phoenix will take account of the risks in calculating its capital requirements and Phoenix will meet the regulatory capital requirements and those of its new capital policy immediately following implementation of the Scheme.

- There should be no negative effect on the investment performance, bonuses or on unit pricing of the Phoenix policies as a consequence of the Scheme.
- The Scheme will not cause any changes to the administration of Phoenix policies and there is no reason to expect the quality of administration or the level of service provided to Phoenix policyholders to deteriorate as a result of the Scheme.
- There will be no material change to the governance arrangements for existing Phoenix policies as a result of the Scheme as the composition of the Board of each of Phoenix, PLAL and SLAL is the same and governance arrangements are harmonised across the parties.

3. BACKGROUND

3.1. History of Phoenix

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

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

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

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

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

* In all cases except National Provident Life Limited, the entire business of each company was transferred to Phoenix.
^ Certain protection policies of SMA and SPL were transferred to The Royal London Mutual Insurance Society Limited in December 2008 under a separate scheme.

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

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

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

3.2. Structure and Business of Phoenix today

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

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

The first ten funds listed above are with-profits funds ("WPFs"). All of the surplus arising in the 100% WPF and the NPI WPF is attributable to the with-profits policies and with-profits benefits in the respective funds and at least 90% of the surplus in the other WPFs is attributable to the with-profits policies in the relevant fund. Further details of the business in each fund are included in Appendix 1.

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

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

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

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

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

** Post transitional allowance*

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

3.3. Phoenix's Capital Policy

Under the terms of the Phoenix 2009 Scheme, Phoenix maintains a capital policy, the Phoenix Capital Policy ("PCP"). The main objective of the policy is to ensure that Phoenix can continue to meet the PRA's capital requirements in internally specified stress scenarios. The strength of the policy is a function of these scenarios.

The other objective of the PCP is to govern the way in which shareholder support can be supplied to Phoenix's WPFs should they require it.

As required by the 2009 Scheme, the stress scenarios that determine the strength of the PCP are calibrated to be consistent with the risk appetite of the Phoenix Board. The risk appetite is reviewed regularly and currently results in a PCP requirement to hold sufficient capital to be able to meet regulatory capital requirements after a 1-in-10 year all risk event over a one-year period. This requirement is expressed as a percentage of the Solvency Capital Requirement ("SCR"), which is the amount of capital required to be held by insurance companies under Solvency II. The scenarios and percentage are reviewed from time to time to ensure that the capital policy continues to meet its objective, and the PRA are notified of the percentage. The percentage may thus change without affecting the strength of the capital policy.

For WPFs, the regulatory capital requirements and those of the PCP are met by any surplus in the fund where a WPF has sufficient additional capital after allowing for management actions permitted within the PPFM. Where there is insufficient surplus in a particular WPF, the additional capital is met by the Phoenix NPF and Phoenix Shareholders' Fund and such WPFs are referred to as supported funds. As at 31 December 2022 the SAL WPF had sufficient capital to meet its regulatory capital requirements but relied on a small amount of shareholder support to cover its PCP. There were no other supported WPFs as at 31 December 2022.

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

Under the terms of the PCP, Phoenix ensures that it holds sufficient assets that can be made available to the WPFs should they require support in the stress scenario.

The PCP requires that the Phoenix NPF and the Phoenix Shareholders' Fund provide capital support to WPFs by way of loans to any of the WPFs of Phoenix should they be unable to maintain the regulatory minimum value of assets which must be held in that fund plus a small margin. As at 31 December 2022, there is a small loan from the shareholder to the Britannic WPF to ensure that there are sufficient assets to cover the margin. Notwithstanding the loan, the Britannic WPF is inherently strong and can maintain solvency in SCR stress conditions by applying additional management actions. None of the other WPFs of Phoenix required loans.

As at 31 December 2022, Phoenix holds capital at least equal to 38 per cent of the SCR to meet the PCP, in addition to the capital necessary to meet the SCR itself. This percentage is currently being reviewed as part of its normal review schedule. Any change as a result of the review will apply prospectively following approval by the Phoenix Board.

Although not part of the PCP, further tests and allowances also currently apply under the Phoenix capital policy framework:

- an additional quantity of capital assessment based on holding sufficient capital to be able to meet regulatory capital requirements after a 1 in 20 year market risk scenario, and

- a quality of capital assessment to ensure that it has sufficient tangible assets in internally specified stress scenarios to meet the most onerous of:
  - an assessment, following a 1-in-10 one year event and taking into account the timeframe over which 1-in-10 losses arise, of the ability to maintain compliance with Matching Adjustment ("MA") regulatory requirements under the stressed conditions modelled in the SCR; and
  - an internal assessment of the appropriate level of realisable assets required such that there is less than a 1-in-200 chance, assessed over a one-year period, of having insufficient realisable assets to be able to meet payments, potential losses and other financial requirements as they fall due over the lifetime of the portfolio.

Phoenix will hold the amount of capital required under the PCP or, if greater, the amount required by the additional capital quantity and capital quality assessments described above.

As at 31 December 2022 Phoenix met the requirements of both the PCP and the quality of capital assessment. The former requirement was the more onerous.

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

3.4. The Business to be transferred to Phoenix

3.4.1. PLAL

History of PLAL

PLAL traces its history back to the Pearl Loan Company which was formed in 1857 and the Pearl Life Assurance and Sick Benefit Society which was formed in 1862. In 1864, the two companies merged to form The Pearl Life Assurance Loan and Investment Company Limited, which sold industrial branch business until 1875 when it started to accept yearly premiums.

In 1874 the name was changed to Pearl Life Assurance Company Limited. The company made a number of acquisitions over the years and in 1914 the name was changed again to Pearl Assurance Company Limited.

The company operated under variations on the "Pearl" name thereafter, most latterly as Pearl Assurance Limited, until 28 September 2012 when it changed its name to Phoenix Life Assurance Limited.

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

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

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

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

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

In addition, certain immediate annuity business was transferred out of PLAL and NPLL to GAL (whose business later all transferred to ReAssure Limited) in 2013 as part of the same scheme involving Phoenix as referred to in section 3.1.

Structure and Business of PLAL Today

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

- the Pearl With-Profits Fund (the "PLAL Pearl WPF");
- the SERP Fund (the "PLAL SERP Fund");
- the London Life With-Profits Fund (the "PLAL LL WPF");
- the National Provident Life With-Profits Fund (the "PLAL NPL WPF"); and
- the PLAL Non-Profit Fund (including a Matching Adjustment Portfolio).

The first four funds listed above are with-profits funds ("WPFs"). All of the surplus arising in the SERP Fund, the PLAL LL WPF and the PLAL NPL WPF is attributable to the with-profits policyholders in the respective funds and at least 90% of the surplus in the PLAL Pearl WPF is attributable to the with-profits policyholders in that fund.

PLAL has a capital policy similar to that of Phoenix under which support is provided to its with-profits funds. As at 31 December 2022 support was provided to the PLAL SERP Fund, the PLAL LL WPF and the PLAL NPL WPF.

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

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

**Post transitional allowance*

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

3.4.2. SLAL

History of SLAL

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

On 10 July 2006, SLAC demutualised and most of the long-term business of SLAC was transferred to its new parent life insurance company, SLAL, under a Part VII scheme (the "SLAC Demutualisation Scheme").

On 31 December 2011, the substantial majority of the assets and liabilities of Standard Life Investment Funds Limited was transferred to SLAL under a Part VII scheme.

In 2019 SLAL's business written in Ireland, Germany and Austria was transferred to SL Intl under a Part VII scheme (the "SLAL Brexit Scheme") which had the following significant features:

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

Since September 2018, SLAL has been a member of the Phoenix Group.

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

Key Features of the SLAC Demutualisation Scheme

The SLAC Demutualisation Scheme as amended provides the framework in which SLAL operates its business and contains the Core Principles for the operation of the SLAL Heritage

WPF. It also defines the payments between the SLAL Heritage WPF and the other funds of SLAL. Some key areas of relevance from the SLAC Demutualisation Scheme are listed below.

The SLAC Demutualisation Scheme requires SLAL to consider the financial impact of certain SLAL Heritage WPF management actions in terms of their appropriateness for a 'Notional Company'. The Notional Company is defined in the SLAC Demutualisation Scheme and is a version of the SLAL Heritage WPF with some specified additional capital and no requirement to distribute its estate or provide a share of surplus to a shareholder. This approach ensures that with-profits management decisions made before and after Standard Life's demutualisation in 2006 are based on consistent measures of financial strength. The Notional Company is financially stronger than the SLAL Heritage WPF, which means that in some circumstances SLAL's shareholder would effectively provide financial support to the extent that the risk profile of the SLAL Heritage WPF would not be affordable on a standalone basis.

The SLAC Demutualisation Scheme requires that SLAL must ensure, to the extent reasonably practicable, that there is 'no significant foreseeable risk' of a 'Capital Event' arising and requiring SLAL to stop managing the SLAL Heritage WPF in accordance with the Core Principles. A 'Capital Event' is defined as SLAL becoming 'unduly exposed' to a risk of being unable to meet its SCR or its more general capital needs. The purpose of this provision is to ensure that SLAL remains well enough capitalised to be able to manage the SLAL Heritage WPF by reference to the Notional Company.

Structure and Business of SLAL Today

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

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

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

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

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

** The numbers of policies are based on those shown in the SLAL Quarterly Reporting Templates (QRTs) but double counting that results from the prescribed QRT methodology has been removed. There are no policies in the SLAL German WPF and the SLAL German SM WPF as these funds only contain business reinsured to SLAL by SL Intl. The policy numbers for the SLAL UKSM WPF business are included in the SLAL PBF figure, as this business is written in the SLAL PBF and its investment content is reinsured to the UKSM WPF.*
***Post transitional allowance.*

In total, SLAL at 31 December 2022 had approximately 4.3 million policies in-force with total net assets, on a basis that treats reinsurance consistently with the BEL shown above, in excess of £117 billion.

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

3.4.3. SLPF

SLPF was incorporated in March 1969 and is a subsidiary of SLAL. The ownership of SLPF is allocated to the SLAL Heritage WPF under the SLAC Demutualisation Scheme. The company has in force a small number of deferred and immediate annuity contracts, all of which are reinsured to SLAL and allocated to either the SLAL Heritage WPF (if the policy commenced before the effective date of the SLAC Demutualisation Scheme) or the SLAL PBF (in respect of all other policies).

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

Because all of its business is reinsured, SLPF does not set a capital policy, but does hold a small surplus over its regulatory capital requirements.

At 31 December 2022 SLPF had 364 policies in-force with total assets of £17 million and excess surplus of £7.5m over its regulatory capital requirements.

4. THE PROPOSED SCHEME

4.1. Background to the Scheme

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

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

- reduce the number of life companies within the Phoenix Group which will result in long term operational and administrative efficiencies;
- access the value of diversification synergies between Phoenix, PLAL and SLAL capital requirements that has been recognised at Phoenix Group level since the harmonisation of the Phoenix, PLAL and SLAL Internal Models in 2021;
- give a consistent approach to the financial management across the combined business compared to the terms of the Part VII schemes that currently govern the operation of Phoenix, PLAL and SLAL; and
- facilitate future management actions.

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

4.2. Summary of the Scheme

4.2.1 Legal Process

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

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

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

4.2.2 The General Provisions of the Scheme

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

Initially, £4m of assets, sufficient to meet the ongoing Minimum Capital Requirement ("MCR"), will be retained in each Transferor until it is de-authorised. If, following de-authorisation, SLPF remains in its Agent role, assets sufficient to perform this role will be retained in SLPF until its role as Agent ceases. These assets and any investment income earned on them as well as any related tax liability will be transferred to Phoenix, and allocated as described above, when each company is de-authorised by the PRA and, in the case of SLPF, when its role as Agent ceases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Should it not be possible for technical reasons to transfer any Policy or group of Policies under the Scheme or (where relevant) under the separate Guernsey and Jersey schemes, then under the terms of the Scheme, Phoenix will reinsure any such Policies with effect from the Transfer Date until such Policies are novated or transferred to Phoenix. This arrangement will ensure that any such excluded Policies will be treated for all practical purposes in the same way as if they had been transferred to Phoenix with effect from the Transfer Date.

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

4.2.3 Prior Schemes

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

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

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

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

4.2.4 Particular Features of the Scheme

This section summarises the main features of the Scheme; some aspects are directly relevant to current Phoenix policyholders, whereas others are only indirectly relevant because they do not affect existing Phoenix policies but do affect how Phoenix will be run after the transfer.

Capital Policy
This is described in section 4.3.

Certification requirement
Currently, annual certification is built into three schemes:

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

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

Merger and Closure of WPFs

Currently, the schemes governing the operation of the Phoenix WPFs and the PLAL WPFs require that a fund be closed if the value of its with-profits liabilities falls below a threshold value. The Scheme will amend the merger and closure provisions of the current Phoenix WPFs and PLAL WPFs by:

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

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

The Heritage WPF is the only former SLAL WPF which has an existing fund closure provision. The Scheme will not change this, although the base closure threshold for the Heritage WPF will be restated at its 1 July 2022 value and then continue to increase annually in line with RPI.

NPI WPF Closure

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

Linked Funds

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

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

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

Operation of the Heritage WPF (transferring from SLAL)

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

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

With-Profits Committee ("WPC") Terms of Reference

It is proposed that the Terms of Reference ("ToR") for the WPC of each of Phoenix, PLAL and SLAL will be combined and updated to reflect the operation of the single WPC on and with effect from the Transfer Date. The current powers and responsibilities of each WPC will be retained. The ToR will not be included in the Scheme, as is the case for the Phoenix 2009 Scheme, but will be available on the applicable customer websites. However, how the ToR can be changed will be retained subject to amending the requirement to refer changes to the ToR to the Regulators. Any material changes to the ToR will still require certification by the Phoenix Chief Actuary and With-Profits Actuaries that the proposed change does not have an adverse effect on the reasonable expectations of policyholders affected by the change

Reallocation of Non-Profit policies

The Scheme allows Phoenix to reallocate non-profit policies from Phoenix's WPFs to the Phoenix NPF, subject to this not being contrary to the terms of the policies, being approved by the WPC and a fair and appropriate amount of assets being passed to the Phoenix NPF. This provision currently exists in the schemes covering Phoenix and PLAL, but will be extended in the Scheme to also apply to the SLAL WPFs.

Modification of the Scheme

Should the parties wish to apply to the Court to modify the Scheme following the transfer date, the Scheme requires that a certificate be obtained from an independent actuary to the effect that in their opinion, the proposed amendment will not materially adversely affect the security or reasonable expectations of the policyholders of Phoenix (including the holders of the Transferred Policies).

This consolidates the wording in the existing schemes but is slightly different to the equivalent requirement set out in the Phoenix 2009 Scheme, the Phoenix 2011 Scheme and the Phoenix 2012 Scheme and in the PLAL schemes, where the independent actuary is required to apply a 'not adversely affected' test. However, this will not reduce protections for policyholders as the wording:

- aligns with the test used by the Court when considering an application for an insurance business transfer such as this; and
- recognises that materiality must necessarily be taken into account by an actuary reviewing such changes as they must weigh up advantages and disadvantages from the amendment rather than rule out a transfer or amendment as a result of an adverse effect which is counterbalanced in the actuary's view by advantages arising from the amendment.

4.3 Capital Policy

The Scheme covers two areas in relation to capital policy.

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

4.3.1 Retention of capital in excess of SCR

The existing schemes governing Phoenix, SLAL and PLAL set out the minimum amounts of capital that each company must currently hold. These amounts underpin the capital policy framework (described in section 3.3) which includes further tests that may, depending on which tests are the more onerous, result in a company retaining more capital than is required by its scheme in isolation. The existing scheme requirement for Phoenix and PLAL is the '1-in-10' capital quantity test as described in section 3.3. The existing scheme requirement for SLAL is the 'Capital Event' test described in section 3.4.2. (As all SLPF policies are fully reinsured to SLAL, SLAL's capital holdings provide security for both SLAL and SLPF customers.)

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

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

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

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

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

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

This risk appetite is undergoing a review prior to the Scheme being implemented but it is expected that the 1-in-10 likelihood level used in the current PCP (i.e. that required by the 2009 Scheme) will remain appropriate for the Scheme Capital Quantity Test. This reflects that the risk appetite already operates on the same 1-in-10 basis for Phoenix, PLAL and SLAL, albeit the different risk profiles of the companies give rise to different scenarios tested. I will provide an update on any changes as part of my supplementary report.

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

The Scheme clarifies that such actions:

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

The Capital Event business requirement is essentially the same as the requirement of the SLAC Demutualisation Scheme described in section 3.4.2 and which is currently used in the management of SLAL's level of capital. Under the Scheme it will apply to Phoenix's level of capital and cover the management of most WPFs, retaining from previous schemes for each WPF the allowable departures from the Scheme Principles of Financial Management (noting that those Principles are also retained and therefore vary from fund to fund).

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

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

i. a Capital Event arises; and

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

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

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

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

As described in section 3.3, the capital policy required by a scheme may be supplemented with additional capital tests and allowances where considered appropriate, and calibrated by reference to the enlarged Phoenix.

4.3.2 Support for Individual WPFs

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

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

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

4.4 Impact on Operation of Existing Phoenix Policies

Policies within the long-term fund of Phoenix will not be transferred as a result of the Scheme and no changes will be made to the terms and conditions of policies currently within Phoenix under the Scheme.

With the exception of the NPI WPF which will close, all of the current WPFs in Phoenix will continue to operate as discrete funds for the purposes of calculating policyholder benefits. No business will transfer to the current Phoenix WPFs.

Following the transfer Phoenix is expected to write additional new business, mostly unit-linked, under the Standard Life brand. The pricing, processes and governance for writing new business, is provided by Phoenix Group companies and will continue to operate in the same way after the transfer as before.

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

The reinsurance of with-profits business from PLAE into certain of Phoenix's WP Funds, including the related security arrangements, will continue to operate as it currently does.

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

5. FINANCIAL ANALYSIS

5.1. Impact of the Scheme on Phoenix

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

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

The Scheme is expected to improve the capital position of Phoenix for the reasons given in section 5.4.

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

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

5.2. Basis of calculation of the solvency position of Phoenix before and after the Scheme

Figures based on audited accounts as at 31 December 2022.

In the tables in sections 5.3 and 5.4:

- Own Funds – these have been calculated as at 31 December 2022. The "before" figures for Phoenix were, with the exception of the Transitional Measure on Technical Provisions ("TMTP"), subject to review by Phoenix's external auditors.
- TMTP (which is part of Own Funds) –TMTP is recalculated on a pro-forma basis as at 31 December 2022. This presentation is consistent with how the business is managed and results in a position more prudent than the regulatory returns which only reflect actual recalculations
- SCR – this is calculated according to Phoenix Group's Internal Model, which was approved by the PRA in September 2021. As with the TMTP, the SCR was not subject to review by Phoenix's external auditors

- Solvency Ratio – this is calculated on two bases, one including all Funds and the other including unsupported WPFs only to the extent that transfers from those Funds will accrue to shareholders. By excluding policyholder benefits and risks in unsupported WPFs, the latter gives an indication of the ability of the company to absorb risks outside of those funds. As the Solvency Ratio relates to SCR coverage, for this purpose an unsupported WPF is one which can cover its SCR without relying on shareholder support; so when calculating the Solvency Ratio excluding unsupported WPFs, an unsupported fund is one which can cover its SCR without relying on shareholder support. All of the WPFs in Phoenix are considered unsupported for the Solvency Ratio calculation as at 31 December 2022.

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

- Matching Adjustment ("MA") – The MA portfolios in the SLAL PBF and PLAL Non Profit Fund will transfer to the Phoenix NPF with the exception of two SLAL longevity risk transfer agreements. The financial impact of transferring the MA portfolios is expected to be broadly neutral.
- The MA portfolio in the SLAL Heritage WPF will transfer to the Phoenix Heritage WPF. It is expected that the MA portfolio will be maintained in Phoenix subject to approval of a new application to the PRA, which will be made in the first half of 2023. Approval is expected shortly after the Transfer Date so there may be a temporary increase in valuation liabilities in the intervening period which is not allowed for in Table 2. The temporary increase would have no impact on policyholders and no material impact on Phoenix's solvency position.
- Volatility Adjustment ("VA") – The VA in the SLAL Heritage WPF will not be applied in Phoenix at the effective date of the Scheme.
- TMTP –Proposed changes to TMTP methodology as a result of the Scheme will mean that the amount of PLL's total TMTP immediately after the Scheme is implemented will equal the aggregate TMTP of PLL, PLAL and SLAL immediately before the Scheme is implemented other than adjustments to allow for the impact on TMTP of the changes to MA and VA mentioned above. An application to recalculate TMTP on this basis as at 30 September 2023 is currently planned.

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

5.3. Position before the Transfer

Table 1 shows the financial position of Phoenix and its solvency ratio as at 31 December 2022.

Table 1	Phoenix as at 31 December 2022 before the effect of the Scheme		
	Own Funds £m	RFF Restriction £m	SCR £m
WPFs	1,199	401	505
NPF and Shareholders' Fund	2,797	-	1,788
Total	**3,996**	**401**	**2,293**
Excess of Adjusted Own Funds over SCR		**£1,302m**	
Solvency Ratio – All funds		**157%**	
Solvency Ratio excluding unsupported WPFs		**173%**	

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

5.4. Position after the Transfer

Table 2 shows pro-forma figures as if the Scheme had been implemented as at 31 December 2022 for ease of comparison.

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

Note:

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

The Scheme leads to an increase in Own Funds of £5,908m (i.e. from £3,996m to £9,905m) because of the addition of Own Funds from the Transferors.

Overall, the pro-forma presentation shows that after the implementation of the Scheme, the reported solvency position of Phoenix will improve. The key driver of the increase in own funds over SCR are the diversification synergies that arise when the business of the individual companies is combined. However, provided Phoenix is meeting the terms of its capital policy it is allowed to pay funds over its capital policy to its shareholder. Therefore, own funds in excess of capital policy should not be relied on when considering the security of policy benefits.

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

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

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

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

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

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

Summary

Allowing for events since 31 December 2022 and assuming that the proposed changes to UK Solvency II were to be implemented on or prior to the Transfer Date, then based on my current understanding of the proposals, the combined Phoenix is expected to continue to meet its capital policy post transfer. I will comment further on these matters in my supplementary report.

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

6. EFFECT OF THE SCHEME ON PHOENIX POLICIES

6.1. Business Characteristics

Currently Phoenix has ten with-profits funds, and a large non-profit fund including a significant Matching Adjustment portfolio. An explanation of the Matching Adjustment is provided in Appendix 2 'Summary of certain aspects of the current prudential regulatory regime'. Notably, Phoenix writes significant amounts of bulk purchase annuity ('BPA') business which exposes Phoenix to significant credit risk (mainly through bond spread risk) and insurance risk (mainly through longevity risk, which is largely reinsured and gives rise to reinsurance counterparty risk).

Key characteristics of the business transferring from SLAL are a large self-supporting Heritage WPF and a significant amount of unit-linked business which is expected to increase through the sale of workplace pensions. This large block of unit-linked business exposes SLAL to insurance risk as a result of the high persistency risk associated with this business.

The amount of business transferring from PLAL is comparatively smaller. A notable characteristic is that is has three shareholder supported WPFs, containing policies with valuable guarantees. PLAL's key risk is insurance risk, mostly driven by longevity risk arising from its annuity business.

SLPF holds a very small amount of annuity business, which is all reinsured to SLAL, therefore the transfer of this business has negligible impact on Phoenix's risk exposure.

The table below compares the assets in Phoenix before and after the transfer, had the transfer taken place on 31 December 2022

	Current Phoenix		Phoenix post-transfer	
	Net Assets £bn	%	Net Assets £bn	%
Unsupported* with-profits funds	9.9	21	43.2	24
Supported* with-profits funds	0.0	0	2.9	2
Unit Linked Benefits	18.4	40	107.4	60
MA portfolios	15.4	33	20.3	11
Other	2.7	6	4.8	3
Total	**46.4**	**100**	**178.7**	**100**

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

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

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

6.2. Security of Benefits

6.2.1 Current Position

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

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

Additionally, security is provided by PGH through:

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

6.2.2 Effect of the Scheme on Capital Requirements

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

Phoenix, PLAL, SLAL and SLPF are all part of a harmonised Internal Model under which they calculate and hold capital against the risks identified under the RMF in a consistent manner. This will not change as a result of the transfer. Capital held to meet the SCR ensures that Phoenix is able to withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions.

Effect of the Scheme on Capital Policy Framework

PLAL, Phoenix and SLAL have the same capital policy framework meaning that their capital policy requirements are based on the same strengths of stress scenario and calculated using the same methodology. The Scheme will not change these arrangements other than to extend the Capital Event business requirement that is currently used in SLAL to cover all business in Phoenix. Further, the Scheme will not change the parental capital support structure nor dilute the amount of group support.

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

Capital Allocation and Risk Management Framework

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

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

Risk Profile of Phoenix now

As noted above, Phoenix, primarily through its individual annuity and bulk purchase annuity business, is exposed to credit risk (especially bond spread risk) and insurance risk (especially longevity risk which is largely reinsured, giving rise to reinsurance counterparty risk). There can also be short term new business strain relating to BPA business where either reinsurance is not in place at the transaction date or where the invested assets backing the liabilities are less capital efficient than those expected to be held under the long term strategic asset allocation.

Credit risk is managed by monitoring exposures to individual counterparties, through appropriate credit risk diversification and the investment mandates. The ongoing effectiveness of credit risk mitigation is monitored by the appropriate (Shareholder or With-Profits) Hedging Forum and the Enterprise Finance and Capital Committee.

Phoenix mitigates much of its longevity risk through reinsurance to third parties. Reinsurance arrangements for Phoenix and the transferring companies are carefully managed under a common reinsurance exposure management framework, with oversight by the Reinsurance Management Committee ("RMC"). The life companies also have the following additional mitigations:

- policies and procedures in place for the management of reinsurance counterparty default risk, including the design of new treaties and the regular monitoring of reinsurance counterparties by the RMC, and
- collateral pledged and received in respect of derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions.

New business strain incurred through writing new Bulk Purchase Annuity business is carefully managed so that new business is only written if sufficient capital is available, and could cease if necessary should solvency be expected to come under strain.

Risk profile of Phoenix post Transfer

For Phoenix, PLAL and SLAL the most material level 1 risk categories are the same, being Credit, Market, Insurance and Operational risk, although their risk profiles in terms of proportion of capital allocated to each category, and their sub-categories, differ. Following the transfer Phoenix will be exposed to the same type of risks as currently, but its risk profile will change and will be more balanced.

As noted in 6.1, SLAL and PLAL are exposed to significant insurance risk. All parties to the Scheme manage exposure to insurance risk by establishing Minimum Control Standards and supporting practices that align with its agreed principles. Risk appetite statements have been established for underwriting risks and the risk exposures are monitored against agreed limits. The ongoing effectiveness of insurance risk mitigation is monitored on a regular basis by the Enterprise Finance and Capital Committee. Further, SLAL Workplace performance is closely monitored on a monthly basis through management information including a performance scorecard.

The transfer of PLAL business will include three supported with-profits funds containing policies with valuable guarantees. In determining the best estimate liabilities and capital requirements of with-profits policies, the companies allow for the cost of guarantees. The methodology for valuing the cost of guarantees in best estimate and stress conditions is aligned in Phoenix and PLAL. Stochastic models allow for variation in future economic conditions and the harmonised Internal Model includes stresses to policyholder behaviour and market conditions. Therefore, the cost of guarantees has been allowed for when determining the level of shareholder support required by the supported PLAL WPFs.

The loans currently provided to the supported PLAL WPFs will continue to be provided after the transfer to Phoenix. The provisions of these loans by Phoenix will not impact the security of Phoenix policyholders, as the assets which the Phoenix Shareholders' Fund and the Phoenix NPF will make available will be those currently held in the PLAL Shareholders' Fund and the PLAL Non-Profit Fund to support these with-profits funds to meet their capital requirements, and which will transfer to the Phoenix Shareholders' Fund and the Phoenix NPF.

The SLAL Heritage WPF does not require shareholder support but the risk of burnthrough leading to it requiring shareholder support in stress conditions is tested. Appropriate capital is held in the SCR and capital policy, and this will transfer to the Phoenix NPF.

The table below shows Phoenix's SCR allocated to level 1 risks split by risk category, as at 31 December 2022, and pro-forma figures as if the Scheme had been implemented at the same date.

Level One Risk	Phoenix	Phoenix Post transfer
Credit	45%	32%
Market	22%	6%
Insurance	19%	37%
Operational	4%	12%
Other	9%	14%

The key changes in risk profile for Phoenix policyholders arising from the transfer are expected to be:

- a reduction in the proportion of capital allocated to Credit risk, primarily because currently SLAL and PLAL both have lower exposure to credit risk than Phoenix.
- a reduction in the proportion of capital allocated to Market risks, in part due to greater diversification and directional synergies within the combined business.
- an increase in the proportion of capital allocated to Insurance risk as this is the dominant risk category for both PLAL and SLAL. However, some diversification amongst sub-categories takes place in the combined business.
- a smaller increase in operational risk driven by exposure to product-related risks in the larger unit-linked portfolio.

New Business Profile

Phoenix is open to new business and currently writes bulk purchase annuity business and traditional whole of life business. Following the transfer Phoenix expects to continue to write this business and in addition to write unit-linked workplace pension business. Workplace pension business is written with low margins and brings insurance risk, in particular persistency risk, but it has low capital intensity.

These risks are captured in the Phoenix Internal Model so that appropriate capital is held against them, and they are monitored and managed under the RMF as described above. The pricing, processes and governance for writing new business will operate the same way after the Scheme as they do currently.

New workplace pension risks will influence the strength and security of Phoenix as a whole, although they will not impact Phoenix policyholders directly. They bring a source of surplus and the increased scale strengthens Phoenix's commercial position to negotiate asset and administration arrangements for all customers. Further, there is no certainty that the current mix of new business would continue, for example whether or not the Scheme proceeds, Phoenix can consider writing new unit-linked business.

6.2.4 Phoenix Capital Policy

As explained in section 4.3, the existing schemes governing Phoenix, SLAL and PLAL include a capital policy which determines the minimum amounts of capital that each company must hold. These amounts act as an underpin to the capital policy framework. The existing Phoenix 2009 Scheme requirement is the '1-in-10' capital quantity test. Following the transfer the Phoenix Capital Policy will include three elements: the Scheme Capital Quantity Test, the Scheme Capital Quality Test and the Capital Event business requirement.

The main differences between the current Phoenix 2009 Scheme requirement and those in the Scheme are:

- The Scheme introduces a capital quality test. This will not result in any changes from a practical perspective as it reflects the existing capital policy framework, but making this a Scheme requirement provides customers with additional security in that Phoenix is legally bound to apply the Scheme Capital Quality Test;
- The Scheme introduces the Capital Event business requirement. This provides additional security for with-profits policyholders by requiring that, regardless of the results of the capital quality and capital quantity tests, sufficient excess capital is held such that there is no significant foreseeable risk of future events resulting in a departure from the Scheme Principles of Financial Management for the WPFs to protect the company balance sheet

6.2.5 Liquidity

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

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

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

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

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

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

6.2.6 Summary of impact on Benefit Security

Following the transfer, as noted in section 6.1, Phoenix will become a much larger company. This material increase in scale will be of benefit to customers through strengthening Phoenix's commercial position and protecting from run-off dis-synergies that might otherwise arise.

As noted in sections 6.1 and 6.2.3, the risk profile of Phoenix will change, in summary:

- Phoenix will have three WPFs which require shareholder support transferring from PLAL and the large Heritage WPF transferring from SLAL. As discussed in 6.2.3, this is expected to have little impact on Phoenix policyholders as the assets which Phoenix will make available to the supported WPFs will be those currently held by PLAL to support them, and the Heritage WPF is ring-fenced and self-supporting.
- Phoenix will have a large volume of unit linked business post transfer. Although much of this business is written with low margins, so is sensitive to cost control and persistency risk, it is not expected to impact Phoenix customers as it has low capital requirements and is carefully monitored and managed.
- Phoenix will write additional new unit-linked business, which introduces additional risk but which is a source of surplus and helps maintain scale

As noted above, the risk profile of Phoenix will change but the additional risks to be acquired by Phoenix are not materially different from the risks to which Phoenix is currently exposed and are monitored and managed in a similar way.

Importantly, Phoenix will take account of the risks in calculating its capital requirements including:

- its regulatory capital requirements including the SCR; and
- the additional capital requirements, underpinned by the new PCP.

The methodology for determining the capital requirements will not change as Phoenix, PLAL, SLAL and SLPF are all part of the same Internal Model. Further, there will be no change to the parental capital support structure or any dilution of group support as a result of the transfer.

The capital policy framework will be extended to include a Capital Events test as described in section 4.3 and the protections provided by the new PCP set out in the Scheme will improve for Phoenix customers.

Overall, as shown in section 5, Phoenix will meet its regulatory capital requirements and additional capital policy requirements following implementation of the Scheme.

Whilst the results show a surplus in excess of the capital policy requirements, I have not placed any reliance on this in terms of assessing the security of policyholders for the reasons given in section 5.1.

I therefore consider that the level of capital that will be available in Phoenix to provide security for benefits after implementation of the Scheme should be at least the same as the level of capital support available to provide security for benefits currently.

6.3. Benefit Expectations of Policyholders

No changes are being proposed under the Scheme to the terms and conditions of existing Phoenix policies. No changes will be made to the way the existing policies of Phoenix are administered and implementation of the Scheme will not impact the way tax is charged to the unit-linked funds of Phoenix now or to the WPFs.

The changes to the unit-linked fund merger and closure provisions are not expected to change the value of policies invested in unit-linked funds. In particular, no changes will be made to the investment managers, asset selection processes or investment strategies of the existing Phoenix unit-linked funds or their pricing practices as a result of the transfer. Further, no changes will be made to guaranteed benefits or Phoenix's discretionary policy for setting charges on non-profit policies.

With regard to with-profits policies, no changes will be made to expenses payable by the WPFs, the asset share and bonus methodologies or the investment strategies.

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

The With-Profits Actuaries of Phoenix have produced a report on the impact of the Scheme on the with-profits policyholders in Phoenix's WPFs. The key conclusions of the With-Profits Actuaries in that report are:

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

On this basis, I consider that there will be no material reduction in the reasonable benefit expectations of current Phoenix policyholders as a result of the Scheme.

6.4 Quality of Administration

The Scheme will not change the terms upon which administration services are currently provided to Phoenix by its two outsourcers, PGMS and Pearl Group Services Limited. Therefore, there is no reason to expect the quality of administration or the level of service provided to Phoenix policyholders to deteriorate as a consequence of the Scheme.

Some restructuring of this service provision is currently underway, including moving to a single service company (PGMS) and consolidating the outsourcing of the administration of Phoenix policies with Phoenix's current main outsource service provider, Diligenta Limited.

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

6.5 Governance

There will be no change to the governance arrangements for existing Phoenix policies as a result of the Scheme. In particular the composition of the board of directors of each of Phoenix, PLAL and SLAL is the same.

6.6 Previous Phoenix Schemes

The ongoing provisions of the following previous schemes involving Phoenix have been consolidated in the Scheme: the Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the Phoenix 2017 Scheme and the Phoenix 2018 Scheme. As a result, these schemes will be superseded by this Scheme.

I have reviewed those schemes in light of the current Scheme and concluded that this Scheme includes appropriate policyholder protections taking into account the wording of the Phoenix schemes being dis-applied by the Scheme. As noted above, I consider that this Scheme will not materially adversely impact the security of benefits or reasonable benefit expectations of holders of Phoenix policies notwithstanding the replacement of the past Phoenix schemes with this Scheme.

6.7 Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly and provide good outcomes with respect to the current policyholders in Phoenix. This is because the capital support that will be available within Phoenix to provide security for benefits of the policies held by these policyholders should be at least as much as the level of capital support currently available and because there will be no changes to benefits for these policies as a consequence of the Scheme.

6.8 Notification to Policyholders

Phoenix has made an application to the court to waive the requirement to mail all Phoenix customers and it is instead proposed to notify only those Phoenix customers where there is a specific change that directly impacts them. Approximately 65% of Phoenix customers hold policies, being non-profit policies and certain unit linked policies (investing in the Phoenix Wealth, Abbey Life, Target Life and Hill Samuel fund ranges), where there is no specific change resulting from the Scheme that has a direct impact on them. The proposal is made on the basis that they are not transferring, that their rights, reasonable benefit expectations and security are not directly affected by the Scheme, and that mailing them may cause undue concern. I agree that the rights and benefits of these customers will not be affected by the Scheme and that the security of their benefits will be maintained.

For those Phoenix policyholders with mailable addresses who are directly impacted by the Scheme, who include all customers holding with-profits policies and all customers holding unit-linked policies other than those invested in the Phoenix Wealth, Abbey Life, Target Life and Hill

Samuel fund ranges, it is proposed to notify them by letter, addressing the changes relevant to them and signposting that further information may be found on the Phoenix Life website or by calling the Freephone Part VII helpline. I have reviewed the contents of the letter and am satisfied that the information adequately describes the proposals for these Phoenix customers.

6.9. Conclusions on Phoenix Policyholders

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

A D Rendell
Fellow of the Institute and Faculty of Actuaries
18 April 2023

Appendix 1 – Phoenix's With-Profits Funds

100% With-Profits Fund

The 100% WPF consists of the with-profits policies transferred to Phoenix from the participation fund of Phoenix Assurance Ltd, the With-Profits Fund of Swiss Life (UK) Limited ("Swiss Life") and the long-term business fund of Bradford Insurance Company Limited. The with-profits policies are mainly traditional endowments and whole life policies.

90% With-Profits Fund

The 90% WPF consists of the conventional with-profits policies transferred to Phoenix from the Ordinary Branch Fund (including former with-profits policies which became non-profit policies on becoming paid-up) of Swiss Life and from Britannic Unit Linked Assurance Limited (being policies originally issued by Allianz Cornhill) together with the with-profits policies of the Swiss Life Industrial Branch Fund. The with-profits policies are mainly traditional endowments and whole life policies. In addition, the investment element of certain unitised with-profits policies is reinsured into the fund from the Phoenix NPF in respect of former Swiss Life business.

There are also a substantial number of Swiss Life Industrial Branch policies which are now non-profit having been made paid-up. The sum assured of these is very small in comparison to that for the with-profits policies.

The Alba With-Profits Fund

The Alba WPF mainly consists of traditional with-profits life and corporate pension business. There is also some unitised with-profits business as well as non-profit deferred and immediate annuities.

The Britannic Industrial Branch With-Profits Fund

The BIB WPF contains the former Industrial Branch business of Britannic Assurance plc ("BA") which comprises:

- industrial assurance business – the distinguishing feature of which is that home service agents have traditionally collected premiums in cash. This business would have been sold under the Industrial Assurances Act 1923 before 1 December 2001; and
- home service business – business sold since 1 December 2001 where premiums were initially received in cash by collectors more frequently than once every two months. This business would have previously been sold under the Industrial Assurances Act 1923.

Policies may be with-profits or non-profit. The main types of business are endowment assurances and whole of life assurances.

The Britannic With-Profits Fund

The Britannic WPF comprises business from BA and consists mainly of:

- traditional with-profits endowment assurances;
- unitised with-profits business;
- traditional with-profits business that formed part of the WPF of Century Life plc prior to the Phoenix 2006 Scheme; and
- unit-linked business, the unit liability of which is wholly reinsured to the Phoenix NPF.

The Phoenix With-Profits Fund

The Phoenix WPF comprises the with-profits contracts originally written by Phoenix Life & Pensions Limited. These mainly fall into the following categories:

- traditional endowments and whole life policies;
- traditional pension policies, most of which have guaranteed annuity options;
- single premium unitised with-profits whole life bonds, some of which are reinsured into it by the SAL WPF; and
- unitised with-profits pension policies, some of which are reinsured into it by SAL WPF.

There is also a range of non-profit contracts in the Phoenix WPF, the majority of which fall into the following categories:

- endowment or whole life policies;
- term assurance policies on a guaranteed premium basis;
- critical illness policies on a guaranteed premium basis;
- immediate and deferred annuities; and
- unit-linked regular and single premium pension policies, the liability for which (apart from any unitised with-profits element) is reinsured to the Phoenix NPF.

The SAL With-Profits Fund

The SAL WPF comprises business transferred to Phoenix under the Phoenix 2011 Scheme. This consists of:

- conventional with-profits endowment and whole life policies;
- conventional with-profits pensions, some of which continue to have guaranteed annuity options;
- UWP single premium bonds and other life policies;
- term assurance, critical illness and income protection policies; and

- unit-linked single premium and regular premium policies, the unit-linked element of which is reinsured to Phoenix; some of which have a UWP option;

Significant amounts of business are also reinsured internally. This includes:

- most of the individual term assurance and income protection policies and almost all of the unit-linked business, which is reinsured to the Phoenix NPF;
- the individual UWP pensions business, a proportion of the group UWP pensions business and a significant proportion of the UWP Bond business, all of which are reinsured to the Phoenix WPF; and
- some endowment with-profits business, which is reinsured to the 100% WPF.

The Scottish Mutual With-Profits Fund

The Scottish Mutual WPF consists of business originally sold by Scottish Mutual Assurance Limited. It comprises conventional with-profits policies and unitised with-profits policies and benefits under policies which are written in the Phoenix NPF and reinsured to the Scottish Mutual WPF.

Some of the risks of the conventional with-profits policies within the fund (such as guarantees associated with some types of pension policies) do not affect the unitised with-profits policies and benefits as the costs and benefits are reserved to the conventional policies.

The SPI With-Profits Fund

The SPI WPF consists of conventional with-profits policies, unitised with-profits business benefits arising from unitised policies written in the Phoenix NPF and deposit administration business. For this fund the With-Profits Committee, rather than the Board, has responsibility for setting the investment and bonus policy.

On 1 January 2023, policies allocated to the 90% WPF, the Alba WPF, the Phoenix WPF and the SPI WPF which were sold in Ireland were transferred to PLAE and immediately reinsured back to the original funds. PLAE is responsible for paying claims under these policies. For as long as the reinsurance remains in force, amounts payable to PLAE on these policies under the reinsurance will continue to reflect participation in the respective with-profits funds as before.

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

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

To date UK Solvency II has deviated little from Solvency II and this report generally uses 'Solvency II' to refer to both of these regulatory regimes. As described in section 5.6, consultations on UK Solvency II reforms have taken place in 2022 and are expected to lead to some changes by year-end 2023 at the earliest.

Requirements are commonly split into three pillars.

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

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

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

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

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

WPFs are known as ring-fenced funds for the purposes of Solvency II due to the participation of with-profits policyholders in the surplus arising. This means that the assets and liabilities of these funds must be separately identified, separate calculations of the solvency position of each ring-fenced fund must be undertaken and restrictions on the use of capital allocated to each ring-fenced fund must be recognised in the company's overall solvency calculations (this is known as the "RFF Restriction"). This means to the extent that the surplus in a WPF that requires no shareholder support is improved, this has no impact on the overall solvency position of the company.

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

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

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

Appendix 3 – Glossary

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

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

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

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

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

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