STANDARD LIFE ASSURANCE LIMITED

STANDARD LIFE PENSION FUNDS LIMITED

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

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

20 September 2023

Contents

1. INTRODUCTION

This report is a supplementary report to my report entitled 'Report by the Chief Actuary on the Impact of the Scheme on Policyholders of Standard Life Assurance Limited and of Standard Life Pension Funds Limited' dated 18 April 2023 ("my report"). All definitions and abbreviations used in my report apply also to this supplementary report. For ease, these are also shown in Appendix 2.

In my report I concluded that no class of policyholder of Standard Life Assurance Limited ("SLAL") or of Standard Life Pension Funds Limited ("SLPF") will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should not have any material adverse impact on the security of benefits or the reasonable benefit expectations of the existing SLAL and SLPF policyholders.

In this supplementary report, I consider whether, taking into account developments since the date of my report and their potential impact on SLAL and SLPF and their policyholders, it remains appropriate to proceed with the Scheme. In considering the position, it is important to distinguish between changes that affect, or would affect, SLAL and SLPF policyholders in any event, irrespective of the implementation of the Scheme, and changes in the position of policyholders or a particular group of policyholders that arise, or might arise, as a result of the implementation of the Scheme. Only the second type of change is of relevance in deciding whether the conclusions reached in my report remain valid.

As part of my consideration of the Scheme in this supplementary report, I have updated the financial analysis to use financial information as at 30 June 2023 (see section 3), taken into account events that have occurred since then and considered whether the impact of the Scheme on the security of benefits or the reasonable benefit expectations of SLAL and SLPF policyholders would be affected in light of that updated information.

In section 5 and section 6 I conclude that there are no changes to the conclusions of my report for the reasons given in those sections. Appendix 1 includes an opinion given by the With-Profits Actuary supporting these conclusions in respect of the with-profits policyholders of SLAL, including those policyholders of Standard Life International dac ("SL Intl") whose benefits are reinsured to SLAL.

This supplementary report is written for the SLAL Board and the SLPF Board in my capacity as Chief Actuary for each company. As well as the Boards, the report may be used by the Independent Expert, the High Court, the Court of Session, the PRA, the FCA and any overseas regulators and courts in forming their own judgements about the Scheme. It is supplementary to my report and should accordingly be read alongside my report.

This supplementary 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: General Actuarial Standards and TAS 200: Insurance.

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

2. DEVELOPMENTS SINCE MY REPORT

2.1. Changes to the Scheme

I note that there have been no changes to the Scheme since the date of my report, with the exception of the addition of one small subsidiary of SLAL to the list of transferring subsidiaries in Schedule 3. This change has no impact on my conclusions.

2.2. Sanctioned Policyholders

Three policyholders of SLAL are "designated persons" under the Russia (Sanctions) (EU Exit) Regulations 2019. Because of these regulations, it will not be possible to transfer the policies and pension plans of these individuals until either a licence is received from the Office of Financial Sanctions Implementation or the sanctions are lifted. Therefore, these policies will be treated as Excluded Policies under the Scheme and remain in SLAL until they can be transferred to Phoenix under the Scheme. Until this happens, the benefits due under these plans will be reinsured to Phoenix under an Excluded Policies reinsurance arrangement, which I have reviewed. This has no impact on my conclusions.

2.3. Economic Conditions

The financial analysis in my report was prepared as at 31 December 2022. The following table sets out the movements in some key economic indicators during 2023.

Table 1: Movement in key economic indicators

	31 December 2022	31 March 2023	30 June 2023	31 August 2023
FTSE-100	7,451.7	7,631.7	7,531.5	7,439.1
Corporate bond spread (bps over Gilts):				
AAA	101	108	92	87
AA	127	141	130	124
A	168	175	161	157
BBB	233	239	226	213
Residential Property Index	526	516	517	512
15 year swap rate	3.6%	3.4%	4.0%	4.1%
15 year gilt yield	4.1%	3.8%	4.5%	4.6%

Corporate bond spread data is based on an internal analysis of corporate bond holdings. Other financial data is sourced from Nationwide (residential property seasonally adjusted index), EIOPA (swap rates) and Bank of England (gilt yield)

Over 2023, equity values increased slightly in the first half of the year but fell back to start year levels by the end of August, and there has been a slight fall in property values. Following more significant yield rises in 2022, there have been smaller rises in gilt yields and swap rates in 2023 while corporate bond spreads have narrowed slightly.

The financial analysis shown in section 3 reflects the market conditions at 30 June 2023. Any subsequent movements of note affecting the companies are commented on in section 3.3.

2.4. Developments affecting the financial positions of SLAL, SLPF and Phoenix

My report showed the financial positions of SLAL and SLPF as at 31 December 2022 and the estimated financial position of Phoenix had the Scheme been in effect as at that date.

Below I summarise the key developments in 2023 which have affected the financial position of SLAL and SLPF since the date of my report.

Valuation assumptions and methodology
In line with their normal practice SLAL and SLPF have reviewed and made changes to valuation assumptions and methodology used in the calculation of the BEL and SCR to reflect business and economic changes over the period.

The main change was a reduction in SLAL's assumed investment expenses which increased SLAL's excess own funds by around £60m. This reflected a renegotiation of investment management fees and the switch of certain equities from active management to alternative and less costly approaches.

Dividends and loans
In July 2023 the SLAL Board approved a payment to PGH of £50m. The payment was in the form of a loan, which will be converted into a dividend at an appropriate date in the future.

Liquidity facility to the SLAL German With-Profits Fund
In June 2023 the SLAL Board approved a committed liquidity support facility from the SLAL PBF to the SLAL German With-Profits Fund to support derivative collateral requirements. This arrangement is an extension of the existing capital support arrangement. It was agreed in August that the SLAL German With-Profits Fund will be provided with £22m of liquidity support through this facility. When the business is transferred to Phoenix, the facility and any outstanding loan will be replicated between the Phoenix Non-Profit Fund and the newly-established German With-Profits Fund of Phoenix. It does not affect the ability of SLAL, or following the transfer Phoenix, to meet its capital policy requirements and as such this does not affect my conclusions.

In addition to these developments which affect the financial position of SLAL and SLPF, the financial position of Phoenix after the Scheme is also affected by developments in Phoenix and PLAL prior to the Scheme being implemented. The Chief Actuary of Phoenix and PLAL has written separate supplementary reports for each of those companies and in those supplementary reports he has described the key developments in 2023. I have summarised these below.

Developments in Phoenix and PLAL that affect the financial position of Phoenix after the Scheme

- Like SLAL and SLPF, Phoenix and PLAL have reviewed and made changes to valuation assumptions and methodology used in the calculation of the BEL and SCR. The key changes related to enhancements to the modelling of certain derivative contracts held by Phoenix and an expansion to the sources of future taxable profits in Phoenix used to assess the changes in tax balances under stress. Together these changes reduced the SCR for Phoenix by around £180m.

- In July 2023 the PLAL Board approved a payment to PGH of £150m. The payment was in the form of a loan, which will be converted into a dividend at an appropriate date in the future.

2.5. Risk management frameworks

Risk Appetite

In section 4.3.1 of my report I noted that the risk appetite which underpins the SLAL Capital Policy, and which will underpin the Phoenix Capital Policy (PCP) after the Scheme is implemented, was undergoing a review to ensure its continued appropriateness for Phoenix after the Scheme is implemented.

This review is now complete and concluded that the 1-in-10 likelihood level currently used in the SLAL Capital Policy and the PCP remains appropriate for the PCP Scheme Capital Quantity Test after the Scheme is implemented.

The capital quality assessments continue to be reviewed and updated in line with the underlying framework and risk appetite principles, which have not changed and will continue to apply to Phoenix after implementation of the Scheme.

The current SLAL capital quality assessment does not reflect the planned unit matching noted in section 2.6 as this will only take place if the scheme is approved. The Phoenix Chief Actuary's supplementary report notes that the capital quality assessment following the transfer will reflect the impact of this planned management action until it is implemented.

SLAL and Phoenix Capital Policy parameters

I noted in section 3.5 of my report that the SLAL Capital Policy parameter was being reviewed as part of the regular review schedule. This review ensures that the amount held, when expressed as a percentage of SCR, continues to meet the requirements of the Capital Policy. It does not represent a change to that policy. As a result of the review, in April 2023 the SLAL Board approved a change to the SLAL Capital Policy parameter from 31% to 35%. (SLPF does not set a capital policy but does hold a surplus over its regulatory requirements.)

The Phoenix Board in August 2023 determined that to meet the Scheme Capital Quantity Test when the Scheme is implemented a PCP parameter of 38% of SCR will be required . This will be subject to review at least on an annual basis.

Retention of additional capital

I noted in section 3.5 of my report that additional capital may be retained over and above that required by the SLAL Capital Policy to make allowance for mis-estimation risk. This is currently the case for SLAL and additional capital is also held for each of Phoenix and PLAL over and above their respective capital policy requirements.

Additional capital will also be held in Phoenix after the Scheme. The amount to be retained will be subject to regular review, informed by an assessment of the potential mis-estimation risk that might arise.

Liquidity Framework review

In section 6.2.4 of my report I noted that, while the established liquidity framework operated as intended during the period of extreme market volatility in the second half of 2022, a review was in progress that would reflect on the experience and consider how it might be enhanced.

The review and an annual refresh of the Liquidity Framework have now completed. An action plan is in place to implement enhancements that were identified by the review. In the interim, 'stop-and-think' trigger points above the minimum buffers have been introduced to mitigate the potential risk of decisions being made based on insufficiently reliable data. The triggers are expected to reduce as the planned enhancements are made. Phoenix will continue this approach when the Scheme is implemented. I have taken this into account in my assessment of the Scheme's financial impacts.

SLAL met its liquidity buffer requirements as at 31 August 2023 and I note that the Phoenix Chief Actuary expects Phoenix to meet its buffer requirements immediately after the Scheme is implemented.

Liquidity facility from PGH

A new committed liquidity facility from PGH to the life companies has been established. This is not expected to be utilised in the normal course of events, but provides the additional assurance of a quick and effective source of liquidity if required by the life companies, for example in the event that a market stress sharply increases liquidity requirements. The liquidity facility will continue after the Scheme is implemented, and the amount of the facility available to Phoenix immediately after the Scheme will be equal to the sum of the facilities available to Phoenix, PLAL, SLAL and SLPF prior to the Scheme.

2.6. Other developments

TMTP and MA applications

In section 5.2 of my report I set out the proposed changes to Phoenix's TMTP methodology as a result of the Scheme. These were used to prepare the estimated solvency position of Phoenix after the Scheme is implemented. The TMTP application was submitted and has been approved by the PRA subject to the Scheme being approved.

In the same section of my report I noted that the MA portfolios in the SLAL PBF and the PLAL Non-Profit Fund will transfer into the MA portfolio of the Phoenix NPF with the exception of two longevity risk transfer arrangements in SLAL. I also noted that an application to maintain the SLAL Heritage WPF's MA portfolio in the newly-established Heritage WPF of Phoenix would be required and that approval may not be in place for a short period after the Scheme is implemented. The application was submitted in April 2023. I have commented in section 3.2 of this report on the impact of this not being approved before the Scheme is implemented.

Accounting Practice

In section 5.5 of my report I noted that the IFRS 17 reporting standard came into effect on 1 January 2023 and that it was not expected to have a significant impact on the solvency position of SLAL or SLPF. The Board Audit Committee of the life companies agreed in June 2023 that, while the IFRS 17 standard will be used to prepare consolidated financial statements for PGH group reporting, the life companies will convert from IFRS 4 to UK GAAP rather than to IFRS 17. This accounting change was in place for June 2023 reporting and there was no significant effect on the reported solvency position of the life companies as a result.

Unit matching

My report noted that the Scheme clarifies that Phoenix will be able to carry out unit matching on unit-linked policies allocated to the Heritage WPF. Subject to the Scheme going ahead and approval by the Phoenix Board, it is now planned to implement unit matching on some of this business later in 2023.

Rationalisation of Service Companies

In section 6.4 of my report I noted that some restructuring of the provision of administration services to SLAL (and to SLPF as a consequence of the reinsurance in place between SLPF and SLAL) was underway, including moving to a single service company. The restructuring has made some progress, and administration services previously provided by Standard Life Assets and Employee Services Limited ("SLAESL") are now provided by Phoenix Group Management Services ("PGMS"). This change was planned and has no impact on the Scheme.

Consumer Duty

FCA Consumer Duty rules came into force on 31 July 2023 in respect of new and existing products or services which are open to new business. The rules come into effect on 31 July 2024 for closed products.

The companies involved in the Scheme have a common approach to assessing the implications of the new rules. The Scheme will therefore have no effect on the way Consumer Duty is embedded into the business for any product, or the way it has been embedded for products which are open to new business.

3. REVIEW OF FINANCIAL ANALYSIS

An update on section 5 of my report is given below. The Phoenix Chief Actuary has provided the estimated financial position of Phoenix after the Scheme is implemented. I have not independently verified those figures and I have relied on the statements made in his supplementary report.

3.1. Position of SLAL and SLPF before and Phoenix after the transfer

My report showed the financial position of SLAL and SLPF at 31 December 2022 and the estimated financial position of Phoenix had the Scheme been in effect as at that date. The following tables and the comments in this section 3 update this analysis as at 30 June 2023, taking into account the economic conditions at that date as noted in section 2.3 and developments in 2023 affecting the companies as described in section 2.4. The TMTP included in each of the tables has been recalculated on a pro forma basis as at, and run off up to, 30 June 2023. In respect of the solvency approvals for which I have provided an update in section 2.6:

- The TMTP included in Table 4 is consistent with the recalculation application that has been approved by the PRA subject to the Scheme being approved.
- Table 4 assumes that the MA application is approved.

As noted in section 2.4, loans were made to PGH in July 2023 that will be converted into dividends at a future date. Tables 2 and 4 include the impact of SLAL's loan of £50m and Table 4 includes the impact of PLAL's loan of £150m as if they had been in place on 30 June 2023. The loans will remain assets and therefore still contribute to the Own Funds of the companies, but the SCR will be increased by an amount equal to the values of the loans. This means that the overall net impact of SLAL's loan in Table 2 is a reduction in Excess of Adjusted Own Funds over SCR of £50m, which is the same as the impact of a £50m dividend. Similarly the total impact of the loans in Table 4 is a reduction in that excess of £200m.

An adjustment is made to the Own Funds and SCR relating to certain policies transferring from SLAL under the Scheme which are expected to subsequently transfer to abrdn Life and Pensions Limited under a future scheme. While that scheme would be subject to court approval at the time, the company will be managed on the assumption that the scheme will proceed because doing so results in a prudent assessment of the Excess of Adjusted Own Funds over SCR shown in both Table 2 and Table 4, which is c£70m lower than it would be without the adjustment. A similar adjustment was made as at 31 December 2022.

Tables 2 and 3 below show the financial position of SLAL and SLPF as at 30 June 2023. The positions as at 31 December 2022 from my report are shown for comparison.

Table 2: Financial position of SLAL as at 30 June 2023 and 31 December 2022

<table>
<tr><th></th><th colspan="3">SLAL as at 30 June 2023 before the effect of the Scheme</th><th colspan="3">SLAL as at 31 December 2022 before the effect of the Scheme</th></tr>
<tr><th></th><th>Own Funds
£m</th><th>RFF Restriction
£m</th><th>SCR
£m</th><th>Own Funds
£m</th><th>RFF Restriction
£m</th><th>SCR
£m</th></tr>
<tr><td>Heritage WPF</td><td>1,943</td><td>1,398</td><td>545</td><td>1,943</td><td>1,225</td><td>718</td></tr>
<tr><td>SLAL PBF and Shareholders' Fund</td><td>2,453</td><td>-</td><td>1,356</td><td>2,442</td><td>-</td><td>1,268</td></tr>
<tr><td>Total</td><td>4,396</td><td>1,398</td><td>1,900</td><td>4,385</td><td>1,225</td><td>1,985</td></tr>
<tr><td colspan="3"></td><td>Total</td><td colspan="2"></td><td>Total</td></tr>
<tr><td colspan="3">Excess of Adjusted Own Funds over SCR</td><td>£1,097m</td><td colspan="2"></td><td>£1,175m</td></tr>
<tr><td colspan="3">Solvency Ratio – All funds</td><td>158%</td><td colspan="2"></td><td>159%</td></tr>
</table>

Table 2 shows that between 31 December 2022 and 30 June 2023 there was a reduction in the Excess of Adjusted Own Funds over SCR for SLAL. This was partly driven by changes in economic conditions and assumption changes but also includes the effect of the £50m loan which was made in July but is reflected in Table 2 as if it was made on 30 June.

Table 3: Financial position of SLPF as at 30 June 2023 and 31 December 2022

<table>
<tr><th></th><th colspan="3">SLPF as at 30 June 2023 before the effect of the Scheme</th><th colspan="3">SLPF as at 31 December 2022 before the effect of the Scheme</th></tr>
<tr><th></th><th>Own Funds
£m</th><th>RFF Restriction
£m</th><th>MCR
£m</th><th>Own Funds
£m</th><th>RFF Restriction
£m</th><th>MCR
£m</th></tr>
<tr><td>Total</td><td>11.0</td><td>-</td><td>3.4</td><td>10.7</td><td>-</td><td>3.2</td></tr>
<tr><td colspan="3"></td><td>Total</td><td colspan="2"></td><td>Total</td></tr>
<tr><td colspan="3">Excess of Adjusted Own Funds over MCR</td><td>£7.5m</td><td colspan="2"></td><td>£7.5m</td></tr>
<tr><td colspan="3">Solvency Ratio – All funds</td><td>319%</td><td colspan="2"></td><td>336%</td></tr>
</table>

Table 3 shows that the Excess of Adjusted Own Funds over MCR for SLPF has not changed materially in the period.

Table 4 below shows the estimated financial position of Phoenix as at 30 June 2023, as if the Scheme had been in effect as at that date. The equivalent position as at 31 December 2022 that was given in my report is shown for comparison.

Table 4: Financial position of Phoenix as at 30 June 2023 after the effect of the Scheme on a pro forma basis

	Phoenix as at 30 June 2023 after the effect of the Scheme			*Phoenix as at 31 December 2022 after the effect of the Scheme*		
	Own Funds £m	**RFF Restriction** £m	**SCR** £m	*Own Funds* *£m*	*RFF Restriction* *£m*	*SCR* *£m*
Existing Phoenix WPFs	1,190	358	558	*1,199*	*401*	*505*
Heritage WPF	1,943	1,340	603	*1,943*	*1,166*	*777*
LL WPF	14	-	17	*20*	-	*18*
NPL WPF	114	-	115	*119*	-	*154*
Pearl WPF	726	311	276	*797*	*346*	*314*
SERP Fund	56	-	78	*67*	-	*92*
NPF and Shareholders' Fund	5,749	-	2,788	*5,759*	-	*2,572*
Total	**9,791**	**2,009**	**4,434**	*9,905*	*1,914*	*4,433*
			Total			*Total*
Excess of Adjusted Own Funds over SCR			**£3,347m**			*£3,558m*
Solvency Ratio – All funds			**175%**			*180%*
Solvency Ratio excluding unsupported WPFs			**220%**			*225%*

The estimated Excess of Adjusted Own Funds over SCR has reduced by c£200m compared to the estimate at 31 December 2022. The effect of changes in economic conditions over the period and changes that reflect the reviews of valuation assumptions and methodology broadly offset. The loans to PGH described in section 2.4 are the main driver of the reduction, reducing the excess by £200m.

Comparing the positions shown in Tables 2 and 4 at 31 December 2022 and 30 June 2023 show that the financial position of Phoenix following the Scheme will show a similar impact. As was the case in my report, this comparison shows that after the implementation of the Scheme, the solvency ratio of Phoenix will be higher than that of SLAL. Similarly, comparing Tables 3 and 4, Phoenix will have a lower solvency ratio than SLPF although SLPF's high solvency ratio is due to the presence of surplus assets that could be transferred to its owner, the SLAL Heritage WPF, and therefore does not reflect a greater degree of security.

Based on analysis of the pro forma position of Phoenix after implementation of the Scheme, Phoenix would have met its regulatory capital requirements and the higher levels implied by the PCP on 30 June 2023. The Scheme Capital Quantity Test is the more onerous requirement of the PCP as at 30 June 2023 on a pro forma basis and this is expected to remain the case following the implementation of the Scheme. The Phoenix Chief Actuary notes that this outcome is influenced by the ability to perform unit matching on unit linked policies allocated to the Heritage With Profit Fund.

3.2. Impact of UK Solvency II approvals

In addition to the TMTP approval received, which will become effective on the approval of the Scheme, the financial analysis set out above also assumes that the Heritage WPF Matching Adjustment application will be approved by the PRA.

If approval is not in place before the Scheme is implemented there would be a temporary increase in valuation liabilities. In his supplementary report the Phoenix Chief Actuary confirms that this would have no impact on policyholders and no material impact on Phoenix's solvency position, and that Phoenix would still have met its regulatory capital requirements and the higher levels implied by the PCP on 30 June 2023 on a pro forma basis in the absence of this MA approval.

3.3. Impact of events since 30 June 2023

The change in economic conditions since 30 June 2023, as illustrated by Table 1 in section 2.3, has not had a material impact on the solvency position shown in section 3.1.

As noted in sections 2.4 to 2.6, a number of other events and actions have occurred since the end of June or are expected to take place before the Scheme is implemented. Taking into account those events and actions, market movements, new business written and the run-off of in-force policies since then, the Phoenix Chief Actuary has confirmed that Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP at the date of this supplementary report and is expected to do so after the implementation of the Scheme.

3.4. UK Solvency II Reform

In section 5.5 of my report I described progress made on proposed reforms to the UK's solvency regime post-Brexit ("Solvency UK"), including that the PRA had indicated that changes are likely to be staggered.

In June 2023 HMT published draft Statutory Instruments which will implement the reform proposals announced in November 2022, and the PRA published the first in a series of consultations setting out further details of its proposed implementation of Solvency UK.

HMT has confirmed that Risk Margin reforms are due to come into effect by 31 December 2023. HMT also signalled their desire for the proposed changes in the PRA's June consultation to be implemented by 31 December 2024. These will simplify TMTP calculation methodology, amend regulatory reporting requirements and streamline the approval process for internal models, and introduce changes to internal model requirements and capital add-ons.

A second PRA consultation, which is planned for September 2023, will focus on reforms relating to the Matching Adjustment and cover eligibility rules, attestation requirements and certain changes to calculation, and reporting. These changes are expected to be implemented by 30 June 2024, subject to the industry consultation on the feasibility of this timeline.

The Risk Margin reforms will lead to a reduction in Risk Margin which will be partially offset by a reduction in TMTP, resulting in an improved solvency position. The impact of the Matching Adjustment reforms is not yet known as the policy is not confirmed but the current expectation based on proposals is that in aggregate the Risk Margin and Matching Adjustment reforms will lead to an improvement in the reported solvency position.

The implementation of Solvency UK is relevant to all companies involved in the Scheme and will come into effect irrespective of whether the Scheme is implemented. While acknowledging the remaining uncertainties at this stage in the consultation process, the Solvency II reforms therefore have no impact on my conclusions.

4. POLICYHOLDER COMMUNICATIONS AND OBJECTIONS

4.1. Policyholder communication

I have reviewed the mailing pack, including the Scheme guide, prepared for and sent to SLAL and SLPF policyholders, along with the related materials made available on the companies' website. I am satisfied that the information regarding the proposals as contained therein adequately brings the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this supplementary report to the attention of policyholders, although I note that this report will be available to policyholders on the website.

42,085 responses have been received as at 15 September 2023, 13,871 of which were from SLAL policyholders and 4 of which were from SLPF policyholders.

4.2. Objections

As at 15 September 2023, 68 objections to the transfer have been received in total. Of these objections 51 have come from SLAL policyholders and none from SLPF policyholders. The table below shows the main themes of the SLAL policyholders' objections and either explains where these themes were addressed in my report or expresses my views if they were not.

Objection theme	Response
Concerns about the impact of the transfer on policy values, security and future servicing levels	The impact of the transfer on policy values, security and future servicing levels was considered in sections 6 (for SLAL) and 7 (for SLPF) of my report. That analysis supported my conclusion that there will be no material adverse impact on policyholder security, reasonable benefit expectations or the quality of administration.
Concerns about Phoenix's service standards compared to peers and its ability to manage policies as effectively as SLAL	As above, the impact of the transfer on policy values, security and future servicing levels is considered in sections 6 (for SLAL) and 7 (for SLPF) of my report and supported my conclusion that there will be no material adverse impact on policyholder security, reasonable benefit expectations or the quality of administration.
Concerns regarding the transfer benefiting Phoenix and its senior management and not being in the interests of (or enhancing benefits of) policyholders	The rationale for the transfer is set out in section 4.1 of my report and I am satisfied that this rationale is appropriate. I am also satisfied that the Scheme has been prepared with the interests of policyholders in mind and that its impacts on policyholders, which include there being no material adverse impacts on policyholder security, reasonable benefit expectations or the quality of administration, are appropriate.
Being unaware that SLAL and SLPF were part of Phoenix Group	Individual policyholders being unaware of these companies being part of the Phoenix Group does not change my conclusions as to the appropriateness of the Scheme and its impacts.

Objection theme	Response
Being happy with the current position and consequently opposed to any changes	These policyholders' preferences to retain the current position does not change my conclusions as to the appropriateness of the Scheme and its impacts.
Concerns around the transfer process, such as the policyholder notifications, not allowing opt outs, and the use of 'material' in assessing impacts	I am satisfied that the transfer process has been conducted appropriately and in accordance with the requirements of the Financial Services and Markets Act 2000 and associated case law, that leads to a test for no "material adverse effect" on an insurance business transfer.
Concerns about policyholders being exposed to potential data and cyber security breaches	As the proposed transfer is between companies in the Phoenix Group and no data transfers will take place as a result of the transfer, I am satisfied that the transfer will not put customers at increased risk of data and cyber security breaches.
Concerns over business-as-usual complaints raised previously	As the proposed transfer will not affect the complaint resolution process for existing SLAL policyholders, I am satisfied that the transfer will not disadvantage customers with existing complaints or otherwise affect the resolution of those complaints.

I note that all objections have been replied to and have been passed to the regulators and to the Independent Expert for their information, and will also be passed to the Court of Session and the High Court.

I have considered those objections and none of the concerns raised in those objections affects the conclusions in my report and this supplementary report, with the table above setting out some commentary on the main themes including my rationale where those themes were not directly covered in my report.

Objections received after 15 September 2023 will continue to be replied to and passed on to the parties noted above.

5. EFFECT ON SLAL POLICYHOLDERS

5.1. SLAL policyholder security

The key points in my report with regard to the effect of the Scheme on the security of SLAL policyholders were:

- There are no differences in approach between Phoenix and SLAL in calculating their respective technical provisions and SCR, nor to the underlying strength of, or governance for, their respective capital policies.
- Phoenix will meet its regulatory capital requirements and the additional requirements of the PCP following implementation of the Scheme.
- After implementation of the Scheme there will be a surplus in Phoenix, however little reliance or benefit can be placed on any surplus over that required by the PCP in terms of improving the security of policyholders.
- I considered that there would be no material adverse effect on the security of current SLAL policyholders as a result of the Scheme.

From the analysis shown in section 3 of this supplementary report I note that Phoenix will on a pro forma basis continue to meet its regulatory capital requirements and the more onerous requirements of the PCP after the Scheme is implemented. The requirements would be met irrespective of the outcome of the matching adjustment application described in 3.2. In addition, the mix of risks that SLAL and Phoenix after the Scheme are exposed to is broadly unchanged from my report and therefore there are no new concerns around the change in risk profile.

As described in section 2.5, additional capital is held where appropriate to cover the risk of mis-estimation of the solvency position. This provides further protection and will apply in Phoenix after the Scheme is implemented in a similar manner to how it applies in SLAL before the Scheme is implemented.

I am comfortable that there will be no material adverse effect on the security of benefits for the three policyholders whose policies will be treated as Excluded Policies and reinsured to Phoenix as I describe in section 2.2. Their security derives from the solvency of Phoenix in the first instance, and the value of their policies is more than covered by the capital that will be retained in SLAL prior to it being de-authorised (which cannot happen while the policies remain Excluded Policies).

Therefore, my opinion remains unchanged that there will be no material adverse effect on the security of current SLAL policyholders as a result of the Scheme.

I am also satisfied that the management of liquidity set out in sections 2.4 and 2.5 above will operate in the same way for Phoenix after the Scheme as it does for SLAL currently.

5.2. SLAL policyholder benefits

In my report, I noted that there would be no material reduction in the reasonable benefit expectations of current SLAL policyholders as a result of the Scheme. The terms of the Scheme have not been changed and none of the developments since my report have affected the conclusions drawn by me in my report. The benefits of the three Excluded Policies that I describe in section 2.2 will be the same under the reinsurance as they would have been if they were transferred by the Scheme. The outcome of the Matching Adjustment application described in 3.2 does not impact the management basis for the Heritage WPF and so has no impact on benefit expectations of policyholders in that fund.

Therefore, my opinion remains that the reasonable benefit expectations of the SLAL policyholders will not be materially adversely affected by the implementation of the Scheme.

The With-Profits Actuary of SLAL has confirmed that she agrees with my opinion as set out in sections 5.1 and 5.2 with regard to holders of with-profits policies. Her opinion is included as Appendix 1 to this supplementary report.

5.3. Conclusions for SLAL

My opinion is that the changes in the economic conditions and the other matters referred to in this supplementary report have not affected the conclusions that I reached in my report. As I explain in sections 5.1 and 5.2 I am comfortable that those conclusions also apply to the three policyholders whose policies will be treated as Excluded Policies.

Therefore my opinion remains that no class of SLAL policyholder will be materially adversely affected by the implementation of the Scheme or the Proposed Variations and, in particular, that the Scheme and Proposed Variations should not have any material adverse impact on the security of benefits or benefit expectations of SLAL policyholders. I continue to believe that the Scheme and Proposed Variations are consistent with SLAL's obligation to treat its customers fairly and act to deliver good outcomes, and there should be no adverse effect on the levels of service provided to policyholders.

6. EFFECT ON SLPF POLICYHOLDERS

6.1. SLPF policyholder security

The key points in my report with regard to the effect of the Scheme on the security of SLPF policyholders were:

- Due to all of SLPF's business being reinsured to SLAL, the vast majority of the security for SLPF policyholders is provided by the strength of SLAL. As described in my report and summarised above in section 5.1 of this supplementary report, I considered that there would be no reduction of security between SLAL before the Scheme is implemented and Phoenix afterwards.
- I therefore considered that there would be no material adverse effect on the security of benefits for current SLPF policyholders as a result of the Scheme.

Similarly my opinion remains unchanged that there will be no material adverse effect on the security of benefits for current SLPF policyholders as a result of the Scheme.

6.2. SLPF policyholder benefits

In my report, I noted that there would be no material reduction in the reasonable benefit expectations of current SLPF policyholders as a result of the Scheme. The terms of the Scheme have not been changed and none of the developments since my report have affected the conclusions drawn by me in my report. Therefore, my opinion remains that the reasonable benefit expectations of the SLPF policyholders will not be materially adversely affected by the implementation of the Scheme.

6.3. Conclusions for SLPF

My opinion is that the changes in the economic conditions and the other matters referred to in this supplementary report have not affected the conclusions that I reached in my report. Therefore my opinion remains that no class of SLPF policyholder will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should not have any material adverse impact on the security of benefits or benefit expectations of the transferring SLPF policyholders. I continue to believe that the Scheme is consistent with SLPF's obligation to treat its customers fairly and act to deliver good outcomes, and there should be no adverse effect on the levels of service provided to policyholders.

DocuSigned by:

Simon James Thomlinson

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S J Thomlinson
Fellow of the Institute and Faculty of Actuaries
Chief Actuary
20 September 2023

APPENDIX 1 – OPINION OF THE WITH-PROFITS ACTUARY

Introduction

This opinion is supplementary to the opinions set out in my report dated 18 April 2023 entitled "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 With-Profits Actuary on the impact of the Scheme on With-Profits Policyholders of Standard Life Assurance Limited" (the "Main Report") and should accordingly be read alongside the Main Report. Terms used in this opinion have the same meanings given to them in the Main Report.

Since the Main Report was finalised:

- I was appointed as the With-Profits Actuary for the SPI WPF of Phoenix in June 2023, as expected and noted in section 1.2 of the Main Report.
- My employer within Phoenix Group has changed since the date of the Main Report, from SLAESL to PGMS. This change of employer is a consequence of the rationalisation of service companies that the Chief Actuary has described in section 2.6 of his supplementary report.

This opinion 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: General Actuarial Standards and TAS 200: Insurance.

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

Considerations and Opinion

I note that there have been no changes to the terms of the Scheme since the date of the Main Report, with the exception of the addition of one small subsidiary of SLAL to the list of transferring subsidiaries in Schedule 3. This change has no impact on my conclusions.

Section 2.4 of the Chief Actuary's supplementary report notes that a new liquidity support has been put in place for the German With-Profits Fund in SLAL and that £22m has been drawn down under this facility. This facility and any outstanding loan will be replicated when the business is transferred to Phoenix. Therefore, it does not affect my conclusions.

Section 2.6 of the Chief Actuary's supplementary report notes that an application to maintain the SLAL Heritage WP Fund's MA portfolio in the newly-established Heritage WP Fund of Phoenix is required and that approval may not be in place for a short period after the Scheme is implemented. As set out in the Main Report, the Heritage WP Fund in Phoenix will be managed with reference to the "Notional Company" in accordance with the Scheme. This continues the approach adopted in SLAL as set out in the SLAC Demutualisation Scheme. The Notional Company is assumed to have all relevant UK Solvency II regulatory approvals, and so the management of the Heritage WP Fund (including investment and bonus policy) will be unchanged by any delays in receiving this MA approval. Section 3.2 of the Chief Actuary's supplementary report notes that on a pro forma basis, Phoenix would have met its regulatory capital requirements and the higher levels implied by the Phoenix Capital Policy in the absence of the approval. Therefore the timing of this approval will not affect the security or reasonable benefit expectations of with-profits policyholders.

Section 2.6 of the Chief Actuary's supplementary report also notes that it is planned to implement unit matching on some of the unit-linked business allocated to the Heritage WPF later in 2023. Unit matching was considered in section 4.2 of the Main Report, where I explained that unit matching would not affect with-profits customers' security or outcomes. The intention to implement soon after the proposed transfer does not affect my conclusions, noting that implementation will be subject to approval by the Board, with advice from the With-Profits Actuary and With-Profits Committee.

I have reviewed the 13 objections received from SLAL with-profits policyholders in response to the notifications and publicity for the Scheme together with the responses to those objections. Those objections did not raise any points that had not previously been considered in the Main Report and I have not seen anything in those objections which affects the conclusions in the Main Report and this opinion.

I have considered the supplementary report produced by the Chief Actuary of SLAL and support its conclusions in respect of the with-profits policyholders of SLAL.

In my opinion, for the reasons set out in the supplementary report of the SLAL Chief Actuary and in this opinion, I remain satisfied that the Scheme will not materially adversely affect the interests and reasonable expectations of SLAL with-profits policyholders, including those whose benefits are reinsured from SL Intl. Further, I remain satisfied that the Scheme would have no material adverse impact on the security of with-profits customers' benefits and that the Scheme is consistent with treating these customers fairly.

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CM Stewart Roper

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Kate Stewart Roper
Fellow of the Faculty of Actuaries

APPENDIX 2 – GLOSSARY

Term	Definition
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.
Court of Session	The supreme civil court of Scotland.
FCA	Financial Conduct Authority.
German With-Profits Fund	The new version of the German With-Profits Fund of SLAL that will be created in Phoenix.
Heritage WPF	The new version of the Heritage With-Profits Fund of SLAL that will be created in Phoenix.
High Court	The High Court of Justice of England and Wales.
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.
LL WPF	The new version of the London Life With-Profits Fund of PLAL that will be created in Phoenix.
MA	Matching Adjustment. This is an adjustment to the risk-free rate used in UK 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.
NPF	The Phoenix Non-Profit Fund. This comprises all assets and liabilities attributed to the non-profit business of Phoenix.
NPL WPF	The new version of the NPL With-Profits Fund of PLAL that will be created in Phoenix.
Own Funds	The excess of an insurer's assets over its liabilities on a UK Solvency II basis.
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 With-Profits Fund of PLAL 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 Group	PGH and all of its subsidiaries.
PLAL	Phoenix Life Assurance Limited. A life insurance subsidiary of PGH that was renamed from Pearl Assurance in 2012.
PRA	Prudential Regulation Authority.
Proposed Variations	The proposed replacement of the SLAC Demutualisation Scheme and the SLAL 2011 Scheme and the amendments of the SLAL Brexit Scheme.

Term	Definition
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 SERP Fund of PLAL that will be created in Phoenix.
SLAL	Standard Life Assurance Limited. A life insurance subsidiary of PGH.
SLAL German With-Profits Fund	The German With-Profits Fund of SLAL.
SLAL Heritage WPF	The Heritage With-Profits Fund of SLAL.
SLAL PBF	The SLAL Proprietary Business Fund.
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.
Solvency II	Regulatory solvency framework for the European Economic Area insurance and reinsurance industry.
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 Institute and Faculty of Actuaries.
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.
Transfer Date	The time and date that the Scheme becomes operative
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.