Phoenix

STANDARD LIFE ASSURANCE 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 With-Profits Actuary on the effect of the Scheme on With-Profits Policyholders of Standard Life Assurance Limited

18 April 2023

Contents

1. INTRODUCTION

1.1. Background

The purpose of this report is to describe the effects of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA") on the with-profits policyholders of Standard Life Assurance Limited ("SLAL"). This report will be available to policyholders via the Standard Life website.

Under this scheme (the "Scheme") the business of Phoenix Life Assurance Limited ("PLAL"), SLAL and Standard Life Pension Funds Limited ("SLPF") is to transfer to Phoenix Life Limited ("Phoenix"). All these companies are part of the Phoenix Group.

SLAL has four with-profits funds namely the Heritage With-Profits Fund ("Heritage WP Fund"), the German With-Profits Fund ("German WP Fund"), the UK Smoothed Managed With-Profits Fund ("UKSM WP Fund") and the German Smoothed Managed With-Profits Fund ("German SM WP Fund").

This With-Profits Actuary's ("WPA") report assesses the effect of the Scheme from the perspective of with-profits policyholders in the four with-profits funds of SLAL. It covers direct policyholders of SLAL and policyholders who participate in the with-profits funds through reinsurance from Standard Life International dac ("SL Intl")

This WPA report does not cover aspects of the scheme that apply equally to other types of transferring policies, whether they be unit-linked or non-profit because these wider issues will be covered elsewhere within the Scheme materials. Rather, the scope of the WPA report is to consider only those aspects that are specific to the with-profits business to be transferred from SLAL.

1.2. Introduction to the With-Profits Actuary

I am a Fellow of the Institute and Faculty of Actuaries having qualified as a Fellow of the Faculty of Actuaries in 1993. I have over 30 years of experience in the life assurance industry and joined Standard Life in 2002. I became the SLAL With-Profits Actuary in October 2019.

I am an employee of Standard Life Assets and Employee Services Limited ("SLAESL"), which is a wholly owned subsidiary of SLAL, and which provides employee related services to SLAL. As an employee, I have benefits including share options (which are contingent on performance conditions) and I also have pension provision through policies affected by this Scheme. My remuneration structure is consistent with that of other senior managers in the organisation.

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.

I have no SLAL with-profits investments. I have a unitised with-profits pensions policy in the SPI WPF of Phoenix which I effected whilst a member of staff of the Scottish Provident Institution. I participate in employee share options and purchase schemes through which I own shares in Phoenix Group Holdings plc ("PGH"), the parent company of the Phoenix Group.

The with-profits policy forms only a small part of my overall pension arrangements. The pensions policies are unit-linked and are those previously or currently available to employees to make provision for their retirement.

The proposed transfer will not change my policies, in particular there are no changes to policy terms and conditions or the way the policies are invested. Should the transfer go ahead, my 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.

Given the above, I am confident that holding these policies does not affect my objectivity in carrying out my review as With-Profits 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 expect to be appointed as the With-Profits Actuary for the SPI WPF of Phoenix in June 2023. If the Scheme is implemented, I expect to be appointed as the With-Profits Actuary for the four new with-profits funds in Phoenix established to contain the relevant transferred SLAL business including the SL Intl reinsurance arrangements.

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

1.3. Purpose of Report

Under the UK regulatory framework for life insurers, as With-Profits Actuary I am required to advise SLAL's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting the with-profits business of the funds in respect of which I have been appointed.

Phoenix is proposing to transfer the business of PLAL, SLAL and SLPF to Phoenix. The purpose of this report is to provide my advice to the board of directors of SLAL (the "SLAL Board") on the key aspects of the Scheme as it affects the SLAL with-profits business. As the transfer affects the with-profits business reinsured from SL Intl, the report will also be provided to the SL Intl Board. The proposed transfer is a Related Transaction and is akin to a SLPF Scheme (each as defined in the SLAC Demutualisation Scheme) and this report includes my required advice for such transactions.

As well as the SLAL and SL Intl Boards, the report may be used by other Phoenix Boards, Phoenix's With-Profits Committees ("WPC"), the Independent Expert appointed by Phoenix to report on the fairness of the Scheme, the High Court of the England and Wales (the "Court"), the Court of Session, the Royal Court of Jersey, the Royal Court of Guernsey, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Central Bank of Ireland ("CBI") and other regulators in forming their judgements about the transfers.

Separate reports on the terms of the Scheme have been prepared by the Independent Expert and (to the extent these relate to SLAL and SLPF) SLAL's Chief Actuary. The Independent Expert's report considers the terms of the proposed Scheme and its effects on all the affected customers, including those of SLAL. The SLAL Chief Actuary's report ("SLAL CA Report") provides background and describes the Scheme and its effects, including consideration of solvency and the various groups of customers within SLAL and SLPF.

During the preparation of this report, I have based my understanding of the Scheme on the legal documentation and the description in the SLAL CA Report. I have read and considered the reports prepared by the Independent Expert and SLAL Chief Actuary. There is nothing in their reports that represents a difference of substance from the views expressed in this report.

This report should be read in conjunction with the SLAL CA Report, and not in isolation.

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

1.4. Materials from the Chief Actuary's report

The SLAL CA Report includes the following factual information:

- Background information on SLAL, including details about its history and fund structure, its capital policy, the business and products in the affected with-profits funds, and the financial management of the funds including key areas of the SLAC Demutualisation Scheme (section 3.4).

- Background information on Phoenix, including its administration, funding and regulation (section 3.7).

- A detailed explanation of the terms of the Transfer (section 4).

To avoid undue repetition, these matters are not described separately in this report and readers should therefore read this report in conjunction with the SLAL CA Report.

Capitalised terms used but not defined in this report have the meaning given to such terms in the SLAL CA Report.

1.5. 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 TAS 100: Principles for Technical 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

I cover a number of more detailed points in the body of my report. However, my conclusions on the proposed transfer and its effect on the SLAL with-profits customers are as follows:

All SLAL with-profits customers:

- For the reasons set out in the SLAL CA Report, the Scheme is not expected to have any material adverse effect on the security of the benefits of any transferring SLAL with-profits policyholders.
- The reinsurance of SL Intl business into the WP Funds will continue to operate as it currently does.
- The transfer causes no material changes to the operation of the funds and hence the with-profits benefits provided.

Heritage WP Fund customers:

- The Scheme maintains the arrangements for the Heritage WP Fund set out in the SLAC Demutualisation Scheme including the Core Principles. The Core Principles are essentially unchanged although have been very slightly re-worded. They have also been renamed as Scheme Principles of Financial Management of the Heritage WP Fund (paragraphs 1 to 4 of Part 1 of Schedule 11 of the Scheme). These principles can only be varied (without Court involvement) in the same limited circumstances as set out in the SLAC Demutualisation Scheme.
- The exceptional circumstances in which these principles do not need to be applied are also essentially unchanged.
- The Scheme maintains the ability for the HWPF to receive shareholder support and the protection for customers around the repayment of that support. It introduces the requirement that the Non-Profit Fund or Shareholders' Fund must provide such support (if there are assets available) if the HWPF's assets fall below the regulatory minimum plus a buffer of 0.5% of with-profits policy liabilities (including future policy-related liabilities).
- The modification to the calculation of shareholder cashflows (affecting the Recourse Cashflow) allows a practical approach to be taken to payments within a calendar year without materially affecting the economic value transferred. It also appropriately clarifies the treatment of changes in the construction of the risk-free yield curve.
- The inclusion of explicit permission for unit matching on unit-linked assets is appropriate and does not affect customers.

Whist not part of the Scheme, the formal closing of the Heritage WP Fund to new business will not cause any change in the management of that fund and, in particular, does not have a material effect on the quantum, or manner and timing of the distribution of the Estate. Any further restriction introduced in future on the additional business written into the Heritage WP Fund would not be expected to affect the management of the fund for existing business.

In my opinion as With-Profits Actuary of the four with-profit funds within SLAL, the Scheme, if implemented, will not materially adversely affect the interests and reasonable expectations of the SLAL with-profits customers. I am satisfied that the Scheme would have no material adverse effect on the security of with-profits customers' benefits and that the Scheme is consistent with treating customers fairly.

3. MAIN EFFECTS OF THE SCHEME

Details of the main effects of the Scheme are set out in section 4.2 of the SLAL CA Report. Here I set out the key aspects relating to the SLAL with-profits business.

3.1. Overview

Under the Scheme, new with-profits funds, as set out in section 4.2.2 of the SLAL CA Report, corresponding to the existing with-profits funds in SLAL and PLAL, will be established in Phoenix as separate with-profits funds within the Phoenix Long-Term Fund and the policies, assets and liabilities currently allocated to the existing with-profits funds in PLAL and SLAL will be allocated to the relevant successor funds in Phoenix.

It is proposed that the transfer of any business carried on in or from within Jersey by SLAL or SLAC, or which comprises policies issued by SLAL or SLAC 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. For the avoidance of doubt, references to the Scheme should be taken to include these schemes.

3.2. Heritage With-Profits Fund management

No changes are proposed to the administration or governance of the Phoenix, PLAL, SLAL and SLPF policies as a result of the Scheme.

The ongoing management of the with-profits business transferred from SLAL will not change as a result of the Scheme. In particular, the Heritage WP Fund will continue to be managed with reference to the "Notional Company" as currently set out in the SLAC Demutualisation Scheme and replicated in the Scheme. This is described in section 3.4.2 of the SLAL CA Report. The Notional Company is essentially a version of the Heritage WP Fund with some specified additional capital, no requirement to pay Recourse Cashflows and no requirement to distribute its Estate. The Notional Company is assumed to have all relevant UK Solvency II regulatory approvals. Therefore any change in approach between Phoenix and SLAL in those used for the Heritage WP Fund will not affect the management of the fund.

The Reference Period Transfer Amount (RPTA) is a payment made from the SLAL Heritage WP Fund to the shareholder which provides the shareholder with a share in the profits of the Heritage WP Fund. The calculation of the RPTA is based on the Recourse Cashflow (RCF), which is defined in the SLAC Demutualisation Scheme. The RCF approach is to be modified for practical reasons. The Scheme modifies the calculation such that only certain elements will contribute to mid-year RCF payments. It will not result in the Heritage WP Fund making any RCF payments sooner than it could otherwise have done under the SLAC Demutualisation Scheme. This is appropriate as the current approach to making mid-year payments requires some discretion to be used to ensure the value taken from the Heritage WP Fund in respect of the second half of the year is appropriate. The Scheme also clarifies the treatment of changes in the construction of the risk-free yield curve. This clarification avoids inappropriate transfers of value from the fund in circumstances such as ceasing to apply a volatility adjustment (as will be the case in Phoenix).

The Scheme will clarify that Phoenix is allowed to carry out 'unit matching' on the unit-linked business allocated to the Heritage WP Fund, subject to future proposals being approved by the Board with advice from the WPA and WPC. 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 assets under the Solvency II regulations. Unit matching already takes place on other unit-linked business in SLAL and other Phoenix Group companies.

The Scheme does not change the provisions relating to the closure of the Heritage WP Fund. The Scheme does make changes for the current Phoenix and PLAL with-profits funds, but the provisions for closure for the Heritage WP Fund will remain consistent with the SLAC Demutualisation Scheme. There are no such provisions for SLAL's other with-profits funds, and this is not changed by the Scheme.

The SLAC Demutualisation Scheme requires certification of compliance with a) operational aspects of that Scheme and b) the Mortgage Endowment Promise ("MEP") provisions. This requirement will be removed by the Scheme which removes all such certification contained in previous Schemes.

The Scheme allows Phoenix to reallocate non-profit policies from Phoenix's with-profit funds 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 is consistent with the current Phoenix and PLAL schemes. It will give Phoenix greater powers in relation to Heritage WP Fund policies than SLAL currently has, as such reallocations are only allowed by the SLAC Demutualisation Scheme when securing annuities for vesting Heritage WP Fund policies. Any material reallocation would be a Related Transaction under the Scheme. This means that it would only be permitted if it was on terms that are unlikely to have a material adverse effect on the interests of with-profits policyholders (and WPA advice is specifically required).

While not part of the Scheme, Phoenix will use the Scheme mailings to notify Heritage WP Fund customers that the Heritage WP Fund will formally close to new business later in 2023. It is appropriate to use this mailing to all Heritage WP Fund customers to make this change of status reflecting the requirements of the FCA's conduct of business rules. The change of status will not affect the small volumes of business that are currently being written in the Heritage WP Fund and which will continue to be allowed after this closure. The Scheme will contain the same conditions on such business as the SLAC Demutualisation Scheme. The Scheme refers to this business as Additional Business (rather than New Business) to avoid any confusion over the fund's status.

3.3. Capital policy

The Phoenix Capital Policy is set out in section 4.3 of the SLAL CA Report. In summary this retains the three aspects of the current SLAL capital policy framework (Capital Quantity test, Capital Quality test and Capital Event business requirement) and the Scheme minimum capital requirement is determined by whichever of these gives the highest requirement.

The use of Capital Quantity and Capital Quality tests is in line with current practices in SLAL so does not result in changes from a practical perspective, but the inclusion of these tests in the Scheme along with conditions around how they can be changed in future provides policyholders with additional protection.

The Capital Event business requirement is essentially unchanged from the SLAC Demutualisation Scheme and acts as an underpin to the results of Phoenix's Capital Quality and Capital Quantity tests, such that if the output of those tests did not comply with the Capital Event business requirement, additional capital would need to be held. The purpose of this is that Phoenix, to the extent reasonably practicable, ensures there is 'no significant foreseeable risk' of it becoming 'unduly exposed to a risk' that it will be unable to meet its Solvency Capital Requirement ("SCR") or its more general capital needs, and having to depart from the Scheme Principles of Financial Management of the Heritage WP Fund or adjust asset mixes in certain other WP funds (not including the other funds transferring from SLAL).

Assessing what risks are foreseeable and what exposure would be undue is clearly highly subjective. It is important to note that what the Scheme stipulates is more onerous than preventing either a 'significant foreseeable risk' or becoming 'unduly exposed to a risk'. If Phoenix were actually to run a 1 in 10 risk of breaching its SCR within a year (the Capital Quantity test) with any such breach being expected to lead to actions in WP funds as described above, then it would surely be failing to comply with the Capital Event business requirement in the Scheme. However, the actual risk of such actions being needed depends on the other management actions that could be taken to offset a deterioration in capital coverage and any resort to external capital injections. It should be noted that, if a Capital Event occurring would lead to actions in WP funds as described above, calibrating to a 1 in 10 risk of breaching SCR in one year is likely to comply with the Scheme Capital Event business requirement only if sufficiently effective management actions outwith the with-profits funds continue to be available such that the actual risk, allowing for those actions, is much lower. If they are not available, then it could be expected that the Capital Event business requirement would become the biting constraint.

The Scheme both defines the circumstances in which the Heritage WP Fund's management can be altered to support the wider company (during a Capital Event) and also ensures Phoenix acts to avoid such circumstances (the Capital Event business requirement). The continuation of both these aspects is vital for the protection of the benefit expectations of the SLAL Heritage WP Fund with-profits customers. I have paid particular attention to the changes in wording in this area from the SLAC Demutualisation Scheme. There are two main changes:

- The Scheme is more explicit in the order of actions that should be taken if a Capital Event occurs. It clarifies that actions outwith the WP funds should be taken first and it is only if these are (or are expected to be) insufficient that the management of the Heritage WP Fund can depart from the Scheme Principles of Financial Management. It also states that any actions need to treat policyholders fairly and only be taken as necessary. The SLAC Demutualisation Scheme simply states that if a Capital Event occurs then SLAL should apply the Core Principles as far as reasonably practicable whilst ensuring that the Capital Event ceases. I have received legal assurance that the revised wording provides equivalent protection for Heritage WP Fund customers to that currently applying.

- The Scheme removes the need for the WPA to advise on whether a Capital Event has occurred and limits this advice to that of the Chief Actuary. This is appropriate as the Chief Actuary is better placed to advise Phoenix on this matter and the first actions that would be taken if a Capital Event occurred are outwith the WP Funds. Any actions in the WP funds need to be taken having regard to WPA advice (in addition to that of the Chief Actuary). This means that there is no reduction in protection for Heritage WP Fund customers as such actions will (as now) only be taken having regard to WPA advice.

The support arrangements for the SLAL Heritage WP Fund and the SLAL German WP Fund will continue to apply in the same way in Phoenix after the Transfer Date as they applied in SLAL with the additional requirement that that the Non-Profit Fund or Shareholders' Fund must provide support (if there are assets available) to the HWPF if its assets fall below the regulatory minimum plus a buffer of 0.5% of with-profits policy liabilities (including future policy-related liabilities). This is a requirement on the shareholder and is not expected to affect the management of the fund – for example its investment or bonus policy.

3.4. Reinsurance

The role of SLAL as reinsurer under the reinsurance agreements which were put in place between SLAL and SL Intl by the SLAL Brexit Scheme will be transferred to Phoenix and the related security arrangements replicated in Phoenix.

Under the Scheme, Phoenix will become party at the Transfer Date to all external inward third party reinsurance treaties in relation to the business transferring to it to which SLAL is party, and these treaties will continue to operate in the same way as they did before the Transfer Date. The outwards reinsurance treaties of each of the Transferors will be transferred to Phoenix together with the custody and security arrangements associated to the relevant treaties.

SLPF, which is a subsidiary of SLAL and allocated to the SLAL Heritage WP Fund, will become a subsidiary of Phoenix with effect from the Transfer Date and will be allocated to the new Phoenix Heritage WP Fund. The policies of SLPF are currently reinsured to SLAL, with some allocated to the SLAL Heritage WP Fund and some to the SLAL PBF. The reinsurance agreements between SLAL and SLPF will collapse on the implementation of the Scheme and the policies will be allocated to the fund in Phoenix which is the successor to the SLAL fund to which they were reinsured. All other assets and liabilities of SLPF (other than £4m to meet its ongoing Minimum Capital Requirement) will be transferred to Phoenix and allocated to the Heritage WP Fund.

The SLAC Demutualisation Scheme defined a SLPF Scheme as a scheme that would transfer to SLAL the annuity business of SLPF previously reinsured to the SLAL Heritage WP Fund. This Scheme is clearly akin to a SLPF Scheme. For such a scheme to allocate that business to the SLAL Heritage WP Fund, it needed approval from the WP Actuary on the basis that it is not expected to materially and adversely affect: (i) the quantum of the residual estate (or to impose a material constraint on the manner and timing of its distribution); (ii) the contractual rights of SLAL Heritage WP Fund with-profits policyholders; or (iii) their reasonable expectations regarding non-contractual benefits. I confirm that this Scheme meets those conditions.

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 that acts in the interests of these other insurers' security. This administrative role relates to business that is expected to be transferred to abrdn – see section 4.6 below for further details. Following the transfer SLPF will continue its role as Agent, but it will no longer need to be regulated. This role will automatically stop if the transfer to abrdn occurs. Once this has happened, it is expected that SLPF will be wound up with all remaining assets allocated to the Heritage WP Fund.

All existing arrangements between the SLAL with-profits funds and the SLAL PBF will be replicated by arrangements with the Phoenix non-profit fund ("NPF").

3.5. Effects on previous schemes

The Existing Phoenix Group Schemes to which companies other than Phoenix, PLAL, SLAL and SLPF are also a party (the "Continuing Schemes") will stay in full force and effect. This includes the SLAL Brexit Scheme. Each of the remaining Phoenix Group Schemes (the "Superseded Schemes") will be superseded by the Scheme with effect from the Transfer Date. I have reviewed the mapping of the clauses from the SLAC Demutualisation Scheme and the SLAL 2011 Scheme, and I am satisfied that relevant clauses have been carried forward appropriately without any material adverse effects on the interests of the Standard Life with-profits policyholders, subject to my consideration of the proposed changes set out in this Report. Provisions that are no longer required, for example those relating to actions to be taken in the past (such as on the Superseded Schemes' effective dates) or those that there is no expectation of using in the future, have been removed. The Scheme and the Superseded Schemes are long and complex legal documents, and I have relied on legal assurance that no relevant provision has been omitted from the Scheme.

The Court of Session will be asked to approve variations to the SLAL Brexit Scheme to replace SLAL with Phoenix from the Transfer Date. The Brexit Scheme will stay in force in its amended form. This will additionally require the discharge of a floating charge over SLAL assets and its replacement with an equivalent English Law floating charge over Phoenix assets, and for SL Intl to provide amended Deed Polls and a new Undertaking. I have reviewed these changes and, having discussed them with relevant legal advisors, believe they are appropriate.

The Court of Session will also be asked to consent to the High Court amending and discharging the SLAC Demutualisation Scheme and the SLAL 2011 Scheme. The Scheme will not become operative or unconditional unless the Court of Session's approval and consent (as required for each of the above-mentioned Schemes) has been obtained.

4. IMPLICATIONS OF THE SCHEME – RELATING TO SLAL WITH-PROFITS CUSTOMERS

4.1. Security of Benefits

Details of security for existing SLAL policy benefits are set out in section 6.2 of the SLAL CA Report.

As explained in section 6.2.2 of the SLAL CA Report the Scheme will ensure that the Phoenix capital policy will have the same strength as the SLAL Capital Policy that is currently being applied. The Scheme does increase the minimum level of capital that must be held in some circumstances through the inclusion of the capital quantity and quality tests.

I consider below particular aspects relevant to with-profits funds:

Risk Profile

Following the transfer there will be an increase in the amount of risk to which the Phoenix NPF and Shareholder Fund will be exposed, including additional new business risk, mostly in the form of new Standard Life unit-linked business, and additional with-profits funds requiring shareholder support. Phoenix also currently writes significant amounts of bulk purchase annuities and intends to continue doing so. However, the additional risks will not materially adversely affect the security of SLAL and SLPF policyholders as Phoenix will hold capital as part of its SCR and Phoenix Capital Policy to appropriately reflect these risks.

The SLAL with-profits funds are maintained as separate funds and therefore are not directly exposed to these risks.

Continuity of Capital Support Arrangements for With-Profits Funds

The existing SLAL approach for providing capital support to the Heritage WP Fund, as noted in section 4.3.2 of the SLAL CA Report, will be replicated in Phoenix for the Heritage WP Fund following the transfer with the additional requirement to maintain a buffer of 0.5% of with-profits policy liabilities (including future policy-related liabilities). Phoenix will also be able to support the German WP Fund in the same way as is currently the case in SLAL.

As described in section 4.3 of the SLAL CA Report, Phoenix, PLAL and SLAL carry out equivalent capital quality assessments and hold the greater of the capital quality and capital quantity measures. The Capital Event business requirement will continue to apply as an underpin as described above.

As Phoenix will meet the capital policy framework requirements following the transfer, the former SLAL with-profits policyholders will experience the same level of security as before the transfer. I am therefore in agreement with the SLAL CA Report that the transfer will not have any material adverse effect on the security of benefits of the existing policyholders in SLAL.

4.2. Policyholder Benefit Expectations

Benefits of all SLAL with-profits policyholders will be unaffected by the transfer as the structure of the with-profits funds remains intact. In particular, no changes will be made to guaranteed benefits, expenses payable by the with-profits funds, the asset share and bonus methodologies, smoothing, approach to guarantee deductions, estate distribution, Mortgage Endowment Promise or the investment strategies.

Investment Strategy

In the long run, the investments backing the Asset Shares are expected to have the greatest influence on the benefits that with-profits policyholders receive. The proposed transfer to Phoenix will not change the investment strategy of any of the SLAL WP Funds. In particular, the HWPF investment strategy will be set according to the framework set out in the Scheme which replicates that set out in the SLAC Demutualisation Scheme and as described in the PPFM. The investment managers of SLAL assets transferring to Phoenix and the asset selection processes will not be changed as a consequence of the Scheme.

Expenses and Taxation

There is no change to the approach of expense allocation to any of the SLAL WP Funds. Expenses are only allocated to the Heritage With-Profits Fund, and it will continue to be charged the expenses incurred in its operation. This allocation continues to be subject to the advice of the With-Profits Actuary.

The expenses allocated reflect agreements in place such as the Master Services Agreement with SLAESL and the reinsurance from SL Intl. Where tasks are outsourced within the Phoenix Group, the expenses charged to the Heritage With-Profits Fund exclude any profit loading or other margin.

The costs of the transfer of business from SLAL will be met by Phoenix and not charged to any customers.

There are no changes proposed to the way taxation is charged to the funds.

Shareholder Cashflows

The calculation of shareholder cashflows (principally RCF) is set out in the SLAC Demutualisation Scheme. For practical reasons the RCF approach will be slightly modified by the Scheme. One element relating to UK unitised pensions and currently forming the bulk of the RCF will continue to be paid after each valuation period (currently half-yearly). All other elements (including part of the RCF for UK unitised pensions) will be paid only once per year, following the 31 December valuation, and based on the full previous year. The conditions under which the RCF is payable are not changed. The Scheme will not result in the Heritage WP Fund making any RCF payments sooner than it could otherwise have done under the SLAC Demutualisation Scheme. This ensures that this change will have no material effect on Heritage WP Fund policyholders.

The Scheme will also clarify how changes in the construction of the risk-free yield curve should be allowed for within the RCF calculation. This change will have no material adverse effect on Heritage WP Fund policyholders. It will act to avoid an inappropriate transfer of value to the shareholder that otherwise might have taken place on ceasing to use a volatility adjustment following the transfer to Phoenix.

Unit matching

'Unit matching' releases surplus assets from unit-linked funds. Unit matching has been allowed since the Solvency II regulations became effective in 2016 and is commonly used in the industry.

The SLAC Demutualisation Scheme describes the cashflows that can take place between unit-linked policies allocated to the Heritage WP Fund and shareholder-owned funds. This wording, which was written before Solvency II, does not explicitly allow unit-matching. The Scheme includes wording to clarify that the Phoenix NPF can 'unit match' this business in the future. The decision to introduce unit-matching in the future would be subject to appropriate internal governance at that time.

The charges on these unit-linked policies are part of the Recourse Cashflow ('RCF'), which relates to the profits on certain business allocated to the Heritage WP Fund and accrues within the Heritage WP Fund. The shareholder is entitled to the

RCF only if the Heritage WP Fund would remain sufficiently strong after its payment. This provides security to the Heritage WP Fund's with-profits customers. Unit matching would not change the accrual or timing of the RCF. It would not affect the Heritage WP Fund's financial strength or that of the 'Notional Company' which is used in assessing investment strategy, bonuses and ultimately payouts. Given this, unit matching would not affect with-profits customers' security or outcomes.

Unit matching also has no effect on the unit-linked customers whose policies are allocated to the Heritage WP Fund. In particular, there would be no change to policy values, charge levels or the timing of charges, and the customers' overall experience and eventual payout will the same as if unit matching hadn't taken place.

Sunset Clauses

The current arrangement for ceasing to maintain the Heritage WP Fund (known as a sunset clause) is essentially unchanged for the Heritage WP Fund. The sunset clause remains optional rather than prescriptive. Keeping an optional sunset clause will mean that Phoenix is able to judge once the threshold is reached whether it would be appropriate to trigger the clause or to continue to operate the fund. The amounts in the Scheme reflect past indexation of the threshold amounts from demutualisation to 1 July 2022 with RPI indexation thereafter. I am comfortable that RPI remains a reasonable reference for indexation.

As in the current Scheme, there are no sunset clauses for the UKSM WP Fund, German WP Fund and German SM WP Fund. This approach does not affect the fair treatment of SLAL with-profits customers and remains appropriate for the three funds in question.

Standard Life International

SLAL will be replaced by Phoenix as reinsurer under the reinsurance agreements and related security arrangements which were put in place between SLAL and SL Intl in March 2019. No changes are being proposed to the terms and conditions of policies reinsured from SL Intl to SLAL under these arrangements.

Throughout this report the interests of SL Intl with-profits customers are considered alongside those of direct SLAL with-profits customers.

Summary

Based on the above I am comfortable that the Scheme will have no material adverse effect on with-profits customers.

4.3. Governance of With-Profits Funds

Each with-profit fund will continue to be managed by Phoenix in accordance with its PPFM or Internal PPFM (in the case of the German WP Fund and the German SM WP Fund). Revised PPFM and Internal PPFM have been drafted. There are some changes to the principles and practices, reflecting the transfer to Phoenix and the removal of a principle around the expected effect of the closure of the Heritage WP Fund to new business. SL Intl has drafted revised With-Profits Operating Principles ("WPOP") for each of its WP funds to apply after the transfer. I have reviewed the proposed PPFMs, Internal PPFMs and WPOPs and they appropriately describe the future management of the business.

There will be no change to the approach to with-profits governance. Governance arrangements are already harmonised across Phoenix, PLAL and SLAL and Board and WPC membership is already the same.

The Terms of Reference for the Phoenix WPC will combine and align the current terms for the Phoenix, PLAL, and SLAL WPCs. The Scheme includes the mechanism for updating these as required. The current Terms of Reference will always be available to customers via the website. I have reviewed the proposed Terms of Reference and they are appropriate for the SLAL with-profits business.

The requirement for an annual certificate to be provided by the SLAL Board, confirming that the Heritage WP Fund has been operated in accordance with the terms of the SLAC Demutualisation Scheme (including the operation of the Mortgage Endowment Promise), is not included in the Scheme. The Scheme removes all such previous certification requirements. This will not affect customers as it is a matter of law that all funds must be operated in line with relevant Court-approved schemes and work to demonstrate that compliance with the requirements will continue irrespective of the removal of certification.

The SLAL Brexit Scheme will continue as a separate scheme, having been varied to reflect Phoenix assuming SLAL's rights and obligations. The SLAL Brexit Scheme variations do not change the rights and obligations of SL Intl policyholders.

4.4 Administration

Administration services are currently provided to SLAL by SLAESL, Phoenix Group Management Services Limited and Pearl Group Services Limited. SLAESL outsources the majority of its policy administration and servicing to Diligenta Limited.

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

This restructuring, which is not expected to have any impact on the level of service that is currently provided, is independent of the transfer. The transfer will not change the terms upon which administration services are provided for the SLAL business. Therefore, there is no reason to expect the quality of administration or the level of service provided to SLAL policyholders to deteriorate as a consequence of the Scheme.

4.5 Communications

I have reviewed the communications to be provided to the SLAL and SL Intl with-profits customers to explain the Scheme and its implications. These communications also cover the formal closing of the Heritage WP Fund to new business. I am satisfied that the communications are clear and appropriate to the customers' needs.

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

Should any customer raise a question or concern relating to the operation of the with-profits business as a result of the Scheme I will review the responses provided by Phoenix. If such correspondence raises new matters not covered in this report, I will comment appropriately in my supplementary report.

4.6 Proposed subsequent abrdn transfer

The transfer includes certain business that is expected to subsequently be transferred from Phoenix to abrdn Life and Pensions Limited. This business includes around £3bn of TIP business that is allocated to the Heritage WP Fund. A WPA report will be prepared as part of that Part VII transfer covering the implications for Heritage WP Fund customers. I would not expect the fact that the Heritage WP Fund will then be in Phoenix rather than SLAL to materially affect the considerations of that report.

5. CONCLUSION

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

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

DocuSigned by:

CM Stewart Roper

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Kate Stewart Roper

Fellow of the Faculty of Actuaries