This is the second of the statements referred to in the attached Notice of Applications (the "**Notice**") to the Court of Session in Scotland in respect of the applications in paragraphs (ii) and (iii) of the Notice and explaining the Proposed Variations (defined in the Notice) and containing a summary of the Independent Expert Report (also defined in the Notice).

Notice of Applications to the Court

STANDARD LIFE ASSURANCE LIMITED

and

STANDARD LIFE INTERNATIONAL DESIGNATED ACTIVITY COMPANY

Notice is hereby given that on 25 September 2018:

(i) A Petition was presented to the Court of Session in Scotland (the "**Court**") by Standard Life Assurance Limited, registered in Scotland under number SC286833 and with its registered office at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH ("**SLAL**") and Standard Life International Designated Activity Company, registered in Ireland under number 408507 and with its registered office at 90 St Stephen's Green, Dublin 2 ("**SL Intl**"), in which **SLAL** and **SL Intl** seek, inter alia, an order of the Court, under Part VII of, and Schedule 12 to the Financial Services and Markets Act 2000 (the "**Act**"), sanctioning an insurance business transfer scheme (the "**Present Scheme**"), under which the Euro-denominated long-term business carried out by **SLAL** in Austria, Germany and the Republic of Ireland is, subject to certain exemptions, to be transferred to **SL Intl**.

Copies of the Petition, a report of the independent expert on the Present Scheme prepared under Section 109 of the Act (the "**Independent Expert Report**") and a statement setting out the terms of the Present Scheme and containing a summary of the Independent Expert Report may be obtained by any person, free of charge, on SLAL's website at **standardlife.eu** Free copies of any of these documents can also be obtained, on request, by calling any of the telephone numbers listed at the end of this notice on any weekday between 9am and 5pm, or by writing to any of the addresses listed at the end of this notice until the date on which the Court sanctions the Present Scheme. That date is expected to be in February 2019.

In accordance with the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001, **SLAL** and **SL Intl** will publish a series of notices in relation to this application. Those notices are expected to be published in **The Belfast Gazette**, **The Edinburgh Gazette**, **The London Gazette**, the **Iris Oifigiúil** and at least two national newspapers in the UK, Austria, Germany, Ireland and certain other EEA states. Any person who believes that they would be adversely affected by the carrying out of the Present Scheme has the right to lodge written Answers (formal written objections) to the Petition with the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ within 42 days of the publication of the last of these notices, which is expected to occur by1 October 2018. Any such person may wish to seek independent legal advice.

In accordance with its present practice, the Court is also likely to consider any other objections to the Present Scheme which are made to it in writing, or in person, at the Court hearing at which the Court's sanction of the Present Scheme is to be sought (the **"Sanction Hearing"**). That Sanction Hearing is expected to take place at the Court, at the above address, on the date which will be available on SLAL's website at **standardlife.eu** when it is known. It would be helpful, if any person wishing to object in person would give not less than five working days written notice in advance of the Sanction Hearing of the reasons for any objection to Burness Paull LLP at the address, and quoting the reference, mentioned below.

This notice of the Petition is given pursuant to Regulation 3(2) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 and has been approved by the Prudential Regulation Authority.

and

(ii) An application was presented to the Court by **SLAL**, under section 112(1)(d) of the Act, seeking an order giving the consent of the Court to proposed variations (the "**Proposed 2006 Scheme Variations**") of the insurance business transfer scheme (the "**2006 Scheme**"), which was under Part VII of, and Schedule 12 to, the Act, was sanctioned by order of the Court on 9 June 2006 and became effective on 10 July 2006. Under the 2006 Scheme substantially all of the long term business of The Standard Life Assurance Company, a mutual insurance company incorporated by private Act of Parliament, was transferred to **SLAL**.

and

(iii) An application was presented to the Court by **SLAL** under section 112(1)(d) of the Act seeking an order giving the consent of the Court to proposed variations (the "**Proposed 2011 Scheme Variations**") of the insurance business transfer scheme (the "**2011 Scheme**") which was also under Part VII of, and Schedule 12 to, the Act, which was sanctioned by order of the Court on 20 December 2011 and which became effective on 31 December 2011. Under the 2011 Scheme all of the long term business of Standard Life Investment Funds Limited was transferred to **SLAL**.

The Proposed 2006 Scheme Variations and the Proposed 2011 Scheme Variations (together the "**Proposed Variations**") are to address the implications of the Present Scheme for the 2006 Scheme and the 2011 Scheme. Copies of both of those applications, the Independent Expert Report, which includes his conclusions on the Proposed Variations, and a statement explaining the Proposed Variations and containing a summary of the Independent Expert Report, may be obtained by any person free of charge on SLAL's website at **standardlife.eu** Free copies of any of these documents can also be obtained by calling any of the telephone numbers listed at the end of this notice on any weekday between 9am and 5pm or by writing to any of the addresses listed at the end of this notice until the date on which the Court approves the Proposed Variations. That date is expected to be in February 2019.

In accordance with an order of the Court dated 25 September 2018, **SLAL** will publish a series of notices in relation to those applications. They are expected to be published in **The Belfast Gazette**, **The Edinburgh Gazette**, **The London Gazette**, the **Iris Oifigiúil** and at least two newspapers in the UK, Austria, Germany, Ireland and certain other EEA states. Any person who believes that they would be adversely affected by either, or both, of the Proposed Variations has the right to lodge written Answers (formal written objections) to either of the applications with the Court at the above address within 42 days of the publication of the last of these notices, which is expected to occur by 1 October 2018. Any such person may wish to seek independent legal advice.

In accordance with its present practice, the Court is also likely to consider any other objections to either, or both of, the Proposed Variations, which are made to it in writing, or in person at the hearing to approve the Proposed Variations. That hearing is expected to be the Sanction Hearing. It would be helpful if any person wishing to object in person to either, or both, of the Proposed Variations would give not less than five working days written notice of the reasons for any objection to Burness Paull LLP at the address, and quoting the reference, mentioned below.

Burness Paull LLP
50 Lothian Road
Festival Square
EDINBURGH
EH3 9WJ

(Reference: PM/STA/2027/00469)

If you're calling from within the below countries please use the Freephone numbers shown. Please note calls from other countries will be charged:

Germany: 0800 071 3522
Austria: 0800 909 455
Ireland: 1800 719 841
UK: 0345 850 8861

If you're calling from outside of these countries please use the following numbers. Please note calls to these numbers will be charged:

Germany: 0044 131 246 8381
Austria: 0044 131 246 8381
Ireland: 0044 131 246 8380
UK: 0044 131 246 8380

Ireland:

Standard Life - Brexit
90 St Stephen's Green
Dublin 2
Republic of Ireland

Germany:

Standard Life - Brexit
Lyoner Str 15
60528 Frankfurt am Main
Germany

UK:

Standard Life – Brexit
Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH

Austria:

Standard Life - Brexit
Arche Noah 9
8020 Graz
Austria

Summary of changes to the 2006 Scheme

Introduction

SLAC transferred substantially all of its business to SLAL at the time of the demutualisation of Standard Life in July 2006. That transaction was set out in the 2006 Scheme.

The 2006 Scheme was subsequently amended in December 2011 to transfer the insurance business of SLIF to SLAL and twice in 2016 as a result of the implementation of the Solvency II regulatory regime.

Several changes are now proposed to the 2006 Scheme to ensure that it allows for the Brexit Scheme and the related reinsurance agreements.

A key change reflects the fact that SL Intl HWPF Policies will be transferred to SL Intl under the Brexit Scheme and then reinsured by SLAL pursuant to the terms of the HWPF Reinsurance Agreement. The amendments reflecting this will often make reference in the 2006 Scheme to the HWPF Reinsurance Agreement where prior to the change to the 2006 Scheme would have referred, indirectly, to the HWPF policies which are proposed to be transferred under the Brexit Scheme. There are also specific provisions dealing with how the HWPF Reinsurance Agreement operates where a reinsured policy vests and the benefit is a non profit immediate annuity or has a guaranteed or a cash amount.

Other changes to the 2006 Scheme deal with the continuing comfort that is given to transferring policyholders in respect of the MEP, the allocation of the new reinsurance agreements to particular SLAL funds and the assets which can be paid out on termination of, and assets which can be used as collateral in respect of certain of, the reinsurance agreements.

The 2006 Scheme also provides that the GWPF and GSMWPF will be managed in accordance with Internal PPFMs.

Additionally, the 2006 Scheme sets out amendments to be made to it if the reinsurance agreements terminate.

Changes to the 2006 Scheme

Definitions: Certain provisions in the 2006 Scheme refer to the “With Profits Fund”, “With Profits Policies”, “WPF Policies” and “WPF With Profits Policies”. Where appropriate these are now altered to have regard to the rights and obligations of SLAL under the HWPF Reinsurance Agreement where previously they would have had regard to HWPF Policies which subsequently transferred under the Brexit Scheme. These changes seek to ensure, for example, that SL Intl HWPF Reinsured Policies are entitled to participate in the established surplus (including the inherited estate) and bonuses of the HWPF through the operation of the HWPF Reinsurance Agreement.

German Additional Expenses: The HWPF Reinsurance Agreement to the extent it relates to SL Intl HWPF Reinsured Policies is treated as German Additional Expense Policies for the purposes of the expenses provisions of Schedule 2 of the 2006 Scheme.

Reference Period Transfer Amount : The HWPF Reinsurance Agreement is to the extent attributable to CNP Life (Net Fund) (Ireland) Block; CNP Life (Gross Roll-Up Fund) (Ireland) Block; CNP Pensions (Ireland) Block; Unitised Pensions (Ireland) Block, Unitised Life (Net Fund) (Ireland) Block and Unitised Life (Gross Roll-Up Fund) Ireland Block treated as a policy and therefore part of the Reference Period Transfer Amount for the purposes of Schedule 3 of the 2006 Scheme.

Mortgage Endowment Promise MEP: The provisions of the main scheme and Schedule 4 have been amended to make clear that SL Intl HWPF Policies which had the benefit of the MEP will continue to have the benefit of that promise after the Brexit Scheme is effective.

German With Profit Funds: Under the 2006 Scheme, SLAL undertakes to maintain the SLAL GWPF and SLAL GSMWPF as separate funds.

Allocation of reinsurance agreements: The 2006 Scheme allocates the HWPF Reinsurance Agreement and Property-Linked Funds Retrocession Agreement to the HWPF, the GWPF Reinsurance Agreement to the SLAL GWPF and Non Profit Fund and the GSMWPF Reinsurance Agreement to the SLAL GSMWPF and Non Profit Fund.

Vesting of annuities: The provisions of the 2006 Scheme in relation to vesting annuities will be amended to allow for the transfer of the value of a SL Intl annuity which vests to SL Intl under the reinsurance agreements unless the SLAL With Profits Actuary or SLAL board require it to be retained in SLAL in which event the annuity will continue to be reinsured by SLAL under the reinsurance agreements.

Interaction with the reinsurance arrangements

The 2006 Scheme:

(A) sets out the restrictions on the payment out of the HWPF of the termination amount due on termination of the HWPF Reinsurance Agreement. Certain elements of the termination amount may not be paid out of the HWPF and payment of any part of the termination amount from the HWPF is subject to conditions which seek to preserve the financial position of the HWPF;

(B) details the assets from the HWPF which can be posted as collateral under the HWPF Reinsurance Agreement;

(C) contains provisions dealing with the amendments which will be made to the 2006 Scheme if the HWPF Reinsurance Agreement, GWPF Reinsurance Agreement and/or GSMWPF Reinsurance Agreement terminate;

(D) contains provisions for investing the investment element under the GWPF Reinsurance Agreement and GSMFWP Reinsurance Agreement from the Non Profit Fund to the SLAL GWPF and SLAL GSMWPF respectively and vice versa on cancellation of that investment; and

(E) determines which assets can be posted as collateral under the GWPF Reinsurance Agreement and GSMWPF Reinsurance Agreement, and which must be paid out by the GWPF, GSMWPF and SLAL shareholders' fund, on termination of the GWPF Reinsurance Agreement or GSMWPF Reinsurance Agreement.

The SLAL GWPF and SLAL GSMWPF must each be managed in accordance with an Internal PPFM until the termination of the GWPF Reinsurance Agreement and GSMWPF Reinsurance Agreement respectively.

Summary of key changes to the 2011 Scheme

The 2006 Scheme was amended by the 2011 Scheme in December 2011. The 2011 Scheme gave effect to the transfer of the insurance business of SLIF to SLAL.

The following are the main changes to the 2011 Scheme.

The key change to the 2011 Scheme reflects the fact that the SL Intl HWPF Policies were transferred to SL Intl under the Brexit Scheme and are now reinsured pursuant to the terms of the HWPF Reinsurance Agreement.

The 2011 Scheme provided that the Non Profit Fund bears the longevity risk (the risk of policyholders living longer than expected) of certain non-profit annuities which were allocated to the HWPF and were in payment or had vested prior to the 2006 Scheme becoming effective. Some of these policies and reinsurances were transferred to SL Intl under the Brexit Scheme (**SL Intl Indirectly Covered Policies**) and reinsured under the HWPF Reinsurance Agreement.

The 2011 Scheme will be amended to reflect the fact that the Non Profit Fund now reinsures the HWPF's obligations under the HWPF Reinsurance Agreement to the extent they relate to the SL Intl Indirectly Covered Policies.

The 2011 Scheme also makes provision for the consequence of termination of the HWPF Reinsurance Agreement.

In addition, the amendments document the premiums to be paid in respect of the liabilities covered by the Non Profit Fund.

The 2011 Scheme also the sets out the form of the Property-Linked Floating Charge. The purpose of the Property-Linked Floating Charge is to ensure, so far as is reasonably practicable, that the beneficiaries of the Property-Linked Floating Charge are in the same position as direct policyholders of SLAL.

Some of the assets of SLAL subject to the Property-Linked Floating Charge (in particular, assets relating to SLAL's Irish euro-denominated business) will be transferred to SL Intl under the Brexit Scheme and the policies backed by these assets will be reinsured under the HWPF Reinsurance Agreement. The form of Property-Linked Floating Charge will be amended to restrict the charge to policies denominated in sterling and assets backing those liabilities. SL Intl does not require any security from SLAL for Irish euro-denominated property-linked business as SL Intl holds the assets backing that business.

In addition, the way in which rights under derivative contracts are treated under the terms of the Property-Linked Funds Retrocession Agreement, will be clarified to explain the way they link to the other reinsurance agreements.

Definitions:

"**2006 Scheme**"	means the Scottish scheme of transfer between The Standard Life Assurance Company, SLAL and Standard Life PLC;
"**2011 Scheme**"	means the Scottish scheme of transfer between SLIF and SLAL;
"**Brexit Scheme**"	means the Scottish scheme of transfer between SLAL and SL Intl as sanctioned by the Court of Session;
"**GSMWPF Reinsurance Agreement**"	means the agreement entitled "Reinsurance Agreement: GSMWPF" between SLAL and SL Intl entered into in accordance with the Brexit Scheme;
"**GWPF Reinsurance Agreement**"	means the agreement entitled "Reinsurance Agreement: GWPF" between SLAL and SL Intl entered into in accordance with the Brexit Scheme;
"**HWPF**"	means the with profits fund established and maintained by SLAL pursuant to the 2006 Scheme;
"**HWPF Reinsurance Agreement**"	means the agreement entitled "Reinsurance Agreement: HWPF" between SLAL and SL Intl entered into in accordance with the Brexit Scheme;
"**Internal PPFM**"	means a document setting out the principles and practices of financial management for a fund;
"MEP"	means mortgage endowment promise;
"**Non Profit Fund**"	means the separate fund established and maintained by SLAL pursuant to the 2006 Scheme;
"**Property-Linked Floating Charge**"	means the property-linked floating charge in relation to unit-linked liabilities between SLAL as chargor and The Law Debenture Trust Corporation p.l.c. as chargee in its capacity as security trustee for the Property-Linked Beneficiaries (as such term is defined therein) originally dated 12 October 2006 as amended and restated;
"**Property-Linked Funds Retrocession Agreement**"	means the agreement entitled "Reinsurance Agreement: Euro Denominated Property-Linked Funds" between SLAL and SL Intl entered into in accordance with the Brexit

	Scheme;
“**SL Intl**”	means Standard Life International DAC, a designated activity company incorporated in the Republic of Ireland with registered number 408507;
“**SL Intl Euro PBF**”	means the SL Intl Euro PBF established and maintained by SL Intl in accordance with the Brexit Scheme;
“**SL Intl HWPF**”	means the SL Intl HWPF established and maintained by SL Intl in accordance with the Brexit Scheme;
“**SL Intl HWPF Policy**”	means a policy transferred from SLAL to SL Intl pursuant to the Brexit Scheme and (i) allocated to the SL Intl HWPF or (ii) allocated to the SL Intl Euro PBF and invested in the SL Intl HWPF;
“**SL Intl HWPF Reinsured Policy**”	means any SL Intl HWPF Policy (or other policy of SL Intl from time to time) that is reinsured to SLAL pursuant to the HWPF Reinsurance Agreement;
“**SLAC**”	means The Standard Life Assurance Company;
“**SLAL**”	means Standard Life Assurance Limited (registered in Scotland number SC286833);
“**SLAL GSMWPF**”	means the “German Smoothed Managed With Profits Fund” established and maintained by SLAL under the 2006 Scheme;
“**SLAL GWPF**”	means the “German With Profits Fund” established and maintained by SLAL under the 2006 Scheme; and
“**SLIF**”	means Standard Life Investment Funds Limited.

Summary of the Report of the Independent Expert on the proposed Scheme to transfer a block of life insurance business from Standard Life Assurance Limited to Standard Life International Designated Activity Company.

Prepared by Tim Roff FIA

18 September 2018

Contents

1 Introduction

1.1 The purpose of this document is to provide policyholders and other interested parties with a summarised version of my report as Independent Expert on the proposed transfer of long term insurance business from Standard Life Assurance Limited ("SLAL") to Standard Life International Designated Activity Company ("SLIntl"). The transfer of business will be carried out using a legal process, known as a "Part VII Transfer", with the details set out in a legal document referred to as the "Scheme".

1.2 The Scheme will be submitted to the Court of Session in Scotland (the "Court") for sanction. This is expected to be scheduled for 19 February 2019. If sanctioned, it is expected that the Scheme will become operative and take effect on 28 February 2019 ("the Effective Date").

1.3 Immediately following the transfer of business on the Effective Date, SLAL and SLIntl propose entering into reinsurance arrangements with associated security arrangements. The reinsurance arrangements will reinsure some of the insurance business being transferred back to SLAL. I refer to the Scheme and the reinsurance arrangements together as the "Transfer".

1.4 This document summarises my conclusions on the potential impact of the Transfer on policyholders and explains my rationale for reaching these conclusions.

1.5 This is intended to be a standalone summary of my Independent Expert report (the "Report"). My full assessment of the Transfer is set out in the Report. A copy of the Report and a copy of the Scheme are available on the transfer website: www.standardlife.eu

2 Background

2.1 SLAL is a private limited company, incorporated and domiciled in the UK. SLAL is a wholly owned subsidiary of the Phoenix Group. The principal activity of SLAL is the transaction of long term insurance business.

2.2 SLAL currently sells and services euro-denominated insurance policies written in Ireland and Germany through its Irish and German branches, and in Austria through its Austrian sales office. Under European Union ("EU") regulations, UK insurance companies can sell and service business written outside of the UK, on a Freedom of Services or Freedom of Establishment basis (commonly referred to as "EU passporting rights").

2.3 SLAL has a subsidiary, SLIntl, which is registered in Ireland and authorised by the Central Bank of Ireland ("CBI"). SLIntl currently sells single-premium open-ended offshore unit linked investment bonds to UK, Isle of Man, and Channel Islands residents.

2.4 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU. The UK's withdrawal from the EU ("Brexit") is expected to take effect on 29 March 2019. There is uncertainty over whether UK insurance companies will continue to be able to sell and service business written outside of the UK after 29 March 2019. For the SLAL business written in Ireland, Germany and Austria, Brexit raises the possibility of it being illegal for SLAL to settle claims, service contracts or renew policies, due to the loss of EU passporting rights.

2.5 SLAL intends to transfer its euro-denominated business to SLIntl ("Transferring Business"), in order to enable the continued servicing of this business, regardless of the outcome of the Brexit negotiations.

3 Business to be transferred

3.1 The Transferring Business comprises policies that currently invest in the Heritage With Profits

Fund ("HWPF"), German With Profits Fund ("GWPF") and German Smoothed Managed With Profits Fund ("GSMWPF"). The HWPF, the GWPF and GSMWPF are sub-funds within SLAL. In addition, euro-denominated unit linked and annuities business in the Proprietary Business Fund ("PBF") will be transferred to SLIntl.

3.2 The Transferring Business can be grouped into three blocks, as set out in the table below, with the corresponding best estimate liabilities given as at 31 December 2017.

Line of business	What will be transferred	Best Estimate Liabilities (BEL) for transferring business as at 31 December 2017 (£bn)	Number of Policies ('000)
HWPF	all euro-denominated policies within the SLAL HWPF	10.4	337
Post-demutualisation German with-profits	all policies written within the SLAL PBF with their investment content in the SLAL GWPF or SLAL GSMWPF	2.1	150
PBF annuities and unit linked	all euro-denominated annuities and all euro-denominated unit linked policies within the SLAL PBF. This includes the policies of a small number of Irish policyholders that have investment content in the SLAL HWPF	5.6	95

3.3 The HWPF business that transfers to SLIntl will be reinsured back to SLAL (under the "HWPF reinsurance agreement"), and the post-demutualisation German with-profits business will be reinsured back to SLAL (under the "GWPF reinsurance agreement" and the "GSMWPF reinsurance agreement").

3.4 The HWPF reinsurance agreement, the GWPF reinsurance agreement and the GSMWPF reinsurance agreement (together referred to as the "Reinsurance Agreements") have security associated with them: collateral will be posted under a fixed charge agreement and there is also a floating charge agreement.

4 Overall conclusion

4.1 For the reasons set out in the remainder of this summary report, I am satisfied that the Transfer will not materially adversely affect any group of policyholders.

5 My role as Independent Expert

5.1 It is a requirement that when the Scheme is submitted to the Court for approval, it is accompanied by a report from a person who is experienced in insurance matters and is independent of the companies involved (the "Independent Expert"). The purpose of the Report is to provide an independent assessment of the impact of the Scheme on policyholders and other interested parties, to assist the Court in deciding whether to allow the Scheme to go ahead.

5.2 I have been appointed as the Independent Expert. I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years' experience in the life insurance industry. I am a Partner in Grant Thornton UK LLP ("Grant Thornton"). I am independent of the companies involved in the Scheme and my appointment has been approved by the Prudential Regulation Authority ("PRA"), following consultation with the Financial Conduct Authority ("FCA"). The PRA and FCA are responsible for the regulation of UK insurance companies.

5.3 I have considered the impact of the Transfer on the following different groups of policyholders:

- The policyholders whose policies will transfer from SLAL to SLIntl under the Scheme, "Transferring Policyholders";
- The policyholders remaining within SLAL, "Remaining Policyholders"; and
- The current policyholders of SLIntl, "Current Policyholders".

5.4 In order to form my opinions, I have taken into account a number of different matters. These include:

- the impact on policyholders benefit expectations;
- the security of benefits;
- the level of customer service experienced by policyholders; and
- the impact of taxes and expenses.

5.5 I give an opinion on whether I consider the position of any group of policyholders to be "materially adversely affected" as a result of the Transfer. The definition of what is "material" depends on the matter being discussed, but if a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

6 Impact on the Transferring Policyholders

6.1 As at 31 December 2017, there were approximately 582,000 policies in respect of the Transferring Policyholders, with best estimate liabilities of approximately £18bn.

6.2 I have divided the Transferring Policyholders into three sub-groups, as some aspects of the Transfer will affect each of these sub-groups differently. The three sub-groups are:

(i) The policyholders of the post-demutualisation German with-profits business (the "transferring GWPF and GSMWPF business");

(ii) The policyholders of the HWPF business (the "transferring HWPF business"); and

(iii) The policyholders with euro-denominated unit linked policies or euro-denominated annuities, in the SLAL PBF (the "transferring unit linked and annuity business").

Transferring GWPF and GSMWPF business

6.3 For the transferring GWPF and GSMWPF business, the Scheme has the effect of transferring the business into two newly established funds in SLIntl – the SLIntl GWPF and the SLIntl GSMWPF. SLIntl is choosing to reinsure the policies invested in the SLIntl GWPF and SLIntl GSMWPF with SLAL. This approach helps to maintain the existing governance of these with-profits funds and utilises the with-profits expertise that exists in SLAL. I am supportive of this approach. Provided appropriate with-profits governance is maintained and SLIntl is appropriately capitalised, policyholders of the post-demutualisation German with-profits business would not be materially adversely affected by the Scheme. I am satisfied that the GWPF reinsurance agreement and the GSMWPF reinsurance agreement help to ensure this is the case.

Transferring HWPF business

6.4 For the transferring HWPF business, the Scheme has the effect of transferring the business into a newly established fund in SLIntl – the SLIntl HWPF. Ordinarily, this would require the HWPF to be split, because not all of the policies in the HWPF will be transferred under the Scheme – some will remain in SLAL. Splitting the HWPF would be a complex process that, in my opinion, could not be completed before 29 March 2019. The HWPF reinsurance agreement addresses this problem, as it allows the transferring HWPF business continued participation in the HWPF, avoiding the need to split the HWPF. This also maintains the economies of scale of the HWPF. Further, the HWPF reinsurance agreement helps to maintain the risk profile of SLIntl in line with its pre-Scheme position, and helps to maintain the existing governance of the HWPF.

Transferring unit linked and annuity business

6.5 For the transferring unit linked and annuity business, the Scheme has the effect of transferring the policies into a newly established SLIntl fund – the SLIntl EUR PBF. The policies of the transferring unit linked and annuity business will not be reinsured back to SLAL.

All Transferring Business

6.6 Many of my conclusions apply to all three groups of Transferring Policyholders. I discuss below the effect of the Transfer on benefit expectations, the security of benefits, governance, tax, and expenses and charges, for the Transferring Policyholders.

Policyholder benefit expectations and contractual rights

6.7 As a result of the Scheme, the policies in the Transferring Business will become policies of SLIntl, rather than SLAL. An implication of this is that, under the terms and conditions of the with-profits policies, or policies where the investment element is in the with-profits fund, the interpretation of "the Company" in which they participate changes from SLAL to SLIntl. However, because of the Reinsurance Agreements, these policyholders continue to benefit from the profits of SLAL rather than their policy provider, SLIntl.

6.8 There is not expected to be any change to the way in which discretion may be applied in determining policy benefits, and any future changes to the discretion policy would be subject to a similar governance process before and after the Transfer.

6.9 There are also not expected to be any changes to the investment strategy of any of the with-profits funds or unit linked funds, in which Transferring Policyholders are invested or participate, nor any changes to the way in which the estate of the HWPF is distributed.

Security of benefits

6.10 Although the level of benefits will not change, it is important to consider whether SLIntl will be able to make those payments in the future. I have therefore considered SLIntl's financial strength and solvency.

6.11 Security for policyholders is provided by insurance companies holding a higher level of assets than that which is needed to cover the liabilities. The difference between the value of the assets and the liabilities is a measure of the firm's solvency.

6.12 Across the EU, every insurer must satisfy solvency standards by maintaining a level of capital, known as the Solvency Capital Requirement ("SCR").

6.13 The amount of assets that an insurer holds, divided by its SCR, is often referred to as the SCR ratio. The estimated SCR ratios for SLAL and SLIntl as at 31 December 2017 (assuming the Phoenix change of control had taken effect, and the transfer of policies occurred on that date) are as follows:

	SLAL - Before Transfer	SLIntl - After Transfer
SCR Ratio	152%	136%

6.14 A firm's solvency position can change over time. This can be due to changes in market conditions that may affect the value of assets and liabilities. Firms generally seek to control their solvency position by having agreed management policies aimed at safeguarding the SCR ratio. This includes having a risk framework and agreed risk appetite that the firm will operate within. As part of their capital policy, firms tend to set a target level of capital (known as "target capital") to maintain a certain SCR ratio. Where the capital falls below the target capital level, management will take actions to rectify the SCR ratio. I have been provided with information regarding the governance arrangements, risk framework, risk appetite, and capital policy. I am satisfied that these controls represent a sensible approach to safeguard solvency cover. I also note that the SLAL and SLIntl capital policies are similar.

6.15 The table above shows that the SCR ratio of SLIntl after the Transfer is lower than that of SLAL before the Transfer. Therefore, after the Transfer, the SCR cover provided to the Transferring Business will be lower. However, excess capital above the target capital level can be distributed through dividends down to the level of target capital and so, as the SCR cover in SLAL is above SLAL's target capital, the excess capital in SLAL could be distributed to shareholders. Further, both SLAL and SLIntl are capitalised in line with their capital policies, and their capital policies are similar.

6.16 The analysis above has been done on the basis that the Reinsurance Agreements remain in place. There are no plans to terminate the Reinsurance Agreements. Termination of any of the Reinsurance Agreements would change the risk profile and capital position of SLIntl. If the Reinsurance Agreements were to be terminated by either SLAL or SLIntl, there are robust governance processes which must be followed. These processes seek to ensure that the terms of any termination are fair to all policyholder groups.

6.17 If SLAL were to become insolvent, the security associated with the Reinsurance Agreements has been constructed in such a way that SLIntl and the Remaining Policyholders would be aligned on SLAL's insolvency, in most cases, in relation to a distribution of the assets of SLAL.

6.18 I have considered the terms, security, capital implications and governance of the Reinsurance Agreements, and these are, in my opinion, a satisfactory way to help ensure that policyholders' benefits and expectations are not prejudiced by the Transfer.

6.19 Overall, I am satisfied that the Transfer will not have a material adverse effect on the security of benefits for the Transferring Policyholders.

FSCS

6.20 Prior to the Effective Date, many of the Transferring Policyholders were covered by the FSCS, which is a compensation scheme of last resort in the UK and protects policyholders if a financial services company were to fail. If SLAL failed, and was unable to pay claims in full to its policyholders, the FSCS would provide compensation for financial loss to protect 100% of the long-term insurance benefit provided by its policies. The FSCS provides protection to policyholders of UK based insurers or EEA branches of UK based insurance companies. After the Scheme is implemented, the policyholders of the Transferring Business will hold policies with an Irish based insurance company, and so will lose entitlement to the FSCS protection. There is no equivalent scheme in Ireland for life insurance policies.

6.21 The FSCS provides protection to covered policyholders in an insolvency event. I am satisfied that the insolvency of SLIntl would be a remote event because SLIntl will be appropriately capitalised immediately after the Transfer, and is required to comply with Solvency II. Further, SLIntl's own capital policy aims to ensure that it holds capital sufficient to withstand an adverse event that is more remote than a 1-in-200 year event. In the unlikely event that SLIntl does experience financial difficulty, as a subsidiary with the Phoenix Group, I consider it unlikely that the Phoenix Group would fail to act to support SLIntl. For these reasons, in my opinion, the likelihood of FSCS being required is remote and so I do not consider the loss of FSCS protection to have a material adverse effect on the Transferring Policyholders.

6.22 The purpose of the Scheme is to enable the continued servicing (including the payment of claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty about how policies in the Transferring Business will be serviced after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of providing this certainty.

Ombudsman

6.23 Currently, for the policies that were sold on a Freedom of Establishment basis through SLAL's branches in Ireland or Germany, any complaints that cannot be resolved between SLAL and the policyholder are dealt with by the ombudsman service based in Ireland or Germany, respectively. For the policies that were sold in Austria, on a Freedom of Services basis, policyholders are dealt with by the Financial Ombudsman Service ("FOS") in the UK.

6.24 The only change to the above position as a result of the Scheme is for the policies that were sold in Austria. After the Effective Date, complaints relating to these policies will generally be dealt with by the Financial Services and Pensions Ombudsman ("FSPO") in Ireland rather than the FOS in the UK (although there are some exceptions). I do not expect this change to have a material adverse effect for Transferring Policyholders.

Governance

6.25 Both SLAL and SLIntl have broadly similar governance structures.

6.26 As mentioned previously, all policies written or invested in with-profits funds will be reinsured back to SLAL. Therefore the with-profits policies will still be subject to the same level of governance that applied before the Scheme. After the Scheme, the SLIntl Board and the Head of Actuarial Function of SLIntl will provide additional oversight.

6.27 Overall, it is my opinion that the Transfer does not result in weakened governance for the Transferring Policyholders.

Tax

6.28 In general, there is not expected to be any impact on policyholder tax as a result of the Transfer[1].

6.29 For transferring unit linked business, SLIntl will not be able to reclaim UK income tax suffered by UK taxable funds. This would only impact a small number of unit linked funds and is not expected to have a significant impact on the returns of those unit linked funds.

[1] SLAL is in discussion with the Irish Revenue regarding policyholders of certain German and Austrian policies, who are now living in Ireland and who may be subject to additional tax on their policy proceeds. There are 42 policyholders who potentially may be affected by this. I will provide more details on this matter in my supplementary report, when the discussions with the Irish Revenue are expected to have concluded.

6.30 Overall, I am satisfied that the tax implications of the Transfer are not significant, and will not result in a material adverse effect on the Transferring Policyholders.

Service standards

6.31 The administration of the Transferring Business will not be altered as a result of the Transfer, and the targets for standards of service will not be changed.

6.32 Given the above, I am satisfied that the Transfer will not have a material adverse effect on the service standards experienced by the Transferring Policyholders.

Communications with policyholders

6.33 Transferring Policyholders will be sent a communications pack by post, including a letter and booklet, after an initial Court hearing (scheduled for 25 September 2018). In addition, there will be notices published in at least two national newspapers in each of the UK, Germany, Austria and Ireland, two national newspapers in additional EEA countries, and the International/European version of the Financial Times. There will be a dedicated call centre to handle calls in both German and English, and a dedicated website in both German and English. The call centre will manage inbound calls and any queries submitted via the website.

6.34 I have reviewed the policyholder communication (English version) and I am satisfied that it is appropriate and not misleading.

7 Impact on the Remaining Policyholders of SLAL

7.1 The Transferring Policyholders represent a small percentage of SLAL's total business: the Transferring Business comprises approximately 12% of SLAL's total best estimate liabilities. There are approximately 4.7 million policies in SLAL, and approximately 582,000 will transfer to SLIntl under the Scheme.

7.2 Under the terms of the Scheme, there will be no change to the terms and conditions of the policies that remain in SLAL, nor will there be any change to any options or guarantees to which they are currently entitled.

7.3 The estimated SCR ratios for SLAL before and after the Transfer as at 31 December 2017 (assuming the Phoenix change of control had taken effect, and the transfer of policies occurred on that date) are shown below.

	SLAL - Before Transfer	SLAL - After Transfer
SCR Ratio	152%	147%

7.4 Both before and after the Transfer, SLAL is capitalised in line with its capital policy. There will be no change in the capital policy affecting the remaining policyholders of SLAL. There will be no change in the governance arrangements affecting the remaining policyholders of SLAL, including the application of discretion, as a result of the Transfer.

7.5 The Reinsurance Agreements between SLAL and SLIntl will allow the with-profits funds of SLAL to continue to operate as they do now. If the HWPF reinsurance agreement were to be terminated, then this would require the HWPF to be split between the HWPF policyholders that remain within SLAL and the HWPF policyholders that have been transferred to SLIntl. If this were to occur, there is a robust governance process that must be followed, that seeks to ensure this division is fair to both policyholder groups.

7.6 In the unlikely event that SLAL becomes insolvent, the collateral posted in respect of the Reinsurance Agreements has been constructed in such a way that SLIntl, as the reinsured, would be aligned with the Remaining Policyholders in most cases, in relation to a distribution of the assets of SLAL.

7.7 There will be no change to the expense policy or tax applied to the Remaining Policyholders of SLAL. The administration of the policies remaining in SLAL will not be altered as a result of the Transfer, and the targets for standards of service will not be changed.

7.8 Overall, I am satisfied there will be no material adverse effect on the Remaining Policyholders of SLAL as a result of the Transfer.

7.9 Remaining Policyholders will not receive any direct communication in relation to the Scheme. I am satisfied that direct communication is not necessary because there will be no change in policy terms and conditions and I have concluded there will be no material adverse effect on the Remaining Policyholders.

8 Impact on the Current Policyholders of SLIntl

8.1 As a result of the Scheme, the total best estimate liabilities of SLIntl will increase from approximately £6bn to approximately £24bn (of which approximately £12bn will be reinsured back to SLAL). The number of policies in SLIntl will increase from approximately 20,000 policies to approximately 602,000 policies. The policies currently held in SLIntl are all single-premium open-ended offshore unit linked investment bonds.

8.2 Under the terms of the Scheme, there will be no change to the terms and conditions of the policies currently in SLIntl. There will be no change to the investment management of the policies currently in SLIntl and there are no plans to change the range of funds available to the Current Policyholders of SLIntl as a result of the Transfer.

8.3 The target capital and capital policy of SLIntl will be unchanged as a result of the Transfer, and SLIntl holds capital above its target before and after the Transfer.

8.4 There is also no significant impact on the SCR ratio in SLIntl as a result of the Transfer. The SCR ratios in SLIntl before and after the Transfer as at 31 December 2017 (assuming the Phoenix change of control had taken effect, and the transfer of policies occurred on that date) are shown below.

	SLIntl - Before Transfer	SLIntl - After Transfer
SCR Ratio	134%	136%

8.5 As a result of the Transfer, the risk profile of SLIntl is altered. The main change to the risk profile is a large increase in the counterparty default risk, this is largely due to the Reinsurance Agreements, which give SLIntl exposure to the financial position of SLAL. The Reinsurance Agreements have security associated with them, which provides some protection to SLIntl against the risk of SLAL defaulting, and Solvency II requires that SLIntl holds capital in respect of this risk.

8.6 The governance in SLIntl will be strengthened as a result of the Transfer, and so the Current Policyholders of SLIntl will be subject to a governance framework at least as strong as that in place prior to the Transfer.

8.7 There will be no change to the expense policy or tax applied to the Current Policyholders of SLIntl. The administration of the existing SLIntl policies will not be altered as a result of the Transfer, and the targets for standards of service will not be changed.

8.8 Overall, I am satisfied there will be no material adverse effect on the Current Policyholders of SLIntl as a result of the Transfer.

8.9 The Current Policyholders of SLIntl will be sent a communications pack by post, including a letter and booklet, after the initial Court hearing. I have reviewed the communications pack (English version) that will be sent to the Current Policyholders, and I am satisfied that it is appropriate and not misleading.

9 Impact on existing reinsurers

9.1 As is common across insurance firms, SLAL makes use of reinsurance to manage its business. There is currently reinsurance in place in respect of some of the Transferring Business.

9.2 SLIntl does not currently have any reinsurance arrangements in place.

9.3 All of SLAL's existing reinsurance that covers only the Transferring Business, will be transferred from SLAL to SLIntl as part of the Scheme, with no changes to the existing terms. Where the treaties are in respect of both Transferring Business, and business that will remain in SLAL, it is intended that the treaties will be amended (outside the Scheme) to include SLIntl as a cedant.

9.4 Overall, in my opinion, there is no material adverse effect on the reinsurers of SLAL, because the changes proposed to the existing reinsurance agreements in respect of the Transferring Business do not result in any changes in the cover provided by the reinsurers, the only change is in the entity with which the reinsurer is contracted.

10 Costs of the Scheme

10.1 The costs and expenses incurred as a result of the Transfer will be met in part by the shareholders of SLAL, and in part allocated to the HWPF, in accordance with the way costs and expenses are currently allocated to the HWPF. The costs and expenses allocated to the HWPF are not expected to be significant in the context of the size of the HWPF. No cost will be allocated to any of the other with-profits funds. Therefore, I do not consider that there will be a materially adverse effect on policyholders as a result of the costs of the Scheme.

11 Rights of policyholders who object

11.1 Policyholders who feel that they may be adversely affected by the Scheme, may put their objections to SLAL, SLIntl, and/or the Court. I will consider any such objections when concluding upon the appropriateness of the Scheme in my supplementary report.

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