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Supplementary 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.

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11 March 2019

Contents

1	Background	2
2	General updates	5
3	Changes to the structure of the Phoenix group of companies	9
4	The financial position of SLAL and SLIntl as at 30 June 2018	12
5	The financial position of SLAL and SLIntl since 30 June 2018	15
6	Other changes since the Report was issued	16
7	Other updates	18
8	Policyholder communications	20
9	Conclusions of this Supplementary Report	28

Appendices

A	Updated financial information
B	Information and documents reviewed/relied upon
C	Glossary
D	Certification

1 Background

Introduction

- 1.1 This report (the “Supplementary Report”) is supplementary to my report entitled “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” (the “Report”) dated 19 September 2018.
- 1.2 This Supplementary Report should be read in conjunction with the Report, and both should be considered in their entirety. The terms used in this Supplementary Report have the same definitions as those in the Report and can be found in the Glossary of this Supplementary Report (in Appendix C).

Background to the Scheme

- 1.3 Standard Life Assurance Limited (“SLAL”) is a private limited company, incorporated and domiciled in the UK. The principal activity of SLAL is the transaction of long term insurance business.
- 1.4 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 (with any sales in Austria conducted through independent brokers and agents). 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”).
- 1.5 Standard Life International Designated Activity Company (“SLIntl”), 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.
- 1.6 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 in the European Union 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.
- 1.7 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.
- 1.8 The proposed transfer of business will be carried out using a legal process known as a Part VII Transfer of insurance business (under the Financial Services and Market Act 2000 (as amended) (“FSMA”). The terms of the transfer are set out in a document known as “the Scheme”.
- 1.9 The Scheme will be submitted to the Court of Session in Scotland (the “Court”) for sanction. This is now scheduled for 19 March 2019 (at the time of writing the Report, the Final Hearing to sanction the Scheme was anticipated to be in February 2019). If sanctioned, it is expected that the Scheme will become operative and take effect on 29 March 2019 (“the Effective Date”). At the time of writing the Report, the Effective Date was 28 February 2019, this has been moved as a result of the change in the date of the Final Hearing.

- 1.10 Concurrently with the transfer of business on the Effective Date, SLAL and SLIntl propose entering into reinsurance arrangements with associated security arrangements. The reinsurance arrangements are described in paragraphs 1.13 – 1.15 below, and will reinsure back to SLAL some of the insurance business being transferred to SLIntl. I refer to the Scheme and the reinsurance arrangements together as the “Transfer”.

Outline of the Scheme and the reinsurance arrangements

Outline of the Scheme

- 1.11 As I set out in the Report, the Scheme defines the policies to be transferred as all euro-denominated SLAL policies. These can be grouped into three blocks, as shown in the table below, with the corresponding best estimate liabilities given as at 31 December 2017.

Line of business	What will be transferred	Where it 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	newly established SLIntl 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	newly established SLIntl EUR PBF with investment content in newly established SLIntl GWPF or newly established GSMWPSF	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 a small number of policies of Irish policyholders that have investment content in the SLAL HWPF	newly established SLIntl EUR PBF	5.6	95

- 1.12 In summary, the Scheme will:

- Transfer all of SLAL’s euro-denominated unit linked and annuity business in the SLAL PBF into the newly established SLIntl EUR PBF;
- Transfer the SLAL euro-denominated business within (or where the investment element is within) the SLAL HWPF, GWPF and GSMWPF to the newly established SLIntl HWPF, SLIntl GWPF and SLIntl GSMWPF, respectively.

Outline of the reinsurance arrangements

- 1.13 As I set out in the Report, the reinsurance arrangements comprise:
- HWPF reinsurance agreement, which reinsures the policies written or invested in the SLIntl HWPF, back to the SLAL HWPF
 - GWPF reinsurance agreement, which reinsures the policies invested in the SLIntl GWPF, back to the SLAL GWPF
 - GSMWPF reinsurance agreement, which reinsures the policies invested in the SLIntl GSMWPF, back to the SLAL GSMWPF
- 1.14 In addition, there is a retrocession agreement, called the External Fund Link retrocession (“EFL retrocession”), which cedes the liabilities and assets invested in some unit linked funds back to SLIntl.
- 1.15 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.

Purpose of this Supplementary Report

- 1.16 In the Report, I concluded that no class of policyholder of SLAL or SLIntl will be materially adversely affected as a result of the Transfer.
- 1.17 The purpose of this Supplementary Report is to consider any developments since the issue of the Report, which might change my conclusions in the Report.
- 1.18 As part of my consideration of the Transfer in this Supplementary Report, I have updated the financial analysis to use financial information as at 30 June 2018, which is the most recent publically available financial information for SLAL and SLIntl at the time of writing this Supplementary Report (my analysis and conclusions in the Report were based on financial information as at 31 December 2017). I have also reviewed more recent financial information provided to me by SLAL and SLIntl, taken into account events that have occurred since the issue of the Report, and considered whether the impact of the Transfer on the SLAL and SLIntl policyholders would be affected in light of that updated information. I have also considered any concerns expressed by policyholders and other interested parties regarding the Transfer.

Regulatory and professional guidance

- 1.19 This Supplementary Report has been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") and the Statement of Policy: The PRA's approach to insurance business transfers. I have also paid regard to the FCA's guidance FG18/4: The FCA's approach to the review of Part VII insurance business transfers.
- 1.20 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this Supplementary Report, with the intention that it, and the work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance). I believe that this Supplementary Report and my work underlying it does so in all material respects.
- 1.21 I confirm that I have also complied with the Actuarial Profession Standard X2: Review of actuarial work and considered Actuarial Profession Standard L1: Duties and Responsibilities of Life Assurance Actuaries, issued by the Institute and Faculty of Actuaries.

Duty to the Court

- 1.22 I confirm that I am aware of the duties of skilled witnesses summarised at paragraph 52 of the UK Supreme Court's judgment in *Kennedy v Cordia (Services) LLP* (2016) UKSC 6. I confirm that I have understood my duties to the Court.
- 1.23 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to SLAL and SLIntl. I confirm that I have complied with this duty.

Statement of truth

- 1.24 I confirm that I have made clear which facts and matters referred to in this Supplementary Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.25 This Report has been peer reviewed by Simon Perry, who is a Fellow of the Institute and Faculty of Actuaries, and Principal at Grant Thornton.
- 1.26 Finally, SLAL has seen my Supplementary Report and has agreed that it is correct in terms of all factual elements of the Transfer.

2 General updates

Update on Brexit negotiations

- 2.1 At the time of issuing this report, I am not aware that there have been changes or developments in the Brexit negotiations that give certainty on the future servicing by UK insurance companies of business written in the European Union, outside of the UK. I am aware that Germany and Ireland has each published draft legislation relating to transitional measures for the servicing of contracts following Brexit. The purpose of the draft legislation published by Germany and Ireland is to enable insurance contracts to be settled over a limited period after Brexit (up to 21 months for Germany, and three years for Ireland). The Transferring Business is long term life assurance business, much of which extends well beyond three years. No legislation has therefore been enacted that provides SLAL with certainty, over the long term, that the Transferring Business can continue to be lawfully serviced post-Brexit. Therefore, SLAL's rationale for the Transfer (i.e. to provide certainty over the servicing of the Transferring Business), remains relevant.

Update on key dependencies

- 2.2 In the Report, I set out three key dependencies, upon which the conclusions in the Report depend. Below, I set out these dependencies and provide an update on them.
- 2.3 Key dependencies from my Report:
- (i) SLIntl achieves the relevant authorisations from the CBI. Without the relevant authorisations, it would not be possible for the Court to sanction the Scheme.
 - (ii) At or prior to the Effective Date, SLIntl receives an initial capital injection from SLAL that is sufficient to capitalise SLIntl to approximately 135% of its SCR after the Transfer.
 - (iii) SLIntl and SLAL enter into new reinsurance arrangements with associated security, to be effective concurrently with the Scheme becoming effective.
- 2.4 Update on key dependencies:

- (i) SLIntl achieved the relevant authorisations on 4 March 2019 from the CBI, namely: authorisation to transact in additional classes of business (Class I Annuities, Class IV Permanent Health Insurance and Class VII Management of Group Pensions), accept external fund link reinsurance, establish a branch in Germany, and expand Freedom of Services offering into Austria. The CBI has also been notified in relation to the change of SLIntl's parent company, and the CBI has not opposed this change. The German regulator, BaFin, has not objected to the Scheme and, following the establishment of SLIntl's branch in Germany, BaFin has completed the steps necessary so business can be serviced and new business can be written from this branch.
- (ii) The capital injection has been made, with the amendment to the position that I set out in the Report, that the capital injection to SLIntl was from Phoenix Group Holdings plc (the "Ultimate Parent"), rather than from SLAL. A capital injection of £250m was paid from the Ultimate Parent to SLIntl on 22 February 2019. I have discussed this with SLAL, and I am satisfied that, as anticipated, the capital injection amount is sufficient to leave SLIntl capitalised to a "green" status, under its Board approved capital target framework, after the Transfer (based on the pro-forma position as at 31 December 2018).
- (iii) The new reinsurance arrangements with associated security have now been finalised. The intention is that these will be signed and the agreed finalised versions will be submitted to the Court, and will come into effect at the Effective Date.

Update on FSCS coverage

2.5 In the Report, I explained that, for those Transferring Policyholders whose policies are currently covered by the FSCS, this protection will be lost as a result of the Transfer. I concluded that I do not consider the loss of FSCS protection for Transferring Policyholders to have a material adverse effect on the Transferring Policyholders because the likelihood of FSCS being required is remote. This remains my opinion. I also explained in the Report that the purpose of the Scheme is to enable the continued servicing of the Transferring Business, regardless of the outcome of the Brexit negotiations. It remains my opinion that having certainty about how policies in the Transferring Business will be serviced after Brexit is very important, even if the loss of the FSCS protection is a consequence of providing this certainty.

2.6 Since the Report was finalised, the PRA has issued a consultation paper (CP26/18) which covers, amongst other things, proposals in respect of FSCS protection after Brexit for policies that are transferred from one provider to another. My understanding of the position in respect of FSCS protection following discussions with SLAL (SLAL having taken legal advice), is summarised below.

FSCS coverage as it currently applies to the Transferring Policies

2.7 As I explained in the Report, policies taken out before 1 December 2001 may not be covered by the FSCS as these policies were taken out prior to the FSCS being set up and are subject to slightly different rules. SLAL's view (having taken legal advice) is that none of the policies in the Transferring Business that were taken out prior to 1 December 2001 are currently covered by the FSCS as they do not meet the definition of a United Kingdom policy for the purposes of the Policyholders Protection Act 1975. I have not taken any further advice on this matter as it does not impact my conclusions from the Report.

2.8 Additionally, SLAL's view (having taken legal advice) is that all Transferring Policies taken out after 1 December 2001 are currently covered by the FSCS. This is because, prior to Brexit, policies issued by a UK insurer in an EEA country, at present, have FSCS protection, and SLAL is a UK insurer and the Transferring Policies were issued in EEA countries (Germany, Austria and Ireland).

- 2.9 Based on this, around 390,000 Transferring Policyholders have at least one policy that is currently covered by the FSCS.
- 2.10 FSCS currently applies in the event of SLAL's failure. Some of the policies in the Transferring Business have investments in SLAL funds which invest in funds external to SLAL, and in the event of the failure of a provider of one of these funds, SLAL policyholders would not benefit from FSCS protection. Within the Transferring Business, the total amount of investment in funds external to SLAL as at 27 February 2019 is approximately €920m (this represents less than 5% of the total Transferring Business).

FSCS coverage after the Transfer

- 2.11 SLAL considers (having taken legal advice) that FSCS coverage will not apply to the Transferring Policies after the Transfer, except in very limited circumstances, because the Scheme has the effect of treating the Transferring Policies as if they had been issued by SLIntl, which is a non-UK insurer. Ordinarily, in order for policies issued by a non-UK insurer to benefit from FSCS protection, either:
- The non-UK insurer must issue those policies from a branch in the UK; or
 - The policyholders must be UK customers, which means, broadly speaking, that their habitual residence was in the UK at the time they took out the policy.
- 2.12 SLIntl does not have a branch in the UK, and I have been informed by SLAL that none of the Transferring Policyholders were habitually resident in the UK at the time their policies were issued. On this basis SLAL has concluded that after the Transfer, it is expected that FSCS protection will not apply to any of the Transferring Policies, except in very limited circumstances (which I describe in the paragraph below).
- 2.13 I understand from SLAL that the effect of both the existing FSCS rules and the proposals in the PRA consultation paper CP26/18 should be that FSCS protection would continue to apply to "acts and omissions" that have taken place before the Transfer insofar as such claims would have otherwise been protected but for the Transfer. For example, if one of the Transferring Policies matures before the Effective Date, but SLAL does not settle the payment due to the policyholder before the Effective Date, the obligation to make that payment would be transferred to SLIntl under the Scheme. If SLIntl then becomes insolvent after the Effective Date but before the payment is settled, then, potentially, subject to the FSCS determining that SLIntl has failed for FSCS purposes, that policyholder could seek FSCS compensation in respect of this payment. Similarly if, after the Effective Date, it transpires that misselling occurred at the inception of any of the Transferring Policies, and there is a misselling claim made against SLAL (where the policy in question was a direct sale by SLAL, rather than through an intermediary), then the liability for that claim would be transferred to SLIntl, as a consequence of the Scheme. If SLIntl becomes insolvent before it settles the misselling claim, then the policyholder could seek FSCS compensation in respect of the misselling claim.

FSCS coverage after Brexit

- 2.14 As set out above, SLAL considers (having taken legal advice) that, after the Transfer, FSCS protection will not apply to any of the Transferring Policies, except in very limited circumstances. Brexit is expected to take place on or after the Effective Date and therefore SLAL considers that the Transferring Policies will not benefit from FSCS protection when Brexit takes place (except in the very limited circumstances described in paragraph 2.13 above).

My interpretation of the position regarding FSCS protection

- 2.15 For the purpose of this Supplementary Report I have considered the current level of FSCS protection given to the Transferring Policyholders, as well as the FSCS protection that I

understand will apply to the Transferring Policyholders after the Transfer. In forming my views, I have considered the current FSCS rules, as set out in the PRA Rulebook, and the impact of CP26/18 and I have considered the latest Brexit negotiations, and had discussions with SLAL and the PRA.

- 2.16 Currently, the FSCS protects policyholders of UK insurers (including policyholders of UK insurers, whose policies have been written outside of the UK under EU passporting rights, depending upon when they were written) as well as EEA insurers passporting into the UK (depending upon the location of the insured risk). As explained above, some Transferring Policyholders benefit from FSCS protection as a result of their policies being written after 1 December 2001 by SLAL (a UK insurer) under EU passporting rights. SLIntl has EU passporting rights into the UK and as a result is a “relevant person” (as defined in the PRA Rulebook) for FSCS purposes under FSMA, but it does not operate through a UK branch. Therefore, to the extent that there are insured risks in SLIntl that are deemed to be located in the UK (for example, where the policyholder is a UK customer, as described in paragraph 2.11 above), I understand that those risks would currently be protected by the FSCS.
- 2.17 Based on my understanding of the FSCS rules and CP26/18, I am of the opinion that FSCS protection will not apply when SLIntl’s “relevant person” status ceases, for example, if its EU passporting rights fell away as a result of Brexit (except in the very limited circumstances described in paragraph 2.13). SLAL (having taken legal advice) are also of this view.
- 2.18 I am aware from CP26/18 that the PRA proposes to continue to provide FSCS protection for those policyholders with EEA and UK risks issued before “exit day” (which was defined at the time CP26/18 was published, as 11:00pm on 29 March 2019), as long as their insurer remains a “relevant person” after “exit day”. Taking into account the proposals in CP26/18, the extent to which FSCS protection will apply to the Transferring Policies in the period between the Effective Date and the date that SLIntl ceases to be a “relevant person” is not clear. When forming my conclusions, I have chosen to take the prudent view, in line with SLAL’s position, that the Transferring Policyholders will lose FSCS protection from the Effective Date (except in the very limited circumstances described in paragraph 2.13).

My conclusions regarding loss of FSCS protection

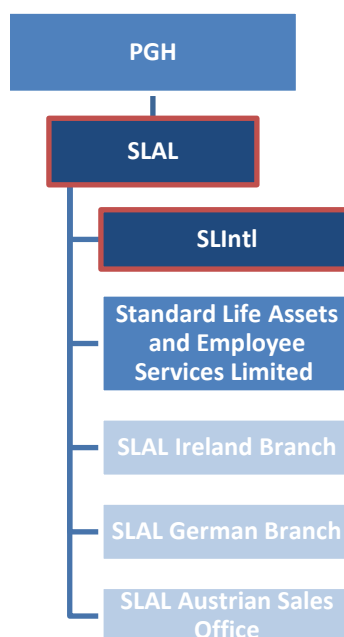
- 2.19 My conclusions in the Report were based on the understanding that the Transferring Policyholders whose policies are currently covered by the FSCS, will lose this protection as a result of the Transfer. This remains SLAL’s position (SLAL having taken legal advice). Notwithstanding any debate as to the precise timing for the loss of FSCS protection, it is clear that FSCS protection will not apply (except in very limited circumstances) once SLIntl’s “relevant person” status ceases. Further, I have completed my analysis on the assumption that FSCS protection will be lost at the point of Transfer, and any FSCS protection beyond the point of Transfer would be to the benefit (albeit temporary) of policyholders, and thus will only strengthen my conclusions.
- 2.20 I do not believe it is necessary to seek independent legal advice in relation to the loss of FSCS protection for those Transferring Policyholders who are currently covered by this as:
- in forming my views on FSCS cover I have taken into consideration my interpretation of the FSCS rules, as set out in the PRA Rulebook;
 - as a result of my analysis, whether Transferring Policyholders will have FSCS protection in relation to “acts or omissions” occurring before the Effective Date is a relatively clear-cut matter and I do not expect that seeking independent legal advice would result in a different conclusion and would result in unnecessary additional costs;
 - similarly, whether Transferring Policyholders will have FSCS protection when SLIntl’s “relevant person” status ceases is a relatively clear-cut matter and I do not expect that

seeking independent legal advice would result in a different conclusion and would result in unnecessary additional costs;

- whether the Transferring Policyholders lose FSCS protection at the Effective Date, or at a later date, does not impact my conclusions, and I have completed my analysis on the more prudent assumption that the Transferring Policyholders will lose FSCS protection from the Effective Date;
- the position taken by SLAL (having taken legal advice) with regard to the loss of FSCS protection for those Transferring Policyholders currently protected, is not inconsistent with what I have seen elsewhere on similar corporate restructuring projects; and
- I understand that SLAL has extensively tested its position with a respected law firm, with significant experience in insurance regulation including FSCS, Part VII transfers, including cross-border transfers.

3 Changes to the structure of the Phoenix group of companies

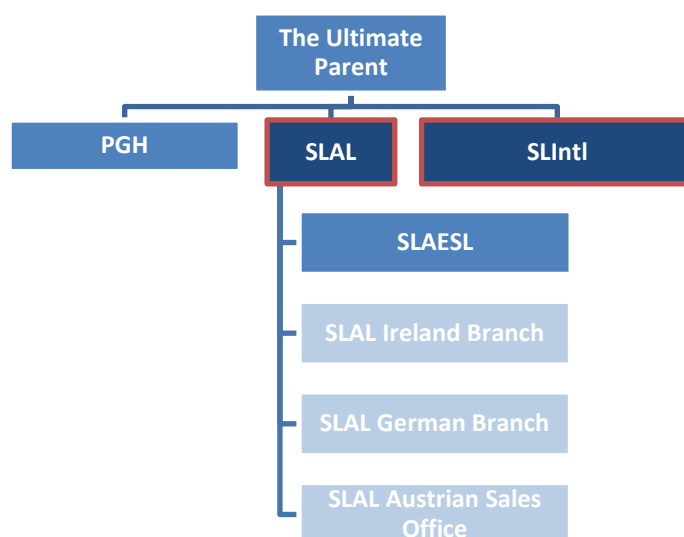
- 3.1 When I issued the Report, SLAL was a wholly owned subsidiary of Phoenix Group Holdings (“PGH”)¹, as shown in the simplified diagram below (which excludes a number of subsidiaries that are not material to the Scheme).



- 3.2 SLIntl was a wholly owned subsidiary of SLAL, as shown in the diagram above. Standard Life Assets and Employee Services Limited (“SLAESL”) was another subsidiary of SLAL, employing the front office staff in Ireland.
- 3.3 Since the issue of the Report, changes have been made to the structure of the Phoenix group of companies, and further changes are expected to occur prior to the Effective Date. This includes a change to move SLIntl within the group and a proposed change to move SLAL within the group (as described below).

¹ In the Report, I referred to PGH as “the Phoenix Group”. As a result of the changes of the structure of the Phoenix group of companies (as described in this section), the Phoenix Group has been extended to include a new ultimate parent (Phoenix Group Holdings plc).

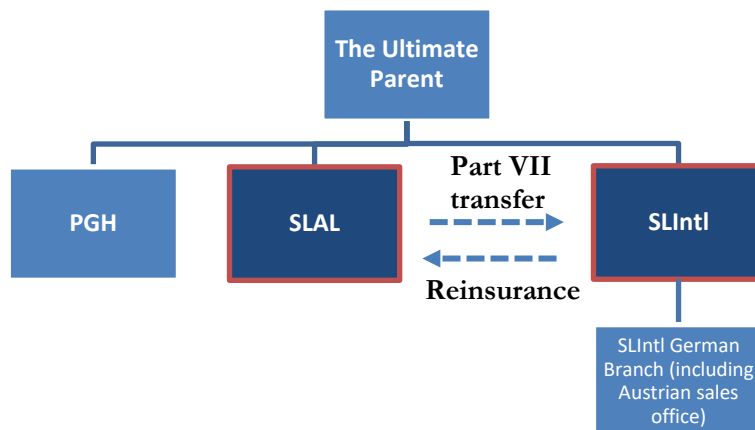
- 3.4 The change to move SLIntl was implemented in February 2019. I explained in the Report (in paragraph 4.42) that, if PGH were unable to include SLAL and SLIntl into its solvency reporting using the “Accounting Consolidation Method”, there may be a change to the corporate structure of the Phoenix group of companies. After discussion with the PRA, it was agreed that the Accounting Consolidation Method would not be appropriate, and in order to avoid an additional equity risk charge under Solvency II, SLIntl’s position in the Phoenix group of companies has been changed.
- 3.5 The change to move SLAL is expected to be implemented in March 2019, prior to the Effective Date. The move of SLAL is part of a strategy to simplify the corporate structure of the Phoenix group of companies.
- 3.6 In addition, since the issue of the Report, in an exercise that is unconnected to the Transfer, PGH has created a new holding company domiciled in the UK – Phoenix Group Holdings plc (the “Ultimate Parent”). The change to move SLIntl (as discussed in paragraph 3.4 above) has resulted in SLIntl becoming a wholly owned subsidiary of the Ultimate Parent. The diagram below shows the proposed group structure after the changes to the structure of the Phoenix group of companies, and before the Effective Date.



- 3.7 The structure of the Transfer, as I outlined in the Report (in section 9), remains the same in that:
- under the terms of the Scheme the Transferring Policies will be transferred to SLIntl;
 - the transferred HWPF, GWPF, and GSMWPF business will be reinsured to SLAL through the Reinsurance Agreements; and
 - the EFL retrocession agreement will cede the liabilities (and corresponding assets) of some of the HWPF policies that are invested in unit-linked funds, back to SLIntl.

The difference is that, as SLIntl is no longer a wholly-owned subsidiary of SLAL, the Transfer is now between SLAL and SLIntl as another company in the Phoenix group of companies (rather than between SLAL and SLIntl as its subsidiary).

- 3.8 The diagram below illustrates the Transfer.



- 3.9 When SLIntl moved from being a wholly owned subsidiary of SLAL, to a wholly owned subsidiary of the Ultimate Parent, the payment of the purchase price by the Ultimate Parent was facilitated through a loan from SLAL to the Ultimate Parent of approximately £270m. The overall effect is that SLAL has essentially exchanged SLIntl for a loan asset. The calculation of SLAL's SCR will allow for the probability of default on the loan and will assume no recoveries in the event of default by the Ultimate Parent. In the next section, I comment on the updated financial positions of SLAL and SLIntl, assuming that all of the proposed changes to the group structure have been made and allowing for the loan that has been made.
- 3.10 I am aware that the changes to the group structure could have an effect on some of the conclusions that I reached in the Report, beyond the immediate financial impact. I can confirm that the changes to the group structure do not impact the structure of the risk and reward framework for with-profits policyholders in SLAL and SLIntl. Below, I consider the impact on my conclusions in the Report of the proposed changes to the group structure, in relation to:
- the termination of the Reinsurance Agreements;
 - the risk profile of SLAL;
 - the servicing of policies; and
 - the capital support available to SLAL and SLIntl.

The termination of the Reinsurance Agreements

- 3.11 In the Report, I described the conditions under which the Reinsurance Agreements could be terminated, and the procedures that must be followed upon termination. I concluded that I was satisfied that the terms of the new reinsurance arrangements are appropriate and effective in order to protect the future benefit expectations of policyholders.
- 3.12 The changes to the structure of the Phoenix group of companies do not change the conditions for termination, or the procedures upon the termination of the Reinsurance Agreements.
- 3.13 Since I issued the Report, there has been a change to certain termination conditions. I discuss this in section 6 below, where I conclude that the change represents a modest strengthening of the protections within the Reinsurance Agreements.
- 3.14 My conclusion from the Report that the terms of the new reinsurance arrangements (including the associated security) are appropriate and effective in order to protect the future benefit expectations of policyholders, is unchanged.

The risk profile of SLAL

- 3.15 I have reviewed confidential information that sets out the anticipated changes to SLAL's risk profile, as a result of the changes to the structure of Phoenix group of companies. SLAL's risk profile will change because SLIntl's risks no longer contribute to SLAL's SCR, and because the loan repayable to SLAL by the Ultimate Parent (as described in paragraph 3.9) leads to a small increase in SLAL's credit risk. The changes to SLAL's risk profile are very small, because both the impact of SLIntl's risks, and the credit risk associated with the loan, are small in the context of SLAL's SCR. Therefore, these changes do not change the main risks that SLAL manages, that I described in the Report.
- 3.16 Overall, the changes to the structure of the Phoenix group of companies do not, in my opinion, have a material effect on the risk profile of SLAL. Therefore, I consider that the analysis detailed in the Report remains valid.

The servicing of policies

- 3.17 The changes to the structure of the Phoenix group of companies will not have an impact on the current contracts that SLAESL has with SLAL and SLIntl – the contracts will continue to operate as they do currently. Therefore, my conclusions in the Report relating to the servicing of policies are not affected by the changes to the structure of the Phoenix group of companies.

The capital support available to SLAL and SLIntl

- 3.18 I have been provided with confidential information regarding the funding structure of the Ultimate Parent, and I have had conversations with PGH and SLAL about the management of liquidity within the Phoenix group of companies. From this, I am satisfied that SLAL and SLIntl's change of position within the group structure does not affect the likelihood that SLAL or SLIntl would be supported, in the unlikely event that either or both experiences financial difficulty. There remains no legal obligation for capital support to be provided to SLAL or SLIntl and this position is unchanged by the restructuring.

4 The financial position of SLAL and SLIntl as at 30 June 2018

Financial information as at 30 June 2018

- 4.1 In the Report, I explained that I consider the use of solvency ratios (such as the SCR Cover, which is the ratio of Own Funds to the SCR) to be a useful indicator of the security of policyholder benefits. My conclusions in the Report were based on pro-forma financial information provided by SLAL and SLIntl as at 31 December 2017. I have been provided with financial information as at 30 June 2018 (including pro-forma post-Transfer financial information) and I have reviewed my conclusions set out in the Report in light of this updated financial information. This updated financial information allows for the changes to the group structure (as set out in section 3 above).
- 4.2 The pro-forma Pillar 1 positions set out in the Report were based on SLAL's estimates as at 31 December 2017. In producing the equivalent estimates as at 30 June 2018, revisions to the pro-forma estimates have been made, to more accurately reflect the financial positions following the acquisition of SLAL by Phoenix, and the Transfer. These revisions show that as at 31 December 2017:

SLIntl:

- SLIntl's estimated SCR and Own Funds before the Transfer, should be lower than shown in the Report to more accurately reflect the impact of the acquisition by Phoenix on platform charges under the Markets in Financial Instruments Directive ("MiFID").
- SLIntl's estimated SCR after the Transfer, should be higher than shown in the Report because the SCR in the Report overstated the currency risk component and understated the mass lapse component.

SLAL:

- SLAL's estimated SCR and Own Funds before and after the Transfer should be different from those shown in the Report, because of the differences in SLIntl's SCR and Own Funds before and after the Transfer, as set out above.

4.3 The tables below show the Solvency II, Pillar 1 capital position of SLAL and SLIntl as at 30 June 2018, both before and after the Transfer, assuming that the Transfer had taken place at the date, and the changes to the structure of the Phoenix group of companies (as described in section 3) had been made.

4.4 In Appendix A, I provide the updated estimated Solvency II, Pillar 1 positions of SLAL and SLIntl before and after the Transfer at 31 December 2017 (allowing for the revisions set out in paragraph 4.2) and 30 June 2018 (assuming the Transfer had occurred at each date, respectively). I also show the estimated financial position as at 31 December 2017 that I set out in the Report.

4.5 Solvency position of SLAL as at 30 June 2018

30 June 2018		
(£m)	SLAL Before Transfer	SLAL After Transfer
Own Funds	4,065	3,800
SCR	2,335	2,200
Excess Own Funds	1,730	1,600
SCR Cover	174%	173%

For comparison, the SCR Cover for SLAL as at 31 December 2017, allowing for the revisions described in 4.2 and the changes to the Phoenix group of companies, is 164% before the Transfer, and 160% after the Transfer.

4.6 Solvency position of SLIntl as at 30 June 2018

30 June 2018		
(£m)	SLIntl Before Transfer	SLIntl After Transfer
Own Funds	128	580*
SCR	90	405
Excess Own Funds	38	175
SCR Cover	142%	143%

*including capital injection of c. £250m from Ultimate Parent

For comparison, the SCR Cover for SLIntl as at 31 December 2017, allowing for the revisions described in 4.2 and the changes to the Phoenix group of companies, is 140% before the Transfer, and 131% after the Transfer.

Changes to the Solvency position since 31 December 2017

4.7 Compared to the solvency positions of SLAL and SLIntl as at 31 December 2017, the tables above show that the SCR Cover of SLAL and SLIntl, both before and after the Transfer, have increased.

4.8 For SLAL, the reasons for the increase in SCR Cover are an increase in Own Funds and a decrease in the SCR, compared to the position as at 31 December 2017 that I set out in the Report. SLAL's SCR has decreased in part due to the restructuring of the Phoenix group of companies – as SLIntl is no longer a subsidiary of SLAL, SLIntl's SCR is no longer included within SLAL's SCR. The increase in SLAL's Own Funds is mainly due to the payment of the loan from the Ultimate Parent to SLAL, and is also a result of the impact of new business

written between 31 December 2017 and 30 June 2018, and the revisions to the pro-forma estimates, as described in paragraph 4.2 above.

- 4.9 For SLIntl, the reason for the increase in SCR Cover is primarily a decrease in the SCR, compared to the position as at 31 December 2017 that I set out in the Report. The reason for the decrease in the SCR is the revision to the pro-forma estimate, as described in paragraph 4.2 above.
- 4.10 The capital positions of SLAL and SLIntl, both before and after the Transfer, remain in line with their capital policies, are in the “green” status under SLAL’s and SLIntl’s capital target frameworks respectively and, in my opinion, the 30 June 2018 numbers continue to show that SLAL and SLIntl are both well capitalised entities before and after the Transfer.
- 4.11 Similar to the capital positions of SLAL and SLIntl that I discussed in the Report, the above tables show that the SCR cover in SLIntl following the Transfer is lower than that in SLAL prior to the Transfer. The SCR cover in SLAL is, however, above SLAL’s capital target, and the excess capital could be distributed to shareholders. The future SCR cover for SLIntl will not necessarily always be lower than SLAL’s future SCR cover: as explained in the Report, the capital policies for SLIntl and SLAL are similar but the risk profiles of the entities are different, and therefore different circumstances may impact the future SCR cover for the two entities differently. The UK and Ireland operate risk-based solvency regimes which require companies to hold capital specific to the risks to which they are exposed, and both SLAL and SLIntl hold capital in line with their target SCR ratio, which is in excess of the regulatory minimum.

Solvency position of HWPF, GWPF and GSMWPF

- 4.12 As well as considering the solvency positions of SLAL and SLIntl as a whole, I have also considered the solvency positions of the individual with-profits funds: the HWPF, GWPF and GSMWPF.
- 4.13 The table below shows the SCR and the technical provisions of the HWPF, GWPF and GSMWPF as at 31 December 2017 (as set out in the Report) and as at 30 June 2018. As I stated in the Report, the GWPF has no notional SCR, because the capital requirements within the fund are zero, and the GSMWPF has no notional SCR because it is not treated as a ring-fenced fund under Solvency II. As the table shows, there have been no significant changes to the solvency positions of the HWPF, GWPF, or GSMWPF between 31 December 2017 and 30 June 2018.

	31 December 2017			30 June 2018		
	HWPF	GWPF	GSMWPF	HWPF	GWPF	GSMWPF
SCR	£420m	-	-	£450m	-	-
Technical provisions of Transferring Business	£9,460m	£1,980m	£125m	£9,425m	£2,085m	£125m

Other developments since 31 December 2017

- 4.14 When I wrote the Report, a number of processes had been anticipated or recently implemented, and their precise impacts were not finalised. These were:

- Repayment of debt from SLAL to Standard Life Aberdeen plc; and
- Implementation of risk management actions to limit SLAL’s exposure to certain risks.

- 4.15 These actions have been executed as planned and have had the impacts in line with those anticipated by SLAL on the financial positions of SLAL and SLIntl. The financial position as at 30 June 2018 (shown above) reflects the impact of these actions.

Changes to capital injection

- 4.16 In the Report, I stated (in paragraph 5.35, and referred to elsewhere):

Shortly before the Effective Date, SLIntl will receive a capital injection from SLAL.

- 4.17 Due to the change of the position of SLIntl within the Phoenix group of companies, as discussed above, the capital injection has been received by SLIntl from the Ultimate Parent, rather than from SLAL. This is reflected in the post-Transfer capital position as at 30 June 2018, as set out above. The change does not impact the capital position of SLIntl.
- 4.18 This change does not have any impact on my conclusions from the Report because the capital injection will still mean that SLIntl is well capitalised (in line with its capital policy) immediately following the Transfer.

Conclusion

- 4.19 The updated financial information shows that:

- The repositioning of SLIntl within the Phoenix group of companies and the normal development of SLAL's business have not resulted in any material changes to the risk profile of SLAL;
- Following the Transfer, the proposal is that SLIntl will be well capitalised, as described in the Report; and
- The financial positions of SLAL and SLIntl as at 30 June 2018, before and after the Transfer, are at least as strong as they were based on the numbers I relied on in forming my conclusions in the Report.

- 4.20 In the Report, I concluded that there is no material adverse effect on the security of the benefits of the Transferring Policyholders, Remaining Policyholders, or Current Policyholders as a result of the Transfer. Given the updated information that I have seen, and as reflected above, I remain of the view that these conclusions are valid.

5 The financial position of SLAL and SLIntl since 30 June 2018

- 5.1 I have been provided with confidential information by SLAL and SLIntl that shows, at the time of issuing this Supplementary Report, the capital positions of SLAL and SLIntl are in the "green" status under their respective capital target framework and hence I have not changed my conclusions, as set out above and in the Report. It is reasonable to rely on the tools that SLAL uses to monitor real time solvency. The tools have been used for a number of years and have proved to be a good predictor of the actual solvency results. In addition, the solvency estimates take account of up to date market conditions on equity markets, interest rates and bond spreads and reflect the impact these conditions have on the risks within the portfolios. The results are subject to the normal review processes in place within SLAL's finance department. I have reviewed the results of the more recent SLIntl financial results and I have had the opportunity to raise questions, which have been adequately answered.
- 5.2 The table below illustrates changes in a number of market indices between 31 December 2017 and 28 February 2019.

Economic indicator	31 Dec 2017	30 June 2018	31 Dec 2018	28 Feb 2019
FTSE 100 Index	7,687.77	7,636.93	6,728.13	7,074.73
£/€ exchange rate	1.127	1.131	1.115	1.168
Bank of England base rate	0.50%	0.50%	0.75%	0.75%
10-year zero coupon gilt yield	1.26%	1.39%	1.32%	1.35%
10-year zero coupon £ swap yield	1.27%	1.52%	1.44%	1.50%
10-year zero coupon € swap yield	0.89%	0.88%	0.82%	0.71%

5.3 As the table shows, the indices were relatively stable between December 2017 and June 2018, but it is noticeable that the FTSE 100 Index has dropped by over 10% between June 2018 and December 2018. As mentioned above, the confidential information that I have been provided with shows no significant changes to the financial positions of SLAL or SLIntl over this period and this is in part due to the risk management actions implemented following the change of control of SLAL (as mentioned in paragraph 11.13 of the Report), in particular, an equity hedge.

5.4 I have requested that Standard Life continue to provide me with regular updates on the capital positions of SLAL and SLIntl up until the date of the Final Court Hearing. If there are significant changes that lead to me reconsidering my conclusions, I will provide an update.

6 Other changes since the Report was issued

Changes to SLIntl's capital target framework

6.1 Since I issued the Report, changes to the SLIntl capital target framework have been proposed and approved. These changes are expected to come into effect from the Effective Date.

6.2 The structure of the SLIntl capital target framework remains the same as that which I described in the Report. Namely, SLIntl will continue to consider its capital coverage under absolute stress scenarios, which will be reviewed for appropriateness at least annually. The capital coverage in SLIntl will continue to be monitored regularly, under the base and stress scenarios, and will be rated red, amber or green depending on the coverage. The thresholds of coverage required for red, amber and green ratings remain the same.

6.3 The key changes that are being made are:

- The absolute stress scenarios are being changed, following analysis of the key risks to which SLIntl's balance sheet is exposed.
- The period over which the stress scenarios are applied is being changed from five years to one year.

6.4 I have reviewed the paper that proposes the changes to the SLIntl capital target framework. I summarise my assessment of these changes below.

Change to absolute stress scenarios

6.5 The rationale for changing the stressed scenarios is to apply stresses that better reflect the risks to which SLIntl is exposed. The capital target framework includes a provision for the stresses to be reviewed regularly. I therefore consider it appropriate that, following further analysis and review, the stressed scenarios are being changed. The proposed changes to the stressed scenarios have been subject to appropriate governance and approval.

Change to the period over which the stress scenarios are applied

- 6.6 The change of the time horizon to one year, for the stressed scenarios, means that the time horizon used in the SLIntl capital target framework will be the same as that used in the SLAL capital target framework. In my opinion, the use of a one year time horizon is both appropriate and consistent with industry standards. Further, as I set out in the Report, SLIntl is subject to Solvency II, a European wide framework. This requires SLIntl to adopt an economic risk-based approach to calculate its capital requirements, including its own risk and solvency assessment (“ORSA”). SLIntl’s ORSA process includes calculating and reporting capital projections over a five year time horizon to help inform its longer term strategic planning.

Document update

- 6.7 I have reviewed the changes that have been made to the Scheme, Reinsurance Agreements, EFL retrocession agreement, collateral, fixed charge agreement and floating charge agreement since the issue of the Report. Following discussion between SLAL and the CBI, there have been notable changes to the Reinsurance Agreements in respect of the dispute resolution process and certain termination clauses, I describe and comment on these below. The other changes to the documents are generally wording and formatting changes and do not significantly alter the documents. These changes do not impact my conclusions as set out in the Report.
- 6.8 In the Report I explained that I had consulted counsel in respect of the fixed charge and floating charge, to confirm that these legal mechanisms were designed to work as intended. Given that the changes that have been made to the fixed charge and the floating charge since I issued the Report are non-material changes such as amendments and additions to the defined terms, I do not consider it necessary to consult counsel again, and I remain satisfied that the fixed and the floating charge are designed to provide security to SLIntl (and ultimately to Transferring policyholders) and are designed in such a way that they will work as intended.

Dispute resolution

- 6.9 The Reinsurance Agreements have been amended to include additional provisions in the event that SLAL and SLIntl are unable to reach agreement on matters affecting the Reinsured Policies. In the event of a dispute of this kind, SLIntl is able to make representation to the SLAL With Profits Committee and the SLAL Board. A change to the Reinsurance Agreements states that, in this situation, SLIntl can also make representation to the CEO of SLAL’s ultimate parent. A further change is that, if agreement is still not reached, SLAL and SLIntl will enter into a non-binding mediation process.
- 6.10 The amendments to the dispute resolution process, to include SLIntl’s right to make representation to the CEO of SLAL’s ultimate parent, and to introduce a mediation process, both have the effect of introducing additional safeguards in the event that SLAL and SLIntl are unable to reach agreement on matters affecting the Reinsured Policies. I therefore consider this to be a modest strengthening of policyholder protections, and my conclusions as set out in the Report are not changed.

Termination of the reinsurance arrangements

- 6.11 The Reinsurance Agreements set out the situations in which SLAL or SLIntl can terminate the reinsurance arrangements. In the report, I stated (in paragraph 7.30):

Any of the new reinsurance arrangements may be terminated by either SLAL or SLIntl if ... there is a change of control resulting in SLAL and SLIntl ceasing to be controlled by the same parent company,

- 6.12 Since I issued the Report, the condition that allows SLAL or SLIntl to terminate the reinsurance arrangements upon a change of control resulting in SLAL and SLIntl ceasing to be controlled by the same ultimate parent company, has been amended. The amendment is that,

upon a change of control, the reinsurance arrangements can only be terminated if the FCA, PRA and the CBI approve that the termination can take place.

- 6.13 This amendment introduces an additional safeguard to the reinsurance arrangements and is a strengthening of policyholder protections in the situation where SLAL and SLIntl cease to be controlled by the same ultimate parent.
- 6.14 The amendment to the termination clause of the Reinsurance Agreements represents a modest strengthening of the security of the Reinsurance Agreements and so does not change my conclusion from the Report that the terms of the new reinsurance arrangements are appropriate and effective in order to protect the future benefit expectations of policyholders. As I discussed in the Report, safeguards are in place, including a requirement to receive Court approval in order for the HWPF to be split, if the new reinsurance arrangements were to be terminated.

Conduct of Business Sourcebook (“COBS”)

- 6.15 SLAL has been in discussion with the FCA on the extent to which the requirements of COBS apply to the Transferring Business, in particular sections 20 and 21, which set out the FCA’s rules in relation to the management of with-profits and unit linked business, respectively. These discussions are ongoing and, depending on their outcome, may result in a strengthening of the position that I set out in the Report. Whatever the outcome of these discussion, the Transferring Business will continue to be governed and operated in such a way that policyholders will not suffer a material adverse effect as a result of the Transfer.

Establishment of unit linked funds

- 6.16 The FCA has raised a question in relation to paragraph 18.4 of the Scheme, which grants the SLIntl Board powers to make certain changes to unit linked funds (for example, opening, closing and amalgamating funds), subject to it having taken actuarial advice and having regard to the terms and conditions of the policies. This provision replicates the equivalent provision in the 2006 Scheme of demutualisation. The FCA’s interpretation of this paragraph is different from SLAL’s, but whichever interpretation is made, my conclusions are unaffected because this provision does not affect the terms and conditions of the Transferring Policies.

7 Other updates

- 7.1 In the Report, there were a number of areas for which I stated that I would provide an update in my Supplementary Report. I provide these updates below.

Policyholder tax

- 7.2 In the Report, I noted that SLAL were in discussion with the Irish Revenue regarding certain policyholders of German and Austrian policies, who were now living in Ireland and who may be subject to additional tax on their policy proceeds. In the Report, I stated that there were 42 policyholders who might be affected by this.
- 7.3 Since I issued the Report, the discussions with the Irish Revenue have concluded, further work has been undertaken by SLAL, and SLAL has received additional tax advice on this matter. This has identified that the position is as follows:
- There are 38 (not 42) policyholders with in-scope German or Austrian policies, who are now living in Ireland and may be impacted by this tax;
 - The Transfer is not expected to result in these policyholders being required to pay additional tax on their policy proceeds (although the way in which the tax is deducted will change for the policyholders); and
 - If these policyholders are Irish residents, an insurance premium tax applies, currently equating to 1% of their premiums.

7.4 The change to the way in which the tax on policy proceeds is deducted is that, prior to the Transfer, the policyholders are responsible for accounting for the tax themselves whereas following the Transfer, it is expected that SLIntl will be responsible for deducting the tax from the policies. It is possible (depending on the personal circumstances of the 38 policyholders), that some of these policyholders have been exempt from this tax before the Transfer, but following the Transfer, would be unable to recover the tax that will be deducted from their policies by SLIntl. In these cases, an additional tax liability would result.

7.5 In response to this position, SLAL and SLIntl are taking the following actions:

- SLAL will write to the 38 policyholders to inform them of the position above (to the extent that it applies to each policyholder);
- SLIntl will indemnify the policyholders if they do incur additional tax on their policy proceeds as result of Transfer;
- SLAL will pay historical insurance premium tax payments, if any; and
- For these policyholders, SLIntl will deduct the appropriate insurance premium tax from their premiums paid after the Effective Date.

7.6 I have considered this position, and the actions that SLAL and SLIntl are taking, and in my opinion:

- The 38 policyholders are not expected to be required to pay any additional tax on their policy proceeds as a result of the Transfer;
- In the event that any of these policyholders is required to pay additional tax as a result of the Transfer, SLAL will refund the policyholder for the additional tax; and
- The Transfer does not result in a change to the insurance premium tax that applies for these policyholders.

VAT

7.7 In the Report, I said that the VAT implications for services between the UK and Ireland following the Transfer, were being discussed with the tax authorities. These discussions have concluded, and the outcome is that there may be a small improvement in the VAT position, as services that are currently provided from the UK to Germany are subject to VAT, whereas after the Transfer, some of these services may not be subject to VAT. However, this VAT is not currently borne by policyholders and this will continue to be the case following the Transfer and so the change in VAT will have no impact on policyholders.

Costs of the Scheme

7.8 As I set out in the Report, the direct costs of the Scheme will be allocated between SLAL's shareholders and the HWPF. The basis on which the costs are allocated is that, costs incurred in order to support existing business of the HWPF are allocated to the HWPF, while other costs, including those incurred in order to support new business, are borne by the shareholders.

7.9 The total costs incurred are expected to be approximately £40m, of which approximately £16m is expected to be allocated to the estate of the HWPF, with the balance being borne by shareholders.

7.10 There have not been changes to the expected costs of the Scheme, or the method of allocation of those costs, since I issued the Report, and that method continues to be consistent with the HWPF PPFM and the 2006 Scheme of demutualisation. Therefore, my conclusion from the Report remains valid: that I do not consider that there will be a materially adverse effect on policyholders as a result of the costs of the Scheme.

With-profits governance

- 7.11 In the Report, I stated that IPPFMs for the SLIntl HWPF, GWPF and GSMWPF were being put in place, and were expected to be approved before the Effective Date. Since I issued the Report, these IPPFMs have been approved.
- 7.12 In addition, since I issued the Report, the CBI has published a document called “Feedback statement on consultation paper 122” which sets out changes to the requirements regarding the actuarial function and related governance arrangements for insurers and reinsurers subject to Solvency II, in Ireland. In particular, in relation to with-profits funds, insurers will be required to maintain a document that contains principles covering the standards adopted in managing their with-profits funds. This document is called With-Profits Operating Principles (“WPOP”). It is the intention that the IPPFM for each with-profits fund will form the basis of SLIntl’s WPOPs.
- 7.13 The recent changes published by the CBI formalise the governance around with-profits policies in Ireland. I consider these developments to add an additional layer of protection for the benefit expectations of the Transferring Policyholders with with-profits policies. Therefore, my conclusions from the Report that I am satisfied that the with-profits governance arrangements are likely to be effective in the ongoing governance of the SLIntl HWPF, GWPF and GSMWPF, remain valid.

External reinsurers

- 7.14 In the Report, I explained that some of the Transferring Business is currently covered by external reinsurance. For external reinsurance treaties that cover only Transferring Business, as part of the Scheme, this external reinsurance will be transferred from SLAL to SLIntl, with no substantive changes to the existing terms. The providers of this external reinsurance have been contacted by SLAL to inform them of the impact of the Scheme on the reinsurance treaties.
- 7.15 Some external reinsurance treaties are in respect of both Transferring Business and business that will remain in SLAL. These treaties are being amended (outside of the Scheme) to include SLIntl as a co-cedant.
- 7.16 At the time of writing this Supplementary Report, none of the external reinsurers have objected to the proposed changes.

8 Policyholder communications

Approach to policyholder communications

- 8.1 SLAL is required to communicate with policyholders to inform them of the Transfer and to provide them with the opportunity to comment, ask questions, and raise objections about the Transfer or its potential impacts.
- 8.2 In accordance with its communications proposal (as agreed at the Initial Court Hearing), SLAL sent communications packs to the Transferring Policyholders and to the Current Policyholders of SLIntl. The communications pack contained an explanatory letter and a policyholder booklet, which included a description of the Transfer, my summary of the Report, a copy of the notice of applications to the Court, and a ‘Questions and Answers’ section. The booklet also included details of the options available to policyholders (and other interested parties) if they have any concerns about the Transfer.
- 8.3 SLAL applied for a waiver from the requirement to communicate directly with the Remaining Policyholders, this waiver was granted at the Initial Court Hearing.

- 8.4 SLAL has confirmed that approximately 480,000 communication packs were sent to Transferring Policyholders, and approximately 20,000 to the Current Policyholders.
- 8.5 In accordance with its communications proposal, SLAL published legal notices of the Transfer in nine newspapers in the UK, four in Ireland, and in the international edition of the Financial Times. The legal notice has also been issued in two national newspapers in both Germany and Austria.
- 8.6 Policyholders and other interested parties are able to obtain information on the Standard Life website (www.standardlife.eu), which contains documents regarding the Transfer, including the full draft Scheme document, the Report, and copies of the communications packs sent to policyholders. This Supplementary Report will also be made available on the Standard Life website.
- 8.7 Some of the communication packs sent to policyholders have been returned to SLAL because they could not be delivered. There were approximately 500,000 communications sent, and approximately 13,500 of these (2.7%) have been returned to SLAL. An exercise has been undertaken, using tracing services, to reach these policyholders. Where the tracing exercise was successful in identifying an updated address for policyholders, a letter and booklet have been sent to that address. The tracing exercise resulted in updated addresses being found and letters issued for approximately 5,300 policyholders. The tracing exercise failed to find updated contact details for approximately 8,200 policyholders (approximately 1.7% of the total communications sent).

Responses received to communications

- 8.8 SLAL has provided me with regular updates on the responses received from policyholders (and other parties) in relation to the Transfer. This has included a breakdown of the types of communications received, details of any objections and queries received and copies of the responses sent to objectors. I have relied upon the accuracy of the information provided to me. I have been provided with updates of the correspondence received up to 27 February 2019.
- 8.9 As at 27 February 2019 SLAL had received 4,963 letters, emails and phone calls from policyholders (and other interested parties) relating to the Transfer, of which 346 have been classified by SLAL as objections. I describe SLAL's process for classifying a response as an objection, and the controls around this process, in 8.11 to 8.14 below.
- 8.10 I have carried out a detailed review of all the letters, emails and phone calls from policyholders (and other interested parties) which have been classified by SLAL as objections, together with the responses that have been given. The vast majority of the objections have been raised by German policyholders in the German language and I have relied on translations into English provided by SLAL. An objection is defined by SLAL as "an expression of dissatisfaction specifically related to the Part VII Transfer" and is not limited to policyholders who formally say that they object to the Transfer. In addition to my detailed review of objections, I have also carried out a review of a sample of letters, emails, and notes of phone calls that have been classified into other categories in order to satisfy myself that the categorisation is appropriate.

Classification of responses

- 8.11 SLAL has provided me with documents setting out the response handling process for communications received from policyholders (and other parties) in relation to the Transfer. These documents show that communications from policyholders (and other parties) are classified by trained response handlers as either a "Question", "Comment", "Complaint" or "Objection". I have also discussed the response handling process with SLAL, and SLAL has outlined its review process to ensure communications are classified correctly and in line with the response handling process.

- 8.12 Following discussions with its legal advisors, SLAL has decided to take a broad approach in determining whether a response should be classified as an “Objection”. For example, where there is a response that expresses an interest in making an objection, SLAL has classified this as an objection.
- 8.13 Both the nature of the business and SLAL’s approach to classifying objections mean that there are a substantial number of responses that have been classified as objections.
- 8.14 I am satisfied that SLAL has robust processes in place to record and respond to all communications that have resulted from the mailing to policyholders regarding the Transfer. I am also satisfied that the approach to classifying any of the communications as an objection is appropriate. I briefly describe the response handling process and the associated controls below, and then I consider the objections raised in these responses.

Response handling process

- 8.15 When a customer (a policyholder or another interested party) contacts SLAL through the Brexit Part VII helpline or web form, SLAL’s customer response team first determine whether or not the communication is related to the Transfer. If the communication is not related to the Transfer it is classified as “business as usual” and the communication is referred to the relevant personnel. In total, SLAL has received 5,394 customer communications to the Brexit Part VII helpline and web form, of which 4,963 have been determined to be related to the Transfer, and 431 classified as “business as usual”. When a customer communication has been determined as being related to the Transfer, the communication is classified according to the following definitions:

- **Question:** a customer seeking clarification about something in the letter that was sent to policyholders, or an explanation of terminology used in the letter.
- **Comment:** a general comment about the letter that was sent to policyholders.
- **Complaint:** an expression of dissatisfaction related to a policy or service. It is nothing to do with the content of the letter, but focused on service and policies.
- **Objection:** an expression of dissatisfaction specifically related to the Transfer.

Controls around response handling process

- 8.16 All of the responses that are received and classified as “Question”, “Comment”, “Complaint” or “Objection” are reviewed by a member of SLAL’s legal team, as part of the process of categorising responses for a separate report. Where this review identifies communications that have been inappropriately classified as “Objection” (or classified into the other categories where they should have been an “Objection”), the communication is reclassified and the review findings are fed-back to the response handling team for training purposes.

My opinion on the communication and response handling process

- 8.17 I am comfortable with the communications process and the response handling process because:
- SLAL’s communications with policyholders followed a communications programme set out as part of SLAL’s Brexit Part VII planning;
 - Where communication packs have failed to be delivered to policyholders and have been returned to SLAL, SLAL has undertaken a tracing exercise in an attempt to send a communication pack to these policyholders;
 - SLAL has a clearly articulated framework for handling and classifying responses received through the Brexit Part VII helpline and web form; and
 - SLAL has checks and controls around the response handling process.

8.18 I have reviewed the objections received as well as sample of responses classified into other categories, and I am satisfied that the responses I have seen are appropriately categorised.

Objections received

8.19 The Part VII process does not require the consent of individual policyholders and it does not give them a right to opt out. The Part VII process does, however, include various protections for policyholders, such as their right to raise objections to the Court if they believe that the Scheme will adversely affect them.

8.20 As at 27 February 2019 there have been 346 responses from policyholders (and other interested parties, for example, brokers) that SLAL has classified as objections to the Transfer. These have been allocated by SLAL into the following categories (each response is allocated to one category only):

- the loss of FSCS protection (249 policyholders)
- SL financial strength (3 policyholders)
- the choice of provider (7 policyholders)
- the costs of the Scheme (2 policyholders)
- the proposal to transfer out of the UK (1 policyholder)
- no explicit reason stated (66 policyholders)
- other (18 policyholders)

8.21 I have reviewed SLAL’s notes of the responses that have been classified as objections. Some of the responses refer to more than one area of concern. I am satisfied, from my review, that the categories identified (as set out above) capture the main areas of concern expressed by the respondents. For the reasons set out in the subsections below, I am satisfied that none of the concerns expressed raise any issues that change my conclusions in relation to the Transfer.

Loss of FSCS protection

8.22 The majority of the responses that SLAL has classified as objections, have been in relation to the loss of FSCS protection for the Transferring Policyholders. Some of the Transferring Policyholders that raised an objection on these grounds do not hold policies that are currently covered by FSCS (because their policies were issued prior to 1 December 2001). Based on an analysis carried out by SLAL, of the 249 objections as at 27 February 2019 relating to loss of FSCS, 28 related to policies that do not have FSCS cover and, for a further 19, the objector gave insufficient information to identify whether their policy was eligible for FSCS.

8.23 In addition, SLAL has performed an analysis of the types of policy held by Transferring Policyholders that raised objection relating to the loss of FSCS. This is summarised in the following table.

Line of business	Number of objections relating to loss of FSCS
Index-linked and unit-linked insurance	17
Insurance with profit participation	207
Other Life Insurance (Annuity)	6
Insufficient Information given to identify policy	19
Total	249

8.24 The objections to the loss of FSCS cover encompass several different concerns, which I summarise below:

- a) Some respondents expressed concerns about the financial security of SLIntl. Particular reference was made to the uncertainty of its solvency position over the long term, the likelihood of support from the Phoenix group of companies, and the increased risk to which customers will be exposed as a result of the loss of FSCS protection.
- b) Some respondents expressed that they should be entitled to compensation in return for losing FSCS protection.
- c) Some respondents considered the loss of FSCS protection to be a breach of their contract terms and expressed that the FSCS protection was an important factor in selecting a SLAL policy.

8.25 I have considered each of these points in turn and considered my opinion as stated in the Report. Overall, I do not consider the loss of FSCS protection to have a material adverse effect on the Transferring Policyholders, for the reasons set out below.

- a) **Financial security of SLIntl:** As I explained in the Report, 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 within the Phoenix group of companies, I consider it unlikely that the Ultimate Parent would fail to act to support SLIntl (although there remains no legal obligation for capital support to be provided to SLIntl). As I explain in section 3 of this Supplementary Report, I do not consider SLIntl's change of position within the group to adversely affect this. For these reasons, in my opinion, the likelihood of FSCS being required is remote.
- b) **Compensation:** The purpose of this Scheme is to allow the continued servicing of the Transferring Policies after Brexit. It is my view that having certainty about how these policies will be serviced post-Brexit is extremely important. SLAL has considered a number of alternative operating models in order to achieve this certainty (see paragraph 8.26 below) and has concluded that the most appropriate operating model is to transfer the Transferring Policies to SLIntl. The loss of FSCS protection is a consequence of selecting this model. As the need for the Transfer to take place is a result of Brexit and not as a result of any action of SLAL, I am satisfied that it is reasonable for no compensation to be paid to the Transferring Policyholders for the loss of FSCS.
- c) **Contract terms:** FSCS protection is provided as a result of SLAL being subject to UK regulation. FSCS protection does not form part of the policy terms and conditions. I have discussed with Standard Life the extent to which FSCS protection is included in the contract terms. Standard Life's position (having taken legal advice) is that, as a general principle, the ongoing availability of FSCS protection is not an implied term of contracts with policyholders, and therefore the loss of FSCS protection as a result of the Transfer does not amount to a breach of contract. I am in agreement with this position. However, I do understand that access to FSCS protection may have been an important factor for many policyholders, when they selected their policy with SLAL and it is regrettable that losing the FSCS protection is a consequence of the Transfer. As I concluded in the Report, the certainty of being able to service a policy is essential and more valuable than the FSCS cover that is lost.

8.26 Further, as I set out in the Report, I requested and was provided with details of the analysis completed by SLAL, in its preparation for Brexit, with regard to alternative approaches to addressing the loss of FSCS for policyholders. The alternative approaches that SLAL considered included consideration of a Solvency II branch structure, establishing a subsidiary in Germany, or the use of external insurance. None of these alternative approaches were regarded as satisfactory by SLAL, as there was uncertainty as to whether they could be implemented prior to Brexit, or there was uncertainty over whether they would mitigate the loss of FSCS, or they involved additional cost, or they involved a structure that was not necessary in order for SLAL to run its business. After considering SLAL's analysis of the alternative approaches, I was, and remain, satisfied that SLAL has considered a wide range of options, and I remain satisfied that SLAL has chosen a reasonable approach.

SL financial strength

8.27 A number of the responses received have been classified by SLAL as objections relating to "SL financial strength". These expressed concerns around the financial strength of SLAL, SLIntl, or other companies in the Phoenix group of companies.

8.28 In the Report, I stated that, when discussing the impact of the Transfer on policyholders, a key part of my consideration is the security of policyholder benefits, and the impact of the Transfer on this security. As I set out in the Report, I consider that there will not be a material adverse effect on the security of the benefits for the Transferring Policyholders, Remaining Policyholders, or Current Policyholders because:

- SLAL will be appropriately capitalised immediately after the Transfer, and is projected to remain so over the five year planning horizon. Further, SLAL has an appropriate capital policy in place;
- SLIntl will be appropriately capitalised immediately after the Transfer, and is projected to remain so over the five year planning horizon. Further, SLIntl has an appropriate capital policy in place;
- The management actions identified by SLIntl should be effective in restoring the SCR coverage to a green status, should this be necessary in an extreme scenario;
- Safeguards are in place in relation to the termination of the Reinsurance Agreements;
- In the remote event of an insolvency of SLAL, the assets of SLAL would be distributed among policyholders (and other parties). The fixed and floating charges are in place to align SLIntl with the direct policyholders of SLAL, in relation to a distribution of the assets of SLAL. There is a very limited exception to this: in the extremely remote event that SLAL's insolvency estate (the total assets of SLAL on insolvency) is insufficient to cover c. 90% of the sum of asset shares and non-profit BEL, the fixed charge over the collateral pool means that, broadly speaking, SLIntl will receive c. 90% of the sum of asset shares and non-profit BEL in recovery, while the direct policyholders of SLAL would get less.

8.29 Having considered the objections received, and the updated information as set out in the Supplementary Report, I am of the view that there are no new issues raised that change my conclusions above.

The choice of provider

8.30 There were a small number of responses received, classified by SLAL as objections relating to the choice of the provider. These expressed an objection to the policies being transferred to Ireland, and those that gave a reason suggested that Ireland was not a safe place for their policies.

- 8.31 In the Report, I explained that insurance companies in Ireland are required to comply with Solvency II, a European wide framework. This requires SLIntl to adopt an economic risk-based approach to calculate its capital requirements. I explained that insurers in Ireland are regulated by the CBI, which requires firms to comply with a range of codes and requirements relating to conduct of business, competency and governance.
- 8.32 In the Report, I also stated that it makes commercial sense for the policies to be transferred to Ireland (as opposed to another EU country), because SLAL already has an Irish operation, and Ireland has some structures to recognise with-profits business. I also explained that, while the Reinsurance Agreements are in place, the with-profits funds in which the transferring with-profits policies are invested, will continue to be managed by SLAL, and in the event that the Reinsurance Agreements are terminated, the Scheme requires that SLIntl establish its own With Profits Committee as well as appoint a With Profits Actuary, or equivalent.
- 8.33 Having considered these objections, I maintain my conclusions that there will not be a material adverse effect to the security of benefits, future benefit expectations, governance, or service standards, for the Transferring Policyholders as a result of their policies being transferred to Ireland.

The costs of the Scheme

- 8.34 There were a small number of responses received that have been classified by SLAL as objections relating to the costs of the Scheme.
- 8.35 In the Report, I concluded that the treatment of the costs of the Scheme is in accordance with the rules and principles that govern the way the HWPF is managed. I also stated that, in my opinion, the cost allocation to the HWPF is appropriate and fair because it represents the costs incurred in order to make the changes necessary to ensure the continued servicing of the policies transferring from the HWPF.
- 8.36 I remain of this view, and my conclusion above is not changed.

The proposal to transfer out of the UK

- 8.37 There was one response received that has been classified by SLAL as an objection to the proposal to transfer out of the UK.
- 8.38 I explained in the Report that, as a result of Brexit, 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. As I stated in the Report, the purpose of the Scheme is to enable the continued servicing of the Transferring Business, regardless of the outcome of the Brexit negotiations.
- 8.39 It remains my opinion that having certainty about how policies in the Transferring Business will be serviced after Brexit is very important, and the Transfer helps to provide this certainty.
- 8.40 I further note that, following the Transfer, the investments for the majority of the Transferring Business will continue to be managed by SLAL (as reinsurer, through the Reinsurance Agreements).

Objections with no explicit reason stated

- 8.41 A number of the responses received have been classified by SLAL as objections for which no specific reason was given. In general, these objections expressed a general dissatisfaction with the proposed Transfer, with no reason for this being given.
- 8.42 I refer to paragraph 8.38 above and reiterate that it remains my opinion that having certainty about how policies in the Transferring Business will be serviced after Brexit is very important, and the Transfer helps to provide this certainty.

Objections classified as “other”

- 8.43 Some of the responses received have been classified by SLAL as “other” objections. I have reviewed these objections, as well as the objections classified by SLAL into the categories, and I summarise below the additional points raised in objection to the Transfer.
- a) Some respondents questioned my independence and experience, as the Independent Expert.
 - b) Some respondents asked why other UK insurers are not transferring their business.
 - c) Some respondents stated that they had not had enough time to reflect on the proposal.
 - d) Some respondents expressed concern that, following the Transfer, they would be exposed to currency risk.
 - e) Some respondents expressed a concern that the performance of the funds that their investments are in would be adversely effected as a result of the Transfer.
- 8.44 Below, I set out my responses in respect of each of these additional points. I am satisfied that none of these objections raise issues that change my conclusions in relation to the Transfer.
- a) **My independence and experience:** I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years' experience in the life insurance industry – more details of my experience are given in the Report (in Appendix D). As stated in the Report, I am independent of SLAL, SLIntl and the Phoenix group of companies. My appointment as Independent Expert was approved by the PRA in consultation with the FCA.
 - b) **Other insurers' Part VII transfers:** In anticipation of Brexit, several other UK insurers are transferring their business that was written under EU passporting rights, to entities domiciled in the EU (outside of the UK). This has been documented in the UK press, and, as the Part VII transfers are approved by the courts, the documents relating to the transfers will become publically available.
 - c) **Sufficient time to reflect on the proposal:** The policyholders were sent mailings (as described in paragraphs 8.2 to 8.4 above) by 23 October 2018. This means that the mailings were sent at least 16 weeks prior to the Final Court Hearing. The FCA guidance on Part VII Transfers states that, in general, policyholders should have a notice period of at least 6-8 weeks in which to consider the documentation sent to them. In my opinion, the information was made available to policyholders in sufficient time prior to the Final Court Hearing and gave policyholders a notice period in excess of that recommended by the FCA.

- d) **Exposure to currency risk:** Some of these concerns appear to be related to a misunderstanding that there will be a change in the currency of the benefits – there will be no change in the currency in which the policyholders receive their benefits, as a result of the Transfer. SLIntl itself is exposed to currency risk, as SLIntl incurs expenses denominated in Euro, while its charges are linked to policyholder assets, some of which are held in other currencies. Currency risk is one of the key risks that SLIntl monitors, manages, and holds capital against.
- e) **Performance of investments:** As I set out in the Report, for the with-profits policies that are transferring as part of the Scheme, the Transfer has been designed in such a way (using the reinsurance arrangements) that the policies will continue to invest in the same funds that they invested in prior to the Transfer. There will be no changes to the way in which these funds are managed as a result of the Transfer. For the unit-linked business that is transferred to SLIntl under the Scheme, I explained in my report that the assets transferred in respect of the policies will continue to be managed as separate portfolios and there will be no changes to the investment strategy of these funds or the pricing practices as a result of the Scheme. For the non-profit policies that are transferring, the benefits are generally fixed by the policy terms and conditions, and these will not be changed as a result of the Transfer. Therefore, I am satisfied that there will not be a material adverse effect on the performance of the funds that Transferring Policyholders are invested in, as a result of the Transfer.

Overall

- 8.45 As set out above, the policyholder objections received do not raise any issues that were not considered in the work leading up to the Report, and therefore I am satisfied that the conclusions in the Report remain valid.

9 Conclusions of this Supplementary Report

Overall conclusions

- 9.1 In the Report, I concluded that I was satisfied that the implementation of the Transfer would not have a material adverse effect on the security of benefits or the future benefit expectations for the Transferring Policyholders, the Remaining Policyholders, or the Current Policyholders. In summary, I remain of this view. In this section, I consider the developments that I have discussed in this Supplementary Report and I review the conclusions that I set out in the Report on the impact of the Transfer on the Transferring Policyholders, the Remaining Policyholders, the Current Policyholders and the reinsurers.
- 9.2 I also stated in the Report that, in my opinion, the Transfer would have no material adverse effect on the governance or service standards experienced by the Transferring Policyholders, the Remaining Policyholders, or the Current Policyholders. I remain of this view.
- 9.3 In forming these conclusions, I have taken into account the loss of the FSCS protection that is currently given to many of the policyholders in the Transferring Business. The FSCS provides protection to covered policyholders in an insolvency event. In my opinion, the likelihood of the insolvency of SLIntl is remote because SLIntl will be well capitalised immediately following the Transfer, has a capital policy aimed at maintaining capital coverage, and will comply with Solvency II in EU law. Therefore, 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. The purpose of the Scheme is to enable the continued servicing 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 a consequence of providing this certainty.

My conclusions on the impact of the Transfer on the Transferring Policyholders, Remaining Policyholders, Current Policyholders, and reinsurers

- 9.4 In this section, I consider the developments that I have discussed in this Supplementary Report and I review my conclusions that I set out in sections 12 – 15 of the Report on the impact of the Transfer on the Transferring Policyholders, Remaining Policyholders, Current Policyholders, and reinsurers.
- 9.5 In the Report, I set out my opinion on the potential impact of the Transfer on the Transferring Policyholders, Remaining Policyholders and Current Policyholders, in relation to:
- policyholder benefit expectations and contractual rights,
 - security of policyholder benefits,
 - governance and administration arrangements,
 - cost and tax implications, and
 - expenses and charges.

My updates on these conclusions are below.

The impact on the Transferring Policyholders

Security of policyholder benefits

- 9.6 In the Report, I discussed the financial positions and risk profiles of SLAL and SLIntl, as well as the provisions in the Reinsurance Agreements that would apply in the unlikely event of the insolvency of SLAL. I have reconsidered the conclusions I reached, given the updated information (as described in this Supplementary Report), and I remain satisfied that there is no material adverse effect on the security of the benefits of Transferring Policyholders as a result of the Scheme and reinsurance arrangements, because:
- SLIntl will be appropriately capitalised immediately after the Transfer and is projected to remain so over the five year planning horizon. Further, SLIntl has an appropriate capital policy in place;
 - safeguards are in place in relation to the termination of the Reinsurance Agreements; and
 - in the remote event of an insolvency of SLAL the fixed and floating charge aligns SLIntl with the direct policyholders of SLAL, in relation to a distribution of the assets of SLAL in the event of an insolvency of SLAL. (The exception to this is the situation in which SLAL's insolvency estate is insufficient to cover c. 90% of the sum of asset shares and non-profit BEL, and here the Transferring Policyholders would rank above the Remaining Policyholders in their claim to the asset shares, due to the fixed charge.) Additionally, the Transferring Policyholders would benefit from any capital support provided by SLIntl.
- 9.7 I have also reviewed my conclusions relating to policyholder protection and, in particular, I have considered the anticipated impact of the Transfer on FSCS protection, as well as the implications of the consultation paper issued by the PRA (CP26/18); in that regard, the expectation remains that, for the Transferring Policyholders, FSCS protection will be lost. Having considered this, my position remains that I do not believe there is a material adverse effect on policyholder protection because:
- the certainty of being able to service a policy is essential;
 - the likelihood of the FSCS being called upon is remote, as SLAL and SLIntl are both capitalised at or above their target level and have an appropriate risk management framework in place; and
 - any changes in access to ombudsman services as a result of the Scheme are not expected to have a material detrimental effect on Transferring Policyholders.

Policyholder benefit expectations and contractual rights

- 9.8 The changes to the terms and conditions of the Transferring Policies that I set out in the Report (that the Transferring Policies will become policies of SLIntl, rather than SLAL) remain as I described them in the Report.
- 9.9 As I described in the Report, the new reinsurance arrangements have been structured in such a way as to allow the policies invested in the with-profits funds to continue to participate in the with-profits funds in which they were invested. This remains the case.
- 9.10 Further, it remains the case that there will be no changes to the investment strategy of the HWPF, GWPF or GSMWPF as a result of the Transfer.
- 9.11 In respect of the unit linked policies, it remains the case that the assets transferred in respect of the policies will continue to be managed as separate portfolios under the updated investment management agreement. There will be no changes to the investment strategy of these funds or the pricing practices as a result of the Transfer.

Governance and administration arrangements

Governance

- 9.12 In the Report, I considered the Board level governance of SLAL and SLIntl. I have reviewed these conclusions in light of the updated information (particularly the changes to the structure of the Phoenix group of companies). I remain satisfied that there are no significant changes in the governance arrangements that adversely affect the Transferring Policyholders as:
- both the SLAL Board and the SLIntl Board contain a mixture of executives, non-executives and independent non-executives to ensure they are balanced;
 - the senior management roles and responsibilities of the two entities are similar;
 - the senior management roles have been approved by the relevant regulator, either the UK Regulators or the CBI;
 - the board committee structure and scope are similar for SLAL and SLIntl; and
 - any changes, as a result of the discussions between SLAL and the FCA, to the way in which COBS20 and COBS21 apply to the Transferring Business, will only result in a strengthening to the position that I set out in the Report.
- 9.13 In addition, in the Report I considered the with-profits governance arrangements in respect of the HWPF, GWPF and GSMWPF. I concluded that I was satisfied that these arrangements were likely to be effective in the ongoing governance of the HWPF, GWPF and GSMWPF because they include oversight from the SLIntl Board, with the SLAL Board being responsible for the management of the business (whilst the reinsurance agreements are in place). This conclusion remains valid, and I remain of the view that:
- the SLIntl Board will have clear responsibility for this business following the Transfer, and will be advised by a suitably qualified actuary (expected to be the HoAF);
 - the SLAL WPC will have responsibilities for all with-profits policyholders who participate in a SLAL with-profits fund, which includes the holders of reinsured policies in the HWPF, GWPF business and the GSMWPF business (whilst the relevant reinsurance arrangement is in place);
 - the SLAL Board will continue to have responsibility for the management of the HWPF business, GWPF business and the GSMWPF business, but must consult with the SLIntl Board on any proposed change of principle in the relevant PPFM or IPPFM (whilst the relevant reinsurance arrangement is in place); and

- the SLIntl Board has the right to cancel a reinsurance arrangement if a change of principle that it considers would have a material adverse effect on the holders of Reinsured Policies, is made by the SLAL Board.

Further, as discussed in paragraphs 7.11 to 7.12 above, since I issued the Report, the CBI has published changes to the requirements relating to with-profits governance in Ireland, and I consider these developments to add an additional layer of protection for Transferring Policyholders.

Administration

9.14 In the Report, I concluded that the Transferring Policyholders would not experience any significant changes to the administration of their policies as a result of the Transfer, because:

- the Transferring policies will continue to be serviced by the same staff, in the same location as was the case prior to the Transfer; and
- SLIntl will adopt the same service standards as previously applied in SLAL.

9.15 These conclusions remain valid.

Cost and tax implications

Costs of the Scheme

9.16 In the Report, I explained that the direct costs of the Scheme will be allocated between SLAL's shareholders and the HWPF. The proportion of the one-off costs incurred as a result of the Scheme that is charged to the HWPF, and the treatment of these expenses, is in accordance with the HWPF PPFM and the 2006 Scheme of demutualisation. I stated that, in my opinion, the cost allocation to the HWPF is appropriate and fair because this broadly represents the costs incurred in order to make the changes necessary to ensure the continued servicing of the policies transferring from the HWPF. I remain of this view.

Tax implications of the Scheme

9.17 When I issued the Report, some of the tax implications of the Transfer were still subject to discussion between SLAL and the relevant tax authorities. Since then, these discussions have concluded, and I have provided an update in section 7 of this Supplementary Report. I am satisfied that this does not provide any reason to change my conclusions from the Report.

Expenses and charges

9.18 In the Report, I said that there will be no significant changes to the ongoing expenses and charges as a result of the Transfer, because the transferring HWPF business will be governed under the same principles (as set out in the PPFM), the transferring GWPF and GSMWPF business will be governed under the same principles (as set out in the IPPFM), and SLIntl adhere to the same unit linked policy as SLAL. This remains the case.

Conclusion

9.19 I have concluded that there will be no material adverse effect on any class of the Transferring Policyholders of SLAL as a result of the Transfer.

The impact on the Remaining Policyholders of SLAL

Policyholder benefits and contractual rights

9.20 In the Report, I concluded that I do not expect that the Transfer will have a material adverse effect on the policyholder benefits or contractual rights for the Remaining Policyholders, because:

- there are no changes to the policy terms and conditions;

- the reinsurance arrangements ensure that the with-profits funds can continue to be managed in the way that they are currently managed;
- the discretion policies and the governance around the policies that remain in SLAL will be unchanged by the Scheme; and
- the investment policies of the funds will not be amended as a result of the Scheme.

9.21 These conclusions remain valid.

Security of policyholder benefits

9.22 In the Report, I considered the financial strength of SLAL before and after the Transfer, and any changes to the risks that SLAL would be exposed to as a result of the Scheme. I also considered the implications of the new reinsurance arrangements on the security of the benefits of the Remaining Policyholders. I have reconsidered the conclusions I reached, given the updated information (as described in this Supplementary Report), and I remain satisfied that there is no material adverse effect on the security of the benefits of Remaining Policyholders as a result of the Scheme and reinsurance arrangements, because:

- there is no significant impact on the risks that SLAL is exposed to as a result of the Transfer. SLAL will continue to manage the risks that it faces, as it currently does;
- SLAL will be well capitalised immediately after the Transfer, and is projected to remain appropriately capitalised over the five year planning horizon; and
- I am satisfied that the new reinsurance arrangements, and their associated provisions, do not adversely affect the benefit security of the Remaining Policyholders. Although there is a situation in which the Remaining Policyholders receive a lower recovery percentage than they would prior to the Scheme, I note that this situation is extremely remote, and the reduction in recovery is likely to be very small.

9.23 In addition, my conclusions remain valid that there is no change to the level of protection under the FSCS for the Remaining Policyholders as a result of the Scheme, and the ombudsman that the Remaining Policyholders would contact in the event of a dispute regarding their policy will not be changed as a result of the Scheme.

Governance and administration arrangements

Governance

9.24 In the Report, I stated that:

- the governance structures that are in place generally, for with-profits, unit linked and non-profit policies will be unchanged as a result of the Scheme;
- the with-profits funds will continue to be managed in accordance with the same principles as they are currently (as set out in the PPFM or IPPFM) and, due to the new reinsurance arrangements in place, will continue to be managed as whole funds; and
- the Boards and committees will be unchanged by the Scheme, and the responsibilities of the Boards and committees will also be unchanged.

9.25 These remain the case.

Administration

9.26 In the Report, I stated that the Scheme is not expected to alter the service standards experienced by the Remaining Policyholders. This remains the case.

Cost and tax implications

9.27 Standard Life's internal tax department has confirmed that they foresee no tax implications arising as a result of the Scheme, for the Remaining Policyholders of SLAL.

9.28 In the Report, I explained that a proportion of the one-off costs incurred as a result of the Scheme are charged to the HWPF, and that the treatment of these expenses is in accordance with the HWPF PPFM and the 2006 Scheme of demutualisation. I stated that, in my opinion, the cost allocation to the HWPF is appropriate and fair because this broadly represents the costs incurred in order to make the changes necessary to ensure the continued servicing of the policies transferring from the HWPF. I remain of this view.

Expenses and charges

9.29 The expected expense base allocated to the HWPF policyholders is not expected to significantly change as a result of the Scheme. The method for allocating expenses to HWPF is expected to continue to be performed in line with the current method which has been agreed by the SLAL Board and the WPC and is in accordance with the 2006 Scheme of demutualisation.

Conclusion

9.30 I have concluded that there will be no material adverse effect on any class of the Remaining Policyholders of SLAL as a result of the Transfer.

The impact on the Current Policyholders of SLIntl

Policyholder benefits and contractual rights

9.31 In the Report, I concluded that I do not expect that the Scheme will have a material adverse effect on the policyholder benefits or contractual rights for the Current Policyholders, because:

- there are no changes to the policy terms and conditions;
- the discretion policies and the governance around these will be unchanged by the Scheme;
- the investment policies of the funds will not be amended as the result of the Scheme; and
- the administration of the existing SLIntl policies will not be affected by the Scheme.

9.32 I remain of this view.

Security of policyholder benefits

9.33 In the Report, I concluded that I was satisfied that there is no material adverse effect on the security of the benefits of Current Policyholders as a result of the Transfer because:

- SLIntl will be appropriately capitalised immediately after the Scheme, and is projected to remain so over the five year planning horizon;
- although there is a change in SLIntl's risk profile, this is fully recognised and reflected in SLIntl's managerial and capital resourcing.

9.34 I remain of this view.

9.35 In addition, my conclusions remain valid that there is no change to the level of protection under the FSCS for the Current Policyholders as a result of the Scheme, and the ombudsman that the Current Policyholders would contact in the event of a dispute regarding their policy will not be changed as a result of the Scheme.

Governance arrangements

- 9.36 In the Report, I concluded that the Current Policyholders will be subject to a governance framework in SLIntl that is at least as strong as existed prior to the Transfer, and is appropriate for the size and risk profile of SLIntl following the Transfer. I remain of this view.

Cost and tax implications

- 9.37 Standard Life's internal tax department has confirmed that they foresee no tax implications arising as a result of the Scheme for the current SLIntl policyholders.

Expenses and charges.

- 9.38 There will be no change in the expenses charged to the unit linked funds available to Current Policyholders, and they will not incur any additional expenses as a result of the Scheme.

Conclusion

- 9.39 I have concluded that there will be no material adverse effect on any class of the Current Policyholders of SLIntl as a result of the Scheme. I have reached this conclusion because:
- there are no changes to any policy terms and conditions, the investment management, or the tax or expenses charged, affecting the Current Policyholders as a result of the Scheme;
 - there is no significant change to the SCR Cover following the Effective Date as a result of the Transfer;
 - there is no change to capital policies that SLIntl will be following in managing the business as a result of the Scheme;
 - following the Transfer, as a result of the capital injection, SLIntl's capital position remains in line with its capital policy;
 - the provision of collateral and the fixed and floating charges associated with the Reinsurance Agreements help to mitigate the additional counterparty default risk;
 - there are no adverse changes to the governance arrangements in SLIntl; and
 - there are no changes to policy administration for Current Policyholders as a result of the Scheme.

The impact on reinsurers of the Transferring Policies

- 9.40 In the Report, I concluded that there would be no material adverse effect on the reinsurers of SLAL as a result of the Transfer, because the changes proposed to the existing reinsurance agreements in respect of the Transferring Policies would not result in any changes in the cover provided by the reinsurers. The only change is in the entity with whom the reinsurer is contracting. These points, and my conclusion, remain valid.



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A Updated financial information

The tables below show the updated estimated Solvency II, Pillar 1 positions of SLAL and SLIntl before and after the Transfer as at 31 December 2017 and 30 June 2018 (assuming the Transfer had occurred at each date, respectively). For context, I also show the estimated financial position as at 31 December 2017 that I set out in the Report.

SLAL

Financial position as at 31 December 2017, as stated in the Report

31 December 2017 – as in Report		
(£m)	SLAL Before Transfer	SLAL After Transfer
Own Funds	3,780	3,885
SCR	2,480	2,650
Excess Own Funds	1,300	1,235
SCR Cover	152%	147%

Restated financial position as at 31 December 2017, allowing for the changes described in paragraph 4.2 of this Supplementary Report.

31 December 2017 – updated		
(£m)	SLAL Before Transfer	SLAL After Transfer
Own Funds	3,771	3,884
SCR	2,470	2,664
Excess Own Funds	1,302	1,220
SCR Cover	153%	146%

Restated financial position as at 31 December 2017, allowing for the changes described in paragraph 4.2 of this Supplementary Report, and the changes to the structure of the Phoenix group of companies described in section 3 of this Supplementary Report.

31 December 2017 – updated		
(£m)	SLAL Before Transfer	SLAL After Transfer
Own Funds	3,915	3,590
SCR	2,390	2,240
Excess Own Funds	1,530	1,350
SCR Cover	164%	160%

Updated financial position as at 30 June 2018, allowing for the changes described in paragraph 4.2 of this Supplementary Report, and the changes to the structure of the Phoenix group of companies described in section 3 of this Supplementary Report.

30 June 2018		
(£m)	SLAL Before Transfer	SLAL After Transfer
Own Funds	4,065	3,800
SCR	2,335	2,200
Excess Own Funds	1,730	1,600
SCR Cover	174%	173%

SLIntl

Financial position as at 31 December 2017, as stated in the Report

31 December 2017 – as in Report		
(£m)	SLIntl	
	Before Transfer	After Transfer
Own Funds	137	570*
SCR	102	420
Excess Own Funds	35	150
SCR Cover	134%	136%

*including capital injection of c. £250m from SLAL

Restated financial position as at 31 December 2017, allowing for the changes described in paragraph 4.2 of this Supplementary Report.

31 December 2017 – updated		
(£m)	SLIntl	
	Before Transfer	After Transfer
Own Funds	128	570*
SCR	92	435
Excess Own Funds	37	135
SCR Cover	140%	131%

*including capital injection of c. £250m from SLAL

Restated financial position as at 31 December 2017, allowing for the changes described in paragraph 4.2 of this Supplementary Report and the changes to the structure of the Phoenix group of companies described in section 3 of this Supplementary Report.

31 December 2017 – updated		
(£m)	SLIntl	
	Before Transfer	After Transfer
Own Funds	128	570*
SCR	92	435
Excess Own Funds	37	135
SCR Cover	140%	131%

*including capital injection of c. £250m from Ultimate Parent

Updated financial position as at 30 June 2018, allowing for the changes described in paragraph 4.2 of this Supplementary Report, and the changes to the structure of the Phoenix group of companies described in section 3 of this Supplementary Report.

30 June 2018		
(£m)	SLIntl	
	Before Transfer	After Transfer
Own Funds	128	580*
SCR	90	405
Excess Own Funds	38	175
SCR Cover	142%	143%

*including capital injection of c. £250m from Ultimate Parent

B Information and documents reviewed/relied upon

The table below sets out the key documents that I have relied on in preparing this Supplementary Report (in addition to those set out in Appendix E of the Report). Some of this information is company confidential and is not publically available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with senior management and staff at Standard Life and Phoenix.

Information	Source
Communication strategy and Advertisement Evidence	SLAL Management
Summary of customer objections and queries with provided responses	SLAL Management
Updated financial information as at 31 December 2017 and 30 June 2018	SLAL Management
Notes and discussions on the changes to the structure of the Phoenix group of companies	SLAL Management/PGH Management
Updated SLAL risk profile	SLAL Management
Brexit Scheme (draft 19 December 2018)	Slaughter and May
HWPF Reinsurance Agreement (draft 15 February 2019)	Slaughter and May
GWPF Reinsurance Agreement (draft 15 February 2019)	Slaughter and May
GSMWPF Reinsurance Agreement (draft 15 February 2019)	Slaughter and May
EFL Retrocession Agreement (draft 15 February 2019)	Slaughter and May
Deed poll of irrevocable undertaking (HWPF) (draft 15 February 2019)	Slaughter and May
Deed poll of irrevocable undertaking (GWPF) (draft 15 February 2019)	Slaughter and May
Deed poll of irrevocable undertaking (GSMWPF) (draft 15 February 2019)	Slaughter and May
Fixed Charge (draft 18 February 2019)	Slaughter and May
Floating Charge (draft 18 February 2019)	Slaughter and May
Updated Capital Target Framework	SLAL Management
Solvency monitoring information as at {date}	SLAL Management

I have checked that the information listed above has been audited or supplied by an Approved Person or by a person appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information

C Glossary

Term	Definition
2006 Scheme of Demutualisation	The document which governed the demutualisation of SLAL in 2006. The 2006 Scheme of Demutualisation provides a framework in which SLAL operates its business, including the principles for the operation of the HWPF.
Approved Person	A person who is approved, by the FCA, to perform a role of particular regulatory significance, for example, a With-Profits Actuary.
Asset share	The amount that represents the underlying value of a with-profits investment. It allows for premiums paid, returns on the invested assets, and the deductions made by the insurer (for example, for the costs of insurance and other expenses).
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht. The financial regulatory authority for Germany.
BEL	Best Estimate Liabilities.
Board	A board of directors is a recognised group of people who jointly oversee the activities of an organisation.
Brexit	The term used to describe the UK's exit from the EU, following the vote taken in the EU referendum on 23 June 2016.
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold.
Capital Target Framework	A Capital Target Framework is used by life assurance companies to set out its capital policy.
CBI	Central Bank of Ireland: Ireland's central bank, which serves as financial services regulator for most categories of financial firms including life assurers.
Court	The Court of Session in Scotland
Current Policyholders	The existing policyholders of SLIntl, prior to the Transfer.
EEA	European Economic Area.
Effective Date	The date at which the Scheme becomes legally binding. Expected to be 29 March 2019.
EFL retrocession	External Fund Link retrocession
EIOPA	European Insurance and Occupational Pensions Authority: The European supervisory authority for occupational pensions and insurance.
EU	European Union.
EU passporting rights	The collective term for Freedom of Establishment and Freedom of Services.
FCA	Financial Conduct Authority.
Final Court Hearing	The hearing at which the Scheme will be presented to Court to be sanctioned. Expected to be 19 March 2019.
Fixed Charge	A legal agreement between two parties that provides one party with access to a specified pool of assets in the event of insolvency of the other party.

Term	Definition
Floating Charge	A legal agreement between two parties that provides one party with certain access to the assets of the other party in the event of its insolvency.
Freedom of Establishment	The right of an insurer located in one European Economic Area (EEA) member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state. This permanent presence can be in the form of a local branch, agency or subsidiary. Freedom of Establishment business is that underwritten under a full binding authority where the coverholder and the risk are located in the same EEA member state outside the UK.
Freedom of Services	The right to provide business services on a cross-border basis within the European Economic Area (EEA). For insurance contracts, this means that the contract can be underwritten in an EEA member state that is different from the member state where the risk is located.
FSCS	Financial Services Compensation Scheme. FSCS is a statutory “fund of last resort” which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long term insurance policies, the FSCS will pay 100% of any eligible claim. The FSCS is funded by levies on firms authorised by the PRA and FCA.
GSMWPF	German Smoothed Managed With Profits fund
GWPF	German With Profits fund
HoAF	Head of Actuarial Function.
HWPF	Heritage With Profits fund
Initial Court Hearing	The hearing at which the Report was presented to the Court, it took place on 25 September 2018
IPPFM	Internal Principles and Practices of Financial Management.
Material adverse effect	A negative change that is considered to have a material effect on policyholders. A material effect is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder’s claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in company’s investment portfolio, or from the reporting of a particularly large but not extreme claim to a company’s liabilities. In terms of non-financial effects, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.
MiFID	Markets in Financial Instruments Directive. MiFID is the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’ (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

Term	Definition
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile.
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Parent	An enterprise that controls another through ownership of 50 percent or more of its voting stock.
PBF	Proprietary Business Fund: one of SLAL's funds that was established following demutualisation in 2006. The PBF contains certain non-profit classes of business that were written prior to the 2006 demutualisation, and were not allocated to the HWPF at demutualisation. It also holds all business written by SLAL since 2006 that is not allocated to the HWPF, UKSMWPF, GWPF or GSMWPF.
PGH	Phoenix Group Holdings
Phoenix group of companies	The group of companies for which Phoenix Group Holdings plc is the ultimate parent, and SLAL and SLIntl are subsidiaries
PPFM	Principles and Practices of Financial Management. In managing with-profits business firms rely on their use of discretion. The PPFM explains the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.
PRA	Prudential Regulation Authority.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on).
Reinsurance Agreements	The HWPF reinsurance agreement, GWPF reinsurance agreement and the GSMWPF reinsurance agreement
Remaining Policyholders	The policyholders remaining in SLAL following the Transfer.
Report	The report from the Independent Expert.
SCR	Solvency Capital Requirement. A capital regulatory requirement under the Solvency II regime.
Shareholder	Individual or institution (including a corporation) that legally owns one or more shares of stock in a public or private company.
SLAESL	Standard Life Assets and Employee Services Limited
SLAL	Standard Life Assurance Limited
SLIntl	Standard Life International Designated Activity Company
Solvency II	A new regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula or an Internal Model.
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.
Supplementary Report	This report, which is supplementary to the Report and considers any developments since the issue of the Report.
Technical Provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to

Term	Definition
	the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
Transfer	The Scheme and the new reinsurance arrangements.
Transferring Policies	Policies of SLAL that will be transferred to SLIntl as a result of the Scheme.
Transferring Policyholders	Policyholders of SLAL whose policies will be transferred to SLIntl as a result of the Scheme.
UK	United Kingdom.
Ultimate Parent	Phoenix Group Holdings plc, the ultimate parent of the Phoenix group of companies
VA	Volatility adjustment. . This is an adjustment to the risk-free interest rates used to discount insurance obligations, set in accordance with the Solvency II Directive on the basis of technical information published by EIOPA.
VAT	Value Added Tax: a tax on the amount by which the value of an article has been increased at each stage of its production or distribution.
WPA	With-profits actuary function. The WPA is responsible for advising the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which he or she has been appointed.
WPC	With-profits committee
WPOP	With-Profits Operating Principles. A document containing principles covering the standards adopted in managing with-profits funds; required to be maintained by insurers subject to Solvency II and with with-profits funds, in Ireland.

D Certification

As required under paragraph 70.2(D)(ii) of the Standard Life Assurance Company scheme of demutualisation by the Court of Session on 9 June 2006 (the “Scheme of Demutualisation”) in respect of a proposed variation to the Scheme of Demutualisation.

In accordance with the requirements of paragraph 70.2(D)(ii) of the Scheme of Demutualisation, I hereby certify that, in my opinion, the proposed variation to the Scheme of Demutualisation, as set out in the appendix to the application to the Court of Session, will not materially and adversely affect the reasonable expectations of the holders of “Transferring Policies”, as defined at paragraph 1.1 of the Scheme of Demutualisation.



Tim Roff
Independent Expert

11 March 2019