Standard Life International dac

Supplementary Report by the Head of Actuarial Function on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International Designated Activity Company

Prepared for:

The Board of Standard Life International dac

Prepared by:

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1 EXECUTIVE SUMMARY

1.1 Purpose of the report

As Head of Actuarial Function ("**HoAF**") for Standard Life International designated activity company ("**SL Intl**"), I have been asked to comment on the proposal for the transfer of all Euro-denominated business from Standard Life Assurance Limited ("**SLAL**") to SL Intl under Part VII of the Financial Services and Markets Act 2000. The transfer is to be effected under an insurance business scheme of transfer (the "**Scheme**"). If approved, the Scheme will come into effect on the "**Effective Date**", expected to be 29 March 2019. The Scheme will require amendments to be made to the 2006 Scheme of Demutualisation and the 2011 Scheme (the "**Legacy Schemes**").

As part of the proposed Part VII transfer, a number of reinsurance arrangements between SLAL and SL Intl are to be established. I have considered their appropriateness and the impact they have on policyholders as part of this report.

This report supplements, and should be read in conjunction with, my original report "Report by the Head of Actuarial Function on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to its Irish-based subsidiary, Standard Life International designated activity company" (the "**Previous Report**"). My Previous Report, dated 17 September 2018, was submitted to the Initial Court Hearing on 25 September 2018 and made public immediately following this hearing.

The objective of this report is to consider whether events since my Previous Report have impacted upon the conclusions and opinions I expressed in that report.

1.2 Changes since my Previous Report

The principal changes that have occurred since my Previous Report are as follows:

- At the time of writing my Previous Report, SL Intl was a subsidiary of SLAL which was, in turn, a subsidiary of Phoenix Group Holdings ("**PGH**"). As a result of the outcome of discussions with the Prudential Regulatory Authority ("**PRA**"), the decision was taken to move SL Intl within the Group's corporate structure. This has resulted in SL Intl becoming a subsidiary of a new entity (Phoenix Group Holdings plc or the "**Ultimate Parent**") and a sister company of PGH. SLAL is also expected to be moved to be a subsidiary of the Ultimate Parent and a sister company of both SL Intl and PGH. See section 3.2 for further details. Please note that in my Previous Report, PGH was referred to as Phoenix.

- The reinsurance arrangements have been modified to allow the SL Intl Board to make representation to the CEO of SLAL's ultimate parent company on matters affecting the reinsured policies. A further modification has been made, concerning the termination clause, such that in the event of a change of control of SL Intl, it will now not be possible for SLAL or SL Intl to terminate reinsurance arrangements without the prior agreement of the Central Bank of Ireland ("**CBI**"), Financial Conduct Authority ("**FCA**") and PRA. I am satisfied that this change enhances SL Intl policyholder protection. See section 4.4 for further details.

- The financial positions of both SLAL and SL Intl have been updated to 30 June 2018. See section 5.1 for further details.

- SL Intl has further developed its Capital Targets Framework, with the changes to be implemented prior to the completion of the proposed transfer. Post-transfer, SL Intl will seek to maintain its solvency coverage ratio in line with this framework. The framework assesses the capital that SL Intl aims to hold under both normal and stressed conditions. See section 5.3 for further details.

- The CBI has recently (November 2018) introduced new requirements affecting the governance of With-Profits funds of companies which it supervises and which are subject to Solvency II. These new requirements include the publication of a "With-Profits Operating Principles" document, to be made available to all With-Profits fund members. See section 7 for further details.

1.3 Scheme updates since the Initial Court Hearing

There have been no material changes made to the Scheme that was presented to the Court at the time of completion of my Previous Report.

1.4 Conclusions

It is my view that the conclusions set out in my Previous Report continue to hold, as follows:

- Based on the information available to me at this time, including the current financial strength of SLAL (Fitch has assigned SLAL a Credit Rating of A+ (Strong)), I do not believe that there is any material risk that the proposed Scheme will negatively impact on the legal rights, financial security or expected benefits of the existing SL Intl policyholders.
- Furthermore, I do not expect that the proposed changes will have any material adverse impact upon the rights and reasonable expectations of SL Intl's existing policyholders.
- There are a number of additional risks which will be introduced to SL Intl following the Proposed Transfer, and which have the potential to negatively impact upon the existing policyholders of SL Intl, the primary one being counterparty default risk. Although collateral will be in place at all times, there are instances in which the residual counterparty exposure to SLAL is still significant as the collateral posted into the segregated accounts and subject to the fixed charge, is not required to be the same value as the reinsured liability, nor does it have to be made up of the same assets as the underlying assets within the fund. Therefore, shortfalls in collateral relative to the value of the reinsured liability will increase SL Intl's counterparty risk capital requirements. For example, the collateral amount is based on the Asset Share in the fund and the underlying policies have guarantees attached. Thus, if markets fall, then the Asset Share may fall, as will the value of the collateral, however, the liability to policyholders will not similarly reduce. The existence of the floating charge (as outlined in section 6.4 of my Previous Report) does help to alleviate this issue though. In addition, the proposed Reinsurance Agreements between SL Intl and SLAL should further reduce this risk, as the value of the assets subject to the fixed charge should never be less than an agreed percentage of the sum of unsmoothed Asset Shares and the Best Estimate Liability ("**BEL**") for non-profit liabilities. This will ensure that the value of SL Intl's fixed security is not adversely affected by changing the assets backing Asset Shares.
- If SLAL were to experience significant solvency issues, it is highly likely that SL Intl would similarly experience issues, which may impact upon the financial security and expected benefits of the existing SL Intl policyholders, as well as SL Intl's ability to pay such benefits in a timely fashion.
- In the event of a termination of the proposed reinsurance of the With-Profits business post transfer, depending on the exact timing and the nature of any event which may cause this to happen, there may temporarily be a weakening of SL Intl's solvency position, but it is envisaged that this would only be until such time as the **interim payment** is made. However, the remoteness of such an event, coupled with the short period of time during which such a weakness would be expected to persist, means that there should be no material adverse impact upon the financial security or benefit expectations of SL Intl's policyholders arising from such an event.

2 INTRODUCTION

2.1 Purpose of the report

As HoAF for SL Intl, I have been asked to comment on the proposal for the transfer of all Euro-denominated business from SLAL to SL Intl under Part VII of the Financial Services and Markets Act 2000. The transfer is to be effected under an insurance business scheme of transfer which, if approved, will come into effect on the Effective Date, expected to be 29 March 2019. The Scheme will require amendments to be made to the Legacy Schemes.

As part of the proposed Part VII transfer, a number of reinsurance arrangements between SLAL and SL Intl are to be established. I have considered their appropriateness and the impact they have on policyholders as part of this report.

For the avoidance of doubt, the proposed Part VII transfer and reinsurance arrangements are referred to in combination as the "**Proposed Transfer**".

This report supplements, and should be read in conjunction with, my Previous Report "Report by the Head of Actuarial Function on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to its Irish-based subsidiary, Standard Life International designated activity company". My Previous Report, dated 17 September 2018, was submitted to the Initial Court Hearing on 25 September 2018 and made public immediately following this hearing. The Previous Report can be found on the following website: www.standardlife.eu

The objective of this report is to consider whether events since my Previous Report have impacted upon the conclusions and opinions I expressed in that report.

For clarity, in my Previous Report I concluded that:

- The financial security of policyholders of SL Intl will not be materially adversely affected by the Proposed Transfer;
- The Proposed Transfer will not have a material adverse impact on the fair treatment of policyholders of SL Intl, including their legal rights and expected benefits.

This report (i.e. my supplementary report) has been prepared in accordance with the terms of our letter of engagement dated 29 February 2016 and the associated statement of work, dated 4 December 2017.

2.2 Guidance on its Usage

This report is written for the SL Intl Board in my capacity as HoAF. It should be read in conjunction with the Scheme, my Previous Report, SLAL's With Profits Actuary's ("**WPA**") supplementary report and the supplementary report by the Independent Expert.

SLAL's Chief Actuary, Mr Brian Peters, has prepared a similar supplementary report, considering the effect of the Scheme on the financial security and fair treatment of both transferring and non-transferring policyholders of SLAL

A list of the definitions and abbreviations that I have used in this document is included in Appendix A.

2.3 Independent Expert

Mr Tim Roff of Grant Thornton has been retained by the Board of SLAL in the capacity of Independent Expert and has been approved by all relevant regulatory bodies.

2.4 Status and Disclosures

I am a Fellow of the Society of Actuaries in Ireland ("**SAI**"), and was appointed as HoAF of SL Intl in November 2015. I am an employee of Milliman Limited, an independent actuarial consulting firm. I have no insurance policies with SL Intl or SLAL.

2.5 Reliances

I have read the supplementary report prepared by the Chief Actuary of SLAL, and the supplementary report prepared by the WPA of SLAL. I have considered their comments on the effect of the Scheme on policyholders.

I have read the supplementary report prepared by the Independent Expert. I have considered his comments on the effect of the scheme on policyholders.

In carrying out the work and producing this report, I relied on data and other information provided by SL Intl and SLAL. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of my analysis may likewise be inaccurate or incomplete.

In producing this report, I have reviewed a number of documents in detail. These are listed in the Reliances and Limitations in section 0 of this document.

The figures on a **Solvency II** basis have been based on those prepared for Solvency II reporting as of 30 June 2018.

This report is based on information made available to me up to 7 March 2019 and takes no account of developments after this date.

Further information on reliances and limitations associated with this report can be found in section 0.

In producing this report, I have reviewed, in detail, a number of documents, which have been provided to me by SL Intl. Although the contents of these papers are not outlined in full within this report, I have used them as the basis for many of the conclusions that I have drawn.

2.6 Compliance

As of 1 July 2017 all members of the SAI must comply with the issued actuarial standards of practice – General Actuarial Practice ("**ASP-PA2**"). As a Fellow member of the SAI, I have observed this requirement in writing this report and in all work contributing to this report.

3 IMPACT OF THE PHOENIX ACQUISITION OF SLAL AND SL INTL

3.1 Overview

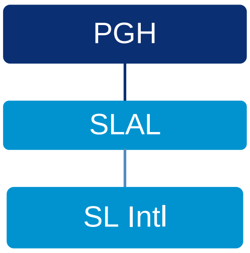
Prior to the Initial Court Hearing, PGH purchased the entire issued share capital of SLAL (including SL Intl). My Previous Report, and conclusions drawn within it, reflected the fact that SLAL (and SL Intl) had only just joined the Group.

Since the Initial Court Hearing, there have been a number of changes which impact upon my Previous Report. These include SL Intl becoming a subsidiary of the Ultimate Parent (see section 3.2 below) instead of continuing as a subsidiary of SLAL. In this section, I explain the impact of this proposal and why it does not impact the conclusions drawn in my Previous Report.

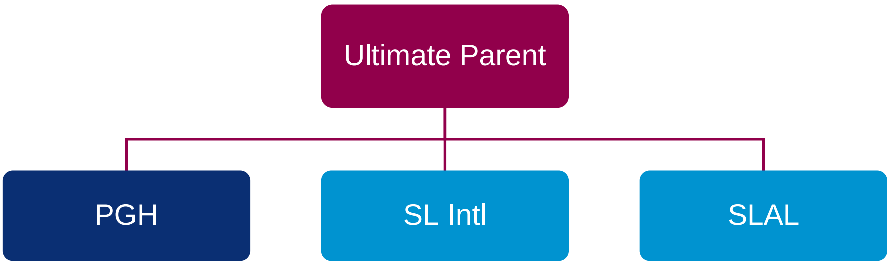
3.2 SL Intl Change of Control

At the time of writing my Previous Report, SL Intl was a subsidiary of SLAL (which was, in turn, a subsidiary of PGH). As a result of the outcome of discussions with the PRA, the decision was taken to move SL Intl within the corporate structure. This has resulted in SL Intl becoming a subsidiary of the Ultimate Parent, and therefore a sister company of PGH. Further, and as part of a planned corporate restructure, SLAL is also expected to be moved to be a subsidiary of the Ultimate Parent.

The current structure is as follows:



The proposed new structure is as follows:



Where:

- The Ultimate Parent (established in England and Wales in October 2018) became the new parent of PGH in December 2018
- SL Intl moved to become a subsidiary of the Ultimate Parent in February 2019
- SLAL is expected to move to become a subsidiary of the Ultimate Parent in March 2019, prior to the Effective Date

There were a number of references in my Previous Report (specifically sections 1.5, 6.10, 7.1, 7.2 and 7.6) to SLAL being the provider of the proposed capital injection to SL Intl that will accompany the Proposed Transfer. Due to the change of control, this capital injection was provided by the Ultimate Parent, rather than by SLAL.

I am satisfied that this change has no impact on the Proposed Transfer, from a SL Intl perspective.

4 SCHEME UPDATES SINCE THE INITIAL COURT HEARING

4.1 Purpose of this Section

The conclusions drawn on the effect of the Proposed Transfer on policyholders' security of benefits, fair treatment and service standards were based on the legal framework accompanying the transfer. This included the Scheme, changes to the Legacy Schemes, the reinsurance arrangements and associated security structure.

Since my Previous Report and the Initial Court Hearing, there have been a number of minor changes to these documents. In this section, I explain these changes and why they do not impact upon the conclusions drawn in my Previous Report.

4.2 Scheme changes

There have been no material changes made to the Scheme that was presented to the Court at the time of completion of my Previous Report.

4.3 Legacy Scheme changes

There have been no material changes made to the Legacy Scheme changes that were presented to the Court at the time of completion of my Previous Report.

4.4 Reinsurance arrangements changes

The reinsurance arrangements have been modified to allow the SL Intl Board to make representation to the SLAL With Profits Committee, the SLAL Board and the CEO of SLAL's ultimate parent company on matters affecting the reinsured policies. If the parties are still unable to reach an agreement, the next step in attempting to resolve any issue will be through non-binding mediation, in accordance with the Centre for Effective Dispute Resolution ("**CEDR**") Model Mediation Procedure. This involves the appointment of an independent expert nominated by the president of the Institute and Faculty of Actuaries who will provide a non-binding opinion who will help attempt to resolve the disagreement.

I am satisfied that this additional requirement (included in Clause 10.3 of the reinsurance arrangements) enhances policyholder protection by reducing the risk that SLAL and SL Intl are unable to reach an agreement.

A further modification has been made to the proposed reinsurance arrangements, concerning the termination clause. Specifically, in the event of a change of control of SL Intl, it will now not be possible for SLAL or SL Intl to terminate reinsurance arrangements without the prior agreement of the CBI, FCA and PRA. I am satisfied that this change enhances SL Intl policyholder protection.

5 UPDATED FINANCIAL POSITION

5.1 Solvency position

The table below was included in my Previous Report, outlining the solvency positions of both SL Intl and SLAL as of year-end 2017 (and assuming both were members of the Group with SL Intl being a subsidiary of SLAL).

	SLAL (£m)	SL Intl (£m)
Own Funds (A)	3,780	137
Solvency Capital Requirement (B)	2,480	102
Excess Own Funds (C= A – B)	1,300	35
Solvency Coverage Ratio (D = A/B)	**152%**	**134%**

The table below contains updated figures for the solvency positions of both SL Intl and SLAL as of 30 June 2018. These figures include the impact of the change of control outlined in section 3.2 above (i.e. assume that the proposed change of control had been completed as of that date and value of SL Intl is constant).

	SLAL (£m)	SL Intl (£m)
Own Funds (A)	4,065	128
Solvency Capital Requirement (B)	2,335	90
Excess Own Funds (C= A – B)	1,730	38
Solvency Coverage Ratio (D = A/B)	**174%**	**142%**

There has been some movement in SL Intl's capital position over the first six months of the year, mainly owing to a key change in the prospective valuation of SL Intl's liabilities (arising directly as a result of the change of control). The level of rebate of Wrap platform charges was reduced in order to ensure compliance with MiFID regulations on transactions between third parties. While this has been offset on a cash flow basis by the removal of distribution cost recharges in the opposite direction, these recharges are acquisition cash flows in nature and hence do not impact upon the Solvency II liability valuation.

The movement in SLAL's capital position arises mainly as a result of the following:

- As SL Intl is no longer a subsidiary of SLAL, its own funds and capital requirements are no longer included in SLAL's own funds and SCR
- There has been a small movement in capital position due to new business, experience, and market movements over the first six months of 2018
- Operational aspects such as project costs and management actions

Following the Proposed Transfer, the proforma position had the transfer taken effect immediately before 30 June 2018 is as follows:

	SLAL (£m)	SL Intl (£m)
Own Funds (A)	3,800	580
Solvency Capital Requirement (B)	2,200	405
Excess Own Funds (C= A – B)	1,600	175
Solvency Coverage Ratio (D = A/B)	**173%**	**143%**

Note that this proforma position includes a capital injection (into SL Intl) of £250m.

The movement in SL Intl’s capital coverage ratio is primarily driven by a refinement in methodologies and modelling applied in the calculation of SL Intl’s capital requirements. This does not have any impact on my conclusions in this report.

5.2 Expected changes in methodology for calculating solvency position

In light of the volume of annuity business that the company is expected to receive as part of the transfer, SL Intl has made an application to the CBI to use the volatility adjustment (a countercyclical adjustment which is beneficial to the valuation of liabilities in certain adverse market conditions).

The figures contained within both my Previous Report and this report assume that the volatility adjustment application will be successful and so, any numbers taken from my Previous Report and shown here are comparable from this perspective. In any case, the expected impact caused by the application of the volatility adjustment on the above figures was immaterial for SL Intl.

5.3 Changes to SL Intl’s Capital Targets Framework

SL Intl has further developed its Capital Targets Framework (outlined in section 6.11 of my Previous Report), with the changes to be implemented prior to the completion of the Proposed Transfer. Post-transfer, SL Intl will seek to maintain its solvency coverage ratio in line with this framework. The framework assesses the capital that SL Intl aims to hold under both normal and stressed conditions.

Under the new framework, SL Intl’s capital coverage is assessed under a number of stressed scenarios, which occur over the course of a one year time horizon. These scenarios will be reviewed regularly with the capital position monitored continuously.

These scenarios will be designed to reflect severe but plausible adverse events, which would negatively impact upon the solvency coverage ratio.

This refinement to SL Intl’s capital target framework results in it being very similar in structure to that of SLAL, with both entities aiming to remain above a target level of SCR coverage under certain absolute scenarios calibrated to the risk profile of each entity.

5.4 Tax

There are no changes to report here, from a SL Intl perspective.

5.5 Conclusion

Having considered the updated financial position above, I continue to be satisfied that the Proposed Transfer does not have a materially adverse effect on the security of SL Intl’s existing policyholders.

6 POLICYHOLDER COMMUNICATIONS

Following SL Intl's mailing and advertisement exercise, only one current SL Intl policyholder and/or interested party contacted the company, either through the dedicated website, the call centre or by post.

The nature of this objection was as follows – the UK's withdrawal from the EU was a democratic choice made by the UK electorate, with the policyholder feeling that the decision to transfer policies from the UK is a betrayal of this choice. No further objection was made by this policyholder or by any other SL Intl policyholder in relation to the Proposed Transfer, and there are no issues arising which would indicate any negative impact on the financial security, right or reasonable expectations of existing SL Intl policyholders.

7 EFFECT OF PROPOSED CHANGES ON RIGHTS AND REASONABLE EXPECTATIONS OF EXISTING SL INTL POLICYHOLDERS

In this section, I consider the effect of the Proposed Transfer in light of the changes in:

- SLAL and SL Intl since my Previous Report;
- the Scheme, Legacy Schemes, reinsurance arrangements and security;
- the changes in the financial position of SL Intl; and
- Feedback from SL Intl policyholders following SL Intl's mailing and advertisement exercise

on the rights and expectations of SL Intl's existing policyholders in the aftermath of the Proposed Transfer from SLAL. This considers the effect of the transfer on their benefit expectations, ongoing communication, investment of policies and other significant factors.

The CBI has also recently (November 2018) introduced new requirements affecting the governance of With-Profits funds of companies which it supervises and which are subject to Solvency II. These new requirements include the publication of a "With-Profits Operating Principles" document, to be made available to all With-Profits fund members. According to the new CBI requirements, this document will contain "*enduring statements of the standards adopted in managing the With-Profits fund, and include responses to longer-term changes in the business or economic environment*". In addition to the already publicly available "Principles and Practices of Financial Management" (see Section 6.8 of my Previous Report), this will further help SL Intl's policyholders, and hence SL Intl itself, to set an expectation around how the With-Profits funds and associated reinsurance contracts will be managed.

I continue to be of the opinion that the Proposed Transfer does not materially adversely affect the service standards, legal rights and expected benefits of SL Intl's existing policyholders.

8 CONCLUSIONS

It is my view that the conclusions set out in my Previous Report continue to hold, as follows:

- Based on the information available to me at this time, including the current financial strength of SLAL (Fitch has assigned SLAL a Credit Rating of A+ (Strong)), I do not believe that there is any material risk that the proposed Scheme will negatively impact on the legal rights, financial security or expected benefits of the existing SL Intl policyholders.
- Furthermore, I do not expect that the proposed changes will have any material adverse impact upon the rights and reasonable expectations of SL Intl's existing policyholders.
- There are a number of additional risks which will be introduced to SL Intl following the Proposed Transfer, and which have the potential to negatively impact upon the existing policyholders of SL Intl, the primary one being counterparty risk. Although collateral will be in place at all times, there are instances in which the residual counterparty exposure to SLAL is still significant as the collateral posted into the segregated accounts and subject to the fixed charge, is not required to be the same value as the reinsured liability, nor does it have to be made up of the same assets as the underlying assets within the fund. Therefore, shortfalls in collateral relative to the value of the reinsured liability will increase SL Intl's counterparty risk capital requirements. For example, the collateral amount is based on the Asset Share in the fund and the underlying policies have guarantees attached. Thus, if markets fall, then the Asset Share may fall, as will the value of the collateral, however, the liability to policyholders will not similarly reduce. The existence of the floating charge (as outlined in section 6.4 of my Previous Report) does help to alleviate this issue though. In addition, the proposed Reinsurance Agreements between SL Intl and SLAL should further reduce this risk, as the value of the assets subject to the fixed charge should never be less than an agreed percentage of the sum of unsmoothed Asset Shares and the BEL for non-profit liabilities. This will ensure that the value of SL Intl's fixed security is not adversely affected by changing the assets backing Asset Shares.
- If SLAL were to experience significant solvency issues, it is highly likely that SL Intl would similarly experience issues, which may impact upon the financial security and expected benefits of the existing SL Intl policyholders, as well as SL Intl's ability to pay such benefits in a timely fashion.
- In the event of a termination of the proposed reinsurance of the With-Profits business post transfer, depending on the exact timing and the nature of any event which may cause this to happen, there may temporarily be a weakening of SL Intl's solvency position, but it is envisaged that this would only be until such time as the interim payment is made. However, the remoteness of such an event, coupled with the short period of time during which such a weakness would be expected to persist, means that there should be no material adverse impact upon the financial security or benefit expectations of SL Intl's policyholders arising from such an event.

Signed:

Name: Eamonn Phelan

Fellow of the Society of Actuaries in Ireland

Date: 8th March 2019

9 RELIANCES & LIMITATIONS

9.1 Reliances

DATA

Data Provision and Data Reliance

In carrying out the work and producing this report, I relied on data and other information provided by SL Intl and SLAL. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed a limited review of the data used directly in my analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of my assignment.

This report is based on the following assumptions:

- We were provided with access to accurate and complete data and information.
- SL Intl has informed us about the source and the intended use of the data and information and has disclosed to us (Milliman) all limitations of and adjustments made to such data and have provided us with all other information reports and conclusions of any internal or external relevant analysis performed on the quality of data.
- SL Intl has ensured that all data received from external service providers such as market data, financial data and other general available data are accurate and reliable.
- SL Intl has provided us with all information about the reliability of the sources of information and their consistency and stability of the processes of collecting and publishing of such information over time.
- SL Intl has informed us about any changes that have been applied over time to external data, whether those changes relate to assumptions or associated methodologies or any other procedures regarding the collection of external data.
- SL Intl has informed us about any data limitations or uncertainties which may affect the data.

In carrying out the work and producing this report, reliance has been placed upon, but not limited to, the following information:

- Details of the change of control of SL Intl.
- Solvency II balance sheets and Solvency Capital Requirements as at 30 June 2018.
- The SLAL Chief Actuary supplementary report, and the supplementary report prepared by the With-Profits Actuary of SLAL.
- The Independent Expert’s supplementary report.
- Details of any proposed changes to the Scheme or the reinsurance treaties to be put in place.

This report was based on data available to me at, or prior to, 7 March 2019, and takes no account of developments after that date.

9.2 Limitations

DISTRIBUTION & USAGE

This report has been prepared for use by various interested parties as follows:

- The Court having jurisdiction over the proposed transfer
- The Directors of SL Intl

- Policyholders of SL Intl
- Policyholders of SLAL who are directly affected by the proposed Part VII transfer
- The Chief Actuary and With-Profits Actuary of SLAL
- The Central Bank of Ireland, the Prudential Regulatory Authority, the Financial Conduct Authority, the Federal Financial Supervisory Authority and Financial Market Authority
- Professional advisors appointed by any of the above in connection with the proposed transfer, including the Independent Actuary

This report may not be published without my written consent, with the exception of making the report available for inspection by or circulation to policyholders as required by legislation or in order to meet any other specified legal requirements.

A summary of this report may not be made without my written consent and, in particular, a summary of this report should not be distributed to policyholders without my prior approval.

This report has been prepared by me as Head of Actuarial Function of SL Intl under the terms and conditions of the letter of engagement dated 29 February 2016 and the associated statement of work, dated 4 December 2017, and within the context of the assessment of the terms of the proposed Scheme. No liability will be accepted by Milliman, or me, for any application of this report to a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of this report (or any summary thereof).

Judgments as to the conclusions contained in our report should be made only after studying the report in its entirety. Furthermore, conclusions reached by review of a section or sections on an isolated basis may be incorrect.

The report is intended to be used by a person with a certain level of expertise in the areas addressed and for the stated purposes only. Any reader of this report must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should be advised by their own actuaries or other qualified professionals competent in the subject matter of this report, so as to properly interpret the material.

VARIABILITY OF RESULTS

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. The assumptions we have used have, in our view, been made on the basis of reasonable hypotheses. It is certain, however, that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Such variations in experience could have a significant effect on the results and conclusions of this report. No warranty is given that the assumptions made in this report will be reflected in actual future experience.

RECOMMENDED OTHER PROFESSIONAL ADVICE

The consultants who worked on this assignment are life insurance actuaries. As such, they are familiar with statutory accounting and GAAP accounting, but are by no means experts in law, taxation, or accounting. Our advice is not, nor is it intended to be, a substitute for qualified legal, tax, or accounting advice.

10 APPENDIX A: GLOSSARY OF TERMS

	Meaning
2006 Scheme	**The 2006 Scheme of Demutualisation**
2011 Scheme	**The 2011 Scheme that transferred insurance business from SLIF to SLAL on 31 December 2011**
AUM	**Assets Under Management**
BaFin	**Federal Financial Supervisory Authority**
Asset Share	**The asset share of a policy is the accumulation of premiums (less any amounts in respect of withdrawals) at the investment returns on the With-Profits assets, less deductions for expenses and charges (including any deductions for guarantees or contributions to capital), tax and any other experience adjustments.**
BEL	**Best Estimate Liability is the part of technical provisions representing a probability-weighted average of future cash flows, taking account of the time value of money, using an appropriate risk-free interest rate term structure. The calculation is based upon realistic assumptions, using appropriate actuarial and statistical methods and taking account of all future cash inflows and outflows required to settle the insurance obligations.**
Brexit	**The United Kingdom's withdrawal from the European Union**
CBI	**Central Bank of Ireland**
Cedent	**A cedent is a party in a reinsurance contract who passes (or cedes) financial obligation for certain potential losses to the reinsurer. In return the cedent pays a premium.**
CEO	**Chief Executive Officer**
Effective Date	**The date in which the Scheme comes into effect. This is expected to be the 29 March 2019.**
EU	**European Union**
EU27	**The 27 remaining member states of the EU once the UK has left**
FCA	**Financial Conduct Authority**
FSCS	**Financial Services Compensation Scheme**
HoAF	**Head of Actuarial Function**
Interim Payment	**Under the reinsurance arrangements termination payments are made according to a 3 step process (other than termination on an event of default by SLAL where the security is invoked and SL Intl can immediately enforce and recover). The 3 step process involves an initial payment within 3 business days of termination, an interim payment within 20 business days of termination and then a final true-up payment. This process is set out in Schedule 3 of the reinsurance arrangements.**

Legacy Schemes	**The 2006 Scheme of Demutualisation and the 2011 Scheme**
Ultimate Parent	**Phoenix Group Holdings plc**
PGH	**Phoenix Group Holdings**
Previous Report	**My original report entitled "Report by the Head of Actuarial Function on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to its Irish-based subsidiary, Standard Life International Designated Activity Company" and signed on 17 September 2018**
Proposed Transfer	**The proposal to transfer all Euro-denominated business from Standard Life Assurance Limited to Standard Life International under Part VII of the Financial Services and Markets Act 2000**
Reinsurance	**Insurance that is purchased by an insurance company from a Reinsurer**
Scheme	**The Scheme of transfer under Part VII of the Financial Services and Markets Act 2000 of the euro-denominated life assurance business of SLAL to SL Intl.**
SCR	**Solvency Capital Requirement (the amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime.)**
SAI	**Society of Actuaries in Ireland**
SL Intl	**Standard Life International designated activity company**
SLAL	**Standard Life Assurance Limited**
SLIF	**Standard Life Investment Funds Limited**
Solvency II	**The Solvency II Directive (2009//138/EC) is the set of regulations that regulate the insurance firms within the EU.**
The Court	**Court of Session**
The Group	**All of the subsidiaries of the ultimate parent of SLAL**
VA	**Volatility Adjustment**
WPA	**With-Profits Actuary**
WPC	**With-Profits Committee**