Phoenix

Report of the ReAssure Life Limited Chief Actuary

on the proposed transfer of certain long-term insurance business from ReAssure Life Limited to Phoenix Life Assurance Europe dac under Part VII of the Financial Services and Markets Act 2000

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1. EXECUTIVE SUMMARY

1.1. Background

This report discusses the proposed scheme for the transfer of certain policies written in Norway, Sweden and Germany ("the EEA-based business") of ReAssure Life Limited ("RLL") to Phoenix Life Assurance Europe DAC ("PLAE") under Part VII of the UK Financial Services and Markets Act 2000 (the "UK Scheme").

Phoenix Life Limited ("PLL") will also follow the insurance business transfer process in Ireland and will apply to the High Court of Ireland for the transfer of its Irish policies into PLAE (the "Irish Transfer Scheme" and together with the UK Scheme, the "Schemes"). The implementation of the UK Scheme is dependent on both the UK Scheme and the Irish Transfer Scheme being sanctioned by the respective Courts in England and Wales and Ireland. The Scheme and the Irish Transfer Scheme are on substantially the same terms.

This report considers the impact of the UK Scheme on:

- The security of the transferring RLL policyholders and the non-transferring RLL policyholders
- The benefit expectations and fair treatment of the transferring RLL policyholders and the non-transferring RLL policyholders

At the same time, the Irish, German and Icelandic business written by PLL, another company in the Phoenix group, will also be transferred into PLAE.

This report does not consider PLL policyholders. These matters are covered by the Chief Actuary's report and the With-Profits Actuary's report prepared by the PLL Chief Actuary and the PLL With-Profits Actuary respectively.

1.2. The UK Scheme

The key terms of the proposed UK Scheme and associated arrangements in respect of the transferring business of RLL are:

- the transfer of the EEA-based business of RLL to PLAE

- reinsurance and security agreements between RLL and PLAE to allow the transferring unit linked policies to continue to access the unit linked funds of RLL following the transfer

- a management services agreement ("MSA") between PLAE and the Irish branch of Standard Life Assets and Employee Services Limited ("SLAESL") which will provide resources to PLAE to carry out policy administration and other ancillary work in respect of the transferring policies.

The primary motivation for the UK Scheme is to provide long-term stability and certainty for transferring policyholders following the UK's withdrawal from the European Union. If the UK Scheme is not sanctioned, the consequences would depend on the reasons for refusing to sanction the UK Scheme. If the grounds for refusal could not be remediated, RLL and PLL would need to explore, with local counsel and regulators, alternative options available which are likely to be less optimal than achieving the proposed transfer.

1.3. Security and benefit expectations of policyholders

Following the transfer:

- The non-transferring RLL policyholders will be exposed to a broadly unchanged profile of risks. This will not materially adversely affect the security of non-transferring RLL policyholders.

- The transferring policies will be held in an insurance company within the EU which will be able to provide the benefits under the transferring policies in accordance with the terms of such policies and in accordance with applicable law in the relevant EEA jurisdictions.

- The transferring RLL policyholders will be exposed to the profile of risks of PLAE.

- The transferring RLL unit linked policies will be invested in the same unit linked funds of RLL, via the reinsurance agreement with PLAE.

- The administration of the transferring policies will move from the current provider ReAssure UK Services Limited ("RUKSL") to be provided by PLAE under the MSA between PLAE and SLAESL, using the same administration systems and materially the same processes as used before the transfer.

The capital in excess of the solvency capital requirement of RLL will increase slightly as a result of the transfer of the EEA-based business to PLAE and is expected to remain at or above the buffer that is held according to RLL's capital management policy, providing security to the non-transferring policyholders of RLL.

Following the proposed transfer, PLAE would hold Own Funds at or above the buffer that is held according to its capital management policy, providing security to transferring policyholders.

The UK Scheme does not introduce any changes to the operation of non-transferring RLL policies that affect the fair treatment of those policyholders.

Overall, I conclude that in my opinion:

- The security of the non-transferring policyholders of RLL will not be materially adversely affected by the UK Scheme.

- The security of the transferring policyholders of RLL will not be materially adversely affected by the UK Scheme

- There is no reason to believe that the benefit expectations and fair treatment of the non-transferring policyholders of RLL will be materially adversely affected by the UK Scheme.

- There is no reason to believe that the benefit expectations and fair treatment of the transferring policyholders of RLL will be materially adversely affected by the UK Scheme.

- I agree with the proposed communication approach to both transferring and non-transferring RLL policyholders, and the proposals for handling their responses.

My opinion is conditional on the following:

- Authorisation of PLAE by the CBI will have been received prior to the Sanction Hearing;

- PLAE's capital policy will have been approved by the Board of PLAE in the form currently proposed;

- Both the High Court of England and Wales and the High Court of Ireland will approve the Schemes for the Schemes to become effective;

- PLAE will be appropriately capitalised in accordance with its capital policy and that funding will have been confirmed by PLAE in accordance with the requirements set out in the Scheme, prior to the Scheme becoming effective;

- The proposed reinsurance and security arrangements that will be entered into are substantially as described in this report.

- PLAE enters into an MSA with SLAESL.

I understand that, as currently drafted, the UK Scheme can only become effective if the above conditions have been satisfied.

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2. ABOUT THIS REPORT

2.1. Purpose of this report

This report discusses the proposed scheme for the transfer of certain policies written in Norway, Sweden and Germany ("the EEA-based business") of ReAssure Life Limited ("RLL") to Phoenix Life Assurance Europe DAC ("PLAE") under Part VII of the UK Financial Services and Markets Act 2000.

The proposals are set out in the UK Scheme.

The purpose of this report is to consider the effect of the UK Scheme on the security, benefit expectations and fair treatment of the transferring and non-transferring policyholders of RLL.

2.2. Other policies transferring into PLAE

EEA-based policies written by Phoenix Life Limited ("PLL"), another company in the Phoenix group, will also transfer at the same time into PLAE. These policies comprise of:

- PLL business written in Germany and Iceland
- The direct Irish Third Country Branch ("TCB") business of PLL

The business outlined above will transfer as part of the same UK Scheme.

The proposals for the transfer of the PLL's Irish TCB business under Section 13 of the Assurance Companies Act 1909 are also set out in the Irish Transfer Scheme.

The implementation of the UK Scheme is dependent on both the UK Scheme and the Irish Transfer Scheme being sanctioned by the respective Courts in England and Wales and Ireland, meaning that neither scheme will become effective unless each Scheme is sanctioned by the appropriate court.

This report does not consider the impact of the UK and Irish Transfer Schemes on PLL policyholders. These matters, and further background on PLL, are covered by the PLL Chief Actuary's report for PLL.

2.3. Guidance on usage of this report

This report is addressed to the Board of RLL. It is also intended to be considered by the Independent Person in forming his report. I also note that this report may be considered by the Central Bank of Ireland (the "CBI") which regulates PLAE, the Prudential Regulatory Authority (the "PRA"), and the Financial Conduct Authority (the "FCA") which regulate RLL, as part of their consideration of the UK Scheme. A copy of this report will be provided to the High Court of England and Wales. This report may also be made available to the transferring policyholders and other interested parties in the transfer.

A glossary of the definitions and abbreviations used in this document is included in Appendix 1.

2.4. Independent Person

Mr P Simpson of Milliman LLP has been retained by the Phoenix group companies as the Independent Person and has been approved as such by the CBI and the PRA in consultation with the FCA. During the preparation of this report, I have considered the content of the report prepared by the Independent Person and am supportive of his conclusions. There is nothing in his report that represents a difference of substance from the views expressed in this report.

2.5. Independence

I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1996 and hold a practising certificate issued by the IFoA to act as a Chief Actuary. I have been the Chief Actuary for RLL since 31 December 2019; and have also been the Chief Actuary for ReAssure Limited ("RAL") since 1 January 2016.

I have also been the Chief Actuary of Standard Life Assurance Limited ("'SLAL") and Standard Life Pension Funds Limited ("SLPF") since 24 September 2021.

I am an employee of RUKSL, a wholly owned subsidiary of Phoenix Group PLC. My remuneration structure is consistent with that of other senior managers in the organisation.

I am not a beneficiary of any policies with any of the Phoenix group companies. I am a deferred member of the ReAssure Group Final Salary Pension Scheme.

I confirm that my personal interests have not influenced me in reaching any of the conclusions detailed in this report.

2.6. Scope and Reliances

This report is addressed to the Board of Directors of RLL. The Independent Person, the CBI, the PRA, the FCA, and the Chief Actuary of PLL have been provided with drafts of this report throughout the Part VII process in order to assist their assessment of the Schemes.

The financial information provided for RLL has been prepared on a Solvency II basis as at 31 December 2021 (YE21), assuming that the transfers had taken place on 31 December 2021.

The financial information as at 31 December 2021 on RLL and PLL, used as data for the purposes of this report, has been approved by the Board and submitted to the PRA. It has also been subject to external audit.[1]

[1] The external audit does not cover PLL's Internal Model SCR, but all PLL and RLL data used in this report to determine PLAE's capital requirements was prepared on a Stand Formula basis.

This report is based on financial information made available to me up to the 31 December 2021, and takes no account of developments after this date.

I will continue to keep the financial position under review in the period leading up to the Sanction Hearings in 2022. I will provide a supplementary report to the Board of RLL considering developments over this period and the response to the customer communication prior to the Sanction Hearing. My supplementary report will provide a further update on RLL's financial position.

2.7. Compliance with Regulatory and Actuarial Standards

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

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

3. BACKGROUND INFORMATION ON REASSURE LIFE LIMITED

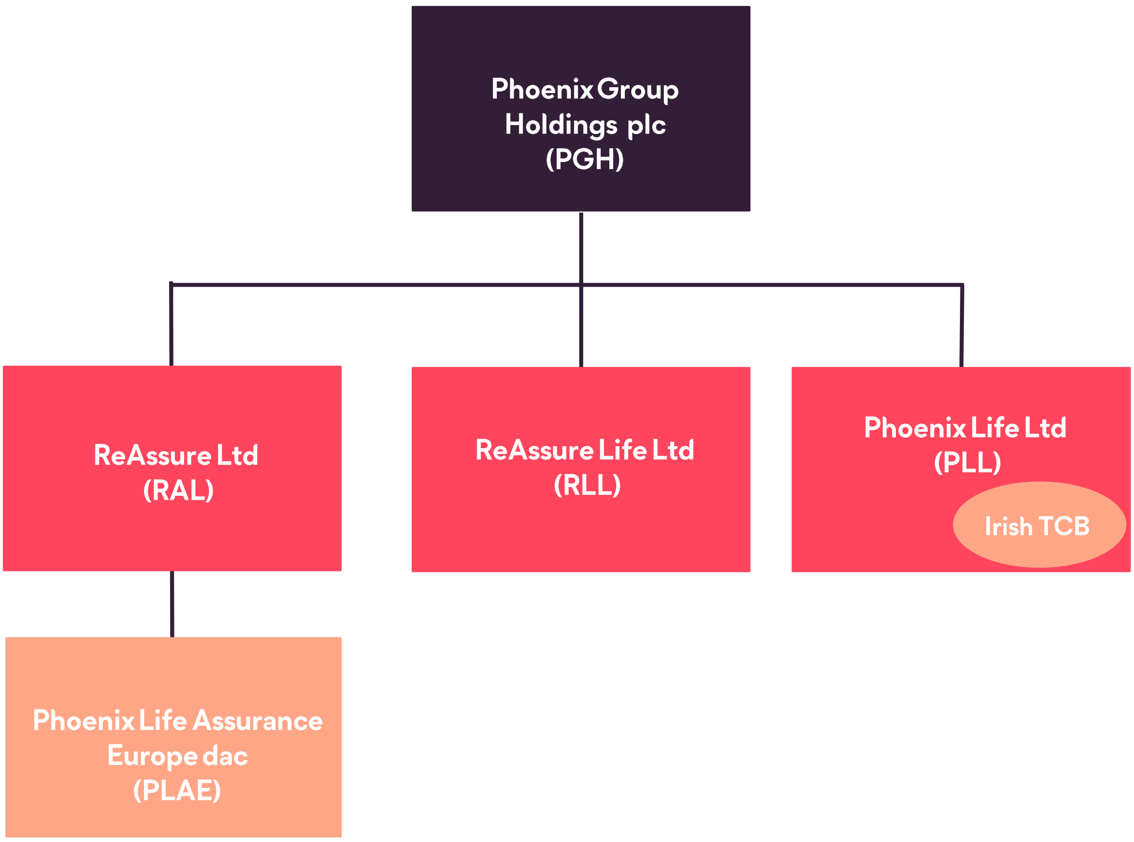
3.1. Overview

RLL was originally established in 1979 as Skandia Life Assurance Company Ltd, before being acquired by Old Mutual in 2006. In the UK the Skandia name was rebranded to Old Mutual Wealth in 2015. Quilter plc was de-merged from Old Mutual plc in 2018 and is listed on the London and Johannesburg Stock Exchanges. Following the separation, Quilter began to explore a potential disposal of its heritage business Old Mutual Wealth Life Assurance Limited ("OMWLA"), and to focus on its new business strategy. This led to the completion of the sale of OMWLA to ReAssure Group PLC ("RGP") on 31 December 2019.

OMWLA was then subsequently rebranded as RLL on 13 June 2020.

On 22 July 2020 Phoenix Group Holdings plc ("PGH") completed the acquisition of RGP.

An abridged structure chart of the life companies involved in the transfers is shown below.



3.2. IGR between RLL and RAL

Immediately upon completion of the acquisition of RLL, an intra-group reinsurance ("IGR") was entered into between RLL and RAL, another regulated insurance entity under RGP. The IGR was designed to accelerate the recognition of certain capital synergies.

The IGR has transferred the vast majority of the economic benefits and risks associated with the insurance business of RLL into RAL, with very limited exceptions.

The policyholder assets backing the unit linked elements of any RLL policy are retained by RLL and were not reinsured to RAL. The non-unit cash flows arising from unit linked policies are 100% reinsured to RAL.

The EEA-based business of RLL is included within the scope of the IGR. The treaty includes a partial recapture provision that is intended to be invoked upon the completion of the transfer of the EEA-based business to PLAE. At that point the risks associated with the EEA-based business of RLL would transfer to PLAE and be removed from the risk profile of RAL.

3.3. RLL business mix

RLL has a wide range of products sold predominantly in the UK including individual and institutional pensions, savings and investment bonds, unit linked and non-linked protection business, and a very small portfolio of annuities. These products were sold through Independent Financial Advisers.

RLL's EEA-based business consists of unit linked and protection business sold in Sweden, Germany and Norway. The EEA-based business constitutes only 4.5% by policy count and 2.2% of BEL of the total RLL business. Further detail is provided in section 4.

The table below shows the composition of the in-force business of RLL, both UK and EEA-based, as at YE21, by number of policies and Best Estimate Liabilities ("BEL").

Table 1: RLL business mix at YE21

Product Type	UK policies	EEA policies	Post IGR UK BEL	Post IGR EEA BEL
Unit Linked Pensions Bonds	4,985		325.4	
Unit Linked Personal Pensions	57,873		3,485.8	
Drawdown Personal Pensions	878		85.8	
Occupational Pensions	448		28.8	
Unit Linked Savings Products	1,545	2,031	184.4	20.3
Unit Linked Investment Bonds	31,228	2,235	2,519.4	116.7
Heritage Protection Business	31,023	658	265.1	0.3
Norwegian Products		1,236		16.4
German Protection		1,001		0.0
Protect Range Business	23,875		0.0	0.0
Other Reserves	83		2.6	0.1
Total	**151,938**	**7,161**	**6,897.3**	**153.7**

The pensions, savings and investment business of RLL were closed to new business in 2012 in anticipation of the regulatory Retail Distribution Review. RLL remained open to new protection business through Independent Financial Advisers until 27 March 2020. RLL is thus closed to new business in all jurisdictions apart from the fulfilment of contractual top ups and increments to existing policies.

RLL does not have any with-profits business and has no ring-fenced funds.

3.4. RLL solvency II balance sheet

Following the implementation of the Solvency II regulatory regime that came into force on 1 January 2016, the RLL capital requirements have been determined on a Solvency II Standard Formula basis. Assets, technical provisions and other liabilities are valued according to Solvency II regulations. The appropriateness of the Standard Formula is reviewed annually through the Own Risk Solvency Assessment ("ORSA") process.

RLL makes no use of either the volatility adjustment or the matching adjustment to the discount rate used to value Solvency II liabilities. RLL has also not applied to the PRA to make use of any transitional measures in the calculation of its technical provisions.

The table below shows the pre-transfer Solvency II capital position of RLL at YE21 on the Standard Formula basis and post-IGR.

Table 2: RLL SII Balance Sheet YE21

YE21	£m
Investments (excl. assets held for index-linked and unit-linked contracts)	436.3
Assets held for index-linked and unit-linked funds	7,125.2
Deferred tax assets	0.0
Reinsurance recoverables	520.2
Other assets	136.6
Total Assets	**8,218.3**
Gross BEL	7,571.4
Risk Margin	7.5
Gross technical provisions	**7,578.9**
Deferred tax liabilities	104.3
Insurance and intermediaries payables	117.0

Reinsurance payables	141.1
Payables (trade, not insurance)	44.2
Total Liabilities	**7,985.6**
Own Funds	**232.7**
SCR	36.6
Capital management policy buffer	6.0
Excess capital	190.1
Solvency ratio pre buffer	**636%**

The solvency ratio of RLL at YE21 was 636%. This is significantly inflated as a result of the IGR with RAL which reduces its SCR from £275.4m pre-IGR to £36.6m post-IGR. I note that the year-end SCR of £36.6m was unusually high compared with previous quarters' results. This arose because of equity exposure on a temporarily higher level of excess assets in the unit-linked funds.

I also note that, in line with expectations, the SCR at Q1 2022 has returned to a more typical level of £21.5m.

Without the IGR, RLL's Own Funds would be £315.2m and its solvency ratio would therefore be 114% at YE21.

3.5. RLL capital management policy and risk profile

RLL currently derives its capital management policy from the framework that was applied to life companies formerly in the ReAssure group. This requires a minimum capital buffer to be held in excess of the SCR equal to the amount required to absorb a 1-20 all-risk[2] stress event. The circumstances of the IGR were reflected in the calibration of this event to RLL which is only exposed to operational risk, and market and counterparty default exposures on its shareholder funds. Allowing for the IGR the minimum RLL buffer was expressed in nominal terms of £6m at its most recent annual review.

The RLL capital management policy is the responsibility of the RLL Board and is reviewed annually.

RLL is intending to align its capital management policy to the Phoenix Life Company Risk Appetite Framework ("RAF") before the transfer. The RAF requires a minimum capital buffer to be held in excess of the SCR. The buffer is equal to the amount required to absorb the more onerous of a 1-in-10 year all-risk stress event and a 1-in-20 year market risk stress event and still hold sufficient Own Funds to cover the SCR.

Given that the majority of the nominal buffer is derived from market and counterparty default risks which were calibrated at the 1-in-20 year stress level, alignment of the RLL capital management policy to the RAF is not expected to result in a material change to the RLL buffer. The SCR of RLL has increased since the

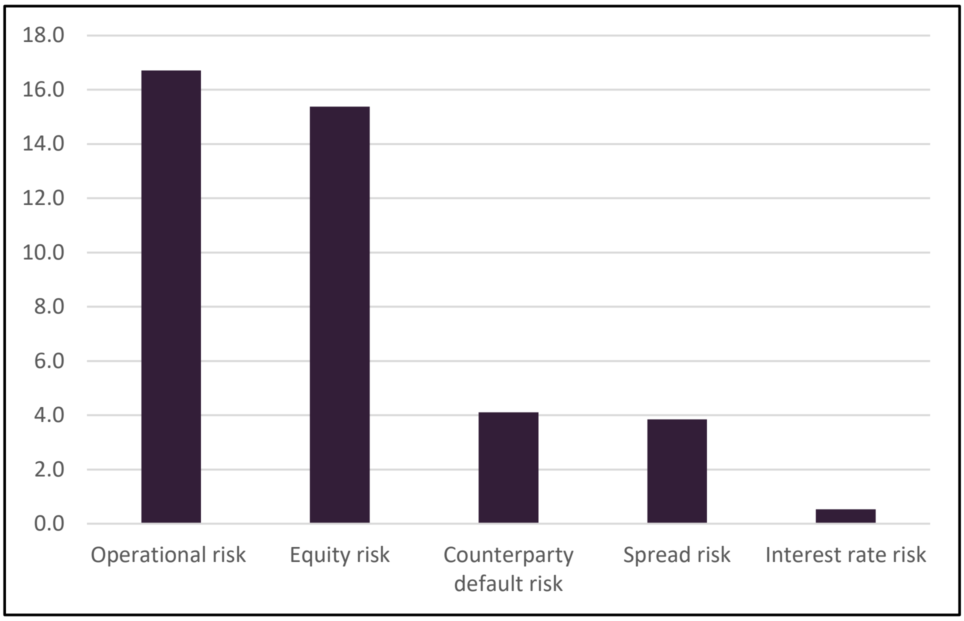
[2] Longevity trend risk is excluded from the all-risk stress event. As stated above, RLL is not exposed to this risk.

minimum nominal buffer was last reviewed (and was temporarily high at YE21, as set out in section 3.4 above), although RLL currently maintains capital resources above the amount that would be required to cover the capital buffer on either the ReAssure RAF or the Phoenix RAF.

The effect of the IGR with RAL was to remove most of the SCR and Risk Margin, and some of the excess capital held within RLL, so the solvency cover ratio of RLL at YE21 was extremely high. The only types of risk event that could conceivably cause RLL to breach its capital management buffer involve a failure of RAL. In that event, due to the funds-withheld structure in the IGR, RLL would still retain ownership of sufficient assets to cover its non-linked liabilities.

Since the risks to which RLL is exposed have already been reinsured to a great extent, the RLL Board has not formally identified triggers and actions that would be taken in the event of it holding less than its buffer.

Figure 1: RLL Undiversified Standard Formula Risk Capital at YE21 £m



The chart above illustrates the RLL undiversified Standard Formula risk capital as at YE21, net of the IGR with RAL.

The operational risk capital element arises because the Standard Formula methodology prescribed by the European Insurance and Occupational Pensions Authority ("EIOPA") requires the operational risk to be based on expenses and premiums gross of reinsurance. Therefore the IGR is ignored for the purposes of the regulatory capital requirement for operational risk. The actual operational risk exposures of RLL are passed to RAL, subject to very limited exceptions.

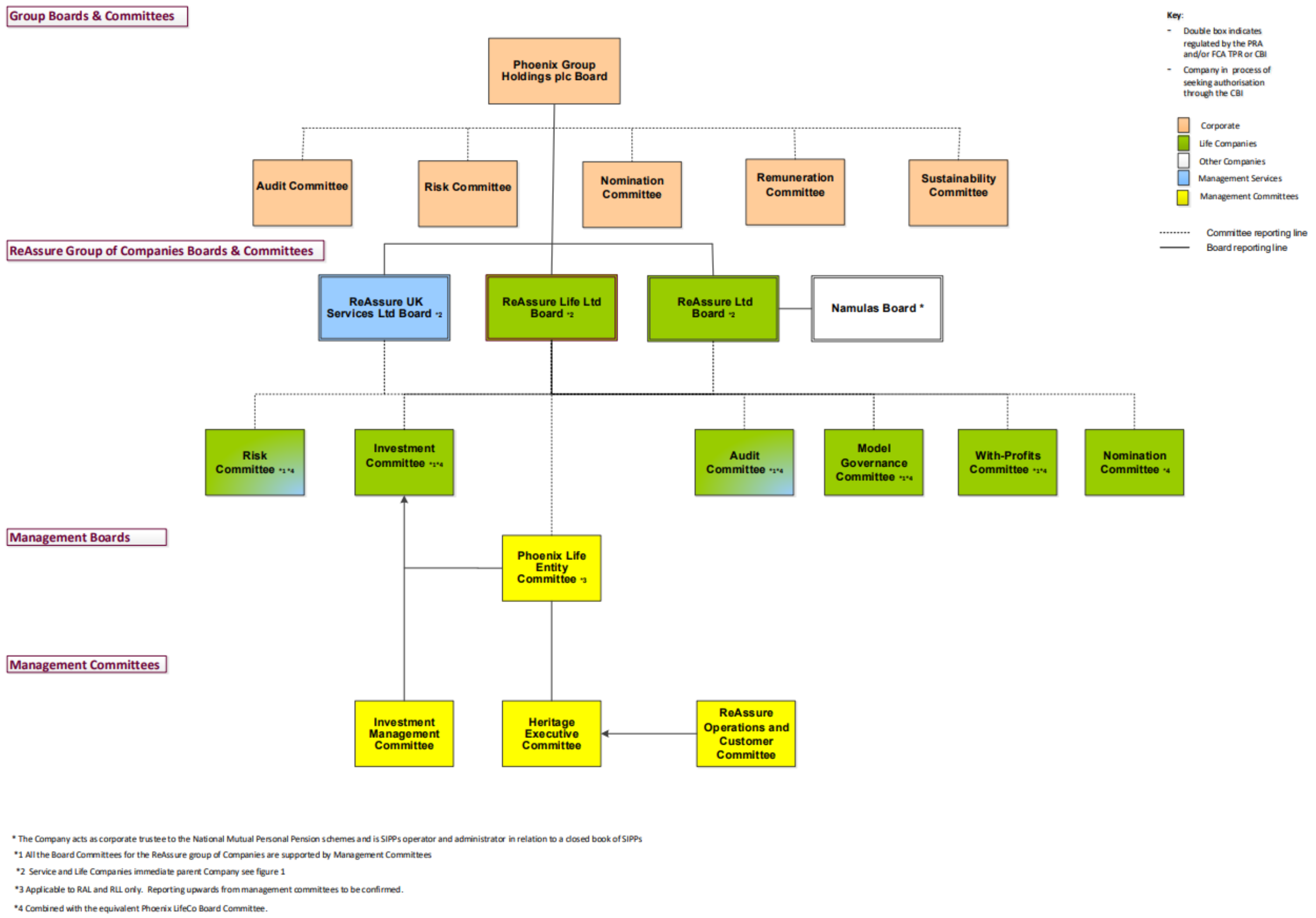
The equity risk capital element arises from shareholder exposure to excess assets in the unit-linked funds, i.e. those assets which may, from time to time, be in excess of the amounts required to cover the unit-linked liabilities. As set out in section 3.4, the excess assets were temporarily higher at YE21 and have returned to more normal levels from Q1 2022 onwards.

The interest rate, spread, and counterparty default exposures mostly arise from the £69m outstanding loan balance with RGP.

3.6. RLL governance overview

The Phoenix governance structure and RLL's place in it is illustrated below.

Figure 2: RLL governance structure



The Board of directors of RLL meets at least quarterly and is supported by the existing Board Committees, including the Audit, Risk and Investment Committees.

3.7. RLL administration arrangements

RLL business is currently administered on ReAssure's ALPHA policy administration system. RLL has an MSA with RUKSL who administer the RLL policies.

The transferring EEA-based business and the remaining business of RLL sit on separate instances of the ALPHA administration platform to ensure appropriate segregation of the books.

3.8. RLL existing reinsurance

Overall, RLL does not have a significant exposure to mortality and morbidity risk, due to the nature of its products and a variety of reinsurance treaties in place on its protection business. The business is covered by a range of excess of loss and quota share reinsurance treaties with Swiss Re, Pacific Life Re, Scor Re, Hannover Re UK, and Munich Re. The counterparty default risk exposure arising from the external reinsurance is passed to RAL through the IGR.

Some of this reinsurance also covers the transferring business, which is discussed in more detail in section 4.5.

4. BACKGROUND INFORMATION ON THE TRANSFERRING BUSINESS

4.1. Policies proposed to be transferred from RLL

RLL's EEA-based business consists of unit linked endowment, protection and investment bond business sold in Sweden, critical illness business sold in Germany and unit linked business sold in in Norway. All liabilities below are shown net of the IGR with RAL and net of external reinsurance with third parties.

4.2. The Swedish business

The following table shows the composition at YE21 of the Swedish policies of RLL that were sold between January 1988 and December 2007 under the Freedom of Services regulations. This book is open to increments.

Table 3: Composition of the Swedish Business YE21

Product Type	Policies	BEL (£m)
Unit Linked Investment Bonds	1,627	100.8
Protection Policies	658	0.3
Unit Linked Savings Policies	2,031	20.3
Swedish Bonds	608	15.8
Total	4,924	**137.2**

The unit linked investment bonds (including Swedish Bonds) are single premium whole of life policies which can provide a regular income, and do not contain any guarantees. The business consists of a mixture of UK unit-linked products and products designed specifically for the Swedish market. The Savings products are unit linked regular premium contracts which may include life cover, and do not contain any guarantees. The protection policies are unit-linked regular premium whole of life policies. There is no transferring group business.

The policies are denominated in GBP, but premiums and claims payments are converted from/to and settled in Swedish Krona, and the policies are administered in Swedish (with a small amount of correspondence being sent in English) .

4.3. The Norwegian business

The following table shows the composition as at YE21 of the Norwegian policies that were sold by RLL between March 1997 and December 2007 under a local branch and moved following its closure to the Freedom of Services basis. This book is closed to increments.

Table 4: Composition of the Norwegian Business YE21

Product Type	Policies	BEL (£m)
Unit Linked Savings	320	5.1
Unit Linked Pensions	916	11.4
Total	**1,236**	**16.4**

The savings business comprises unit linked regular and single premium investment business, and do not contain any guarantees. The pensions products are administered as individual[3] single premium unit linked policies (including transfers in) that pay out a regular pension payment from the retirement date.

Premiums and claims are paid in Norwegian Krone, and the policies are administered in Norwegian.

4.4. The German business

The following table shows the composition of the German policies as at YE21 that were sold by RLL between August 1999 and July 2014 under the Freedom of Services regulations. This book is open to increments.

Table 5: Composition of the German Business YE21

Product Type	Policies	BEL (£m)
Non-linked critical illness	1,001	0.0
Total	**1,001**	**0.0**

The product is a renewable 10-year term non-linked regular premium contract that pays a lump sum should the insured suffer from any of a range of defined critical illnesses. There are certain guaranteed insurability options.

Premiums and claims are paid in Euros, and the policies are administered in German.

4.5. RLL EEA-based existing reinsurance

RLL also has a reinsurance treaty with Swiss Re which covers the portfolio of German critical illness business transferring to PLAE. This treaty is expected to transfer to PLAE and be retained by PLAE post transfer.

[3] Four Norwegian policies were sold as group business, but they are individually administered.

5. BACKGROUND INFORMATION ON PLAE

5.1. History and ownership

PLAE was newly incorporated in December 2020, with a view to it becoming the nominated transferee of the proposed Schemes. It is 100% owned by ReAssure Limited ("RAL"). RAL, RLL and PLL are all subsidiaries of the Phoenix Group.

In August 2021, an application was submitted by RAL to the CBI for the authorisation of PLAE to carry out long-term insurance business in Ireland, including the transferring business (the "Application"). PLL and RLL will not proceed to the sanction hearings of the Schemes if the CBI has not authorised PLAE by the time of the sanction hearings as expected. This application is being considered by the CBI at the time of writing this report.

5.2. Irish insurance regulation

The CBI carries out the prudential regulation and supervision in Ireland of banks, building societies, credit unions, insurance intermediaries and investment firms. This is similar to the role the PRA performs in the UK.

The CBI also regulates the conduct of all financial services firms in Ireland in relation to consumer protection and conduct of business. This is similar to the role the FCA performs in the UK. Within its Consumer Protection Code 2012 ("CPC") the CBI aims to ensure a consistent level of protection for customers regardless of the financial services provider they choose. The provisions of the CPC are binding on regulated entities and must be complied with when providing financial services.

Although there may be circumstances in which the CBI retains a conduct role, in general conduct of business responsibility for the policies administered under the EU's Passporting regime lies with the host state supervisors.

The CBI and the PRA are currently aligned in their approach to prudential supervision in terms of:

- adherence to their respective Solvency II regimes;
- adherence to the appropriate risk appetite statements; and
- the standards of governance required.

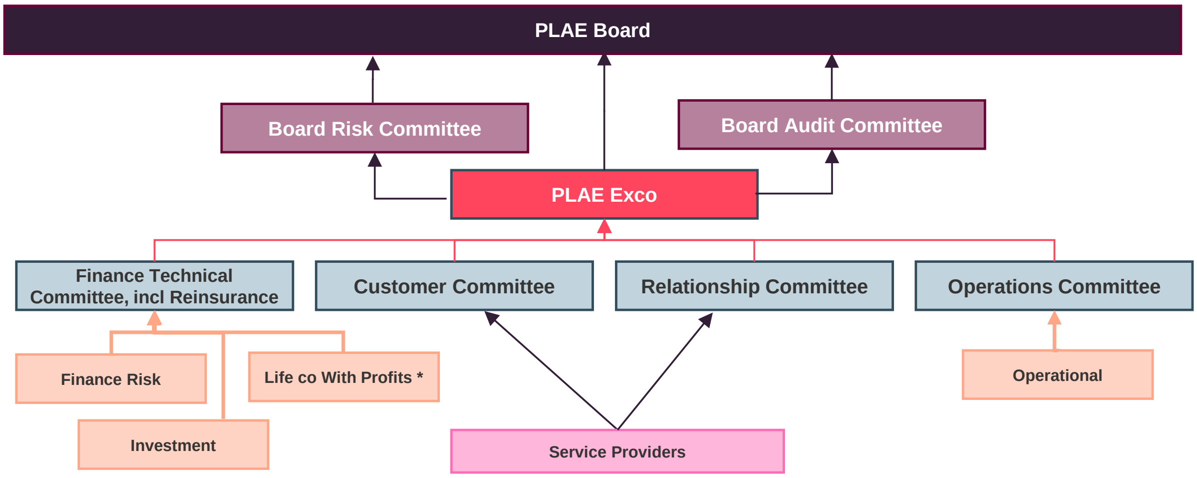
I note that there is a potential for UK and EU Solvency II rules to diverge. On 28 April 2022, HM Treasury and the PRA published consultation papers on proposed reforms to the UK Solvency II regime which include reducing the Risk Margin and amending the eligibility for and calibration of the Matching Adjustment. The ultimate outcome of this consultation process is uncertain but both consultations make clear that the safeguarding of policyholder protection is an important priority. Notwithstanding that differences in regulatory regime may arise, I am satisfied that they should not have a material adverse effect on the transferring policyholders. I will provide an update to this in my supplementary report.

In Ireland, the CBI has implemented a Fitness and Probity Regime ("F&P Regime") for Irish insurers which defines a set of Pre-Approval Controlled Functions ("PCFs").

5.3. Corporate governance

PLAE will have its own Board of Directors and a structure of Board and Management Committees designed to meet the anticipated needs of running the business as an independent entity within the Phoenix Group. The following diagram summarises the proposed PLAE system of governance.

Figure 3: PLAE governance structure



Board Committees
PLAE Management
PGMS Existing Group Committees - these will have PLAE representation, but for information only. These committees will support with the specialist review and challenge process, but will not have any decision making authority for PLAE
Service providers providing recommendations and MI to PLAE for PLAE decision making, challenge, review and escalation in Ireland

'* PLAE must have right of access/representation at the PLL Board WP Committee, and access to UK WPAs. Decisions in respect of PLAE WP policyholders (bonus rates) will need formal recommendation from the PLAE HOAF and ratification at the PLAE Board.

- Remuneration and nomination committee will be provided by wider Phoenix Group

The PLAE Board will have a majority of independent non-executive directors including the Chairman. The PLAE Board is accountable for the long-term success of the company by setting the company's strategic objectives, within the overall strategy defined by the RAL and Group Boards, and by monitoring performance against these objectives.

Day-to-day operations and decision making are delegated by the PLAE Board to the PLAE Executive Committee (Exco) Meeting. The PLAE Board will establish two committees to assist the Board in the management of the company's business:

- **Audit Committee:** The primary responsibility of this Committee is to assist the PLAE Board in discharging its responsibilities with regards to monitoring the integrity of the Company's financial statements, the effectiveness of internal control and the independence and objectivity of the internal and external auditors.

- **Risk Committee:** This committee assists the PLAE Board in discharging its responsibilities with regards to management of the company's risks – including ongoing monitoring of risks, setting risk appetites and overseeing the annual Own Risk and Solvency Assessment (ORSA) process.

5.4. PLAE operations

PLAE will directly employ a small number of individuals in Ireland who will hold responsibilities for certain Pre-approved Controlled Functions ("PCF roles").

PLAE will enter into an MSA with the Irish Branch of SLAESL. Staff will be employed by SLAESL and dedicated to support the management and operations of PLAE. Through its relationship with SLAESL, PLAE is expected to receive services through intra-group service agreements from other internal and external service companies to provide resources and other infrastructure to support its operations.

PLAE will be responsible for the oversight, control and direction of all its outsourced activities.

As set out in section 3.7, RLL policies are currently administered by RUKSL in the UK. Since RUKSL is not authorised to provide regulated servicing activities to PLAE in Ireland, those services will be carried out directly by PLAE using staff and other infrastructure provided by SLAESL. RUKSL is expected to provide non-regulated services to PLAE via SLAESL, including access to the administration platforms used to service the business.

It is not expected that transferring policyholders will notice any change in the standard or manner of administration of their policies. However, there will be some practicalities to address (e.g. those who are currently serviced from the UK will have new customer call centre contact details in Ireland).

Monitoring and Oversight

A monitoring framework will be put in place enabling PLAE to control and monitor the performance of the services provided by SLAESL directly and through other internal and external service providers. The MSAs will outline the key activities which will be subject to the key performance indicators and metrics that are in place in respect of monitoring these outsourced activities. PLAE's MSA with SLAESL will contain provisions such that the service standards provided by PLAE are not expected to be materially different to those provided by RLL prior to the transfer. I will comment on any material changes to the draft form of the PLAE MSA in my supplementary report.

5.5. PLAE Capital Management Policy

PLAE will follow the structure and principles that underpin the RAF in determining its capital management policy (the "PLAE capital management policy"). The main objective of the RAF is to ensure that the company can meet the Solvency II capital requirements under internally specified stress scenarios. The strength of the PLAE capital management policy is a function of these scenarios.

The scenario testing is based on holding sufficient capital to be able to meet regulatory capital requirements after the more onerous of a 1-in-10 year all risk event and a 1-in-20 market risk event. This requirement is expressed as a percentage of the Solvency Capital Requirement ("SCR"). The scenarios and the percentage are reviewed from time to time to ensure that the capital policy continues to meet its objective. The percentage may thus change without affecting the strength of the PLAE Capital Management Policy.

The initial assessment of the PLAE capital management policy requires PLAE to hold capital equal to 50% of the SCR in addition to the capital necessary to meet the SCR itself. The policy will be reviewed at least annually and it is expected that the Board of PLAE will approve the PLAE policy before the Sanction Hearing.

If at any point there is a small deficit relative to the PLAE capital management policy then no action is required to be taken other than that no capital can be released (for example through the payment of dividends). However larger deficits would require consideration of corrective action.

5.6. PLAE Funding

RAL will contribute the balance of funding required to capitalise PLAE in a two-stage process. An initial injection of £5m has been made and will cover the Minimum Capital Requirement and any short-term obligations of PLAE. The remaining amount of share capital required to meet the capitalisation requirement of PLAE will be made prior to the Effective Date of the Schemes. This remaining amount is calculated as £138m assuming the transfers took place as at YE21.

The Boards of PLL and RLL will determine and agree the amount of assets that PLAE will be required to hold, taking account of the transferring assets and liabilities[4] under the Schemes. This is a requirement of the Schemes before the transfers can take effect. These Board meetings are scheduled to take place in September 2022.

The draft UK Scheme Sanction Order includes a direct undertaking to be given by RAL to the English Court, whereby RAL shall undertake to contribute sufficient assets to PLAE so that the Capitalisation Requirement may be satisfied.

After the full funding has taken place, the Board of PLAE will confirm that PLAE has sufficient assets to satisfy the Capitalisation Requirement, as a condition before the transfers can be made effective. This confirmation is scheduled to take place prior to the planned Effective Date of 1 January 2023.

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[4] These will include the finalised expense liabilities of PLAE, incorporating any changes that may be needed as a result of the review referred to in 5.4.

5.7. PLAE reinsurance arrangements and risk profile

Immediately post transfer of the liabilities into PLAE from RLL and PLL, reinsurance arrangements will take effect which will reinsure the investment element of all unit funds back to RLL and PLL and all transferred liabilities allocated to PLL with-profits funds (prior to the transfer) back to PLL.

The only significant retained business within PLAE will be a book of annuity business.

As a result, ca. 80% of PLAE risk capital will be made up of longevity risk from the annuity liabilities, credit risk from the assets backing those annuities and counterparty default risk from the reinsurance arrangements. Further details are provided in section 7.3.

6. OVERVIEW OF THE PROPOSED TRANSFER

6.1. Rationale for the transfer

The UK Scheme is considered to be a "transitional insurance business transfer scheme" pursuant to regulation 36 of the Financial Services (Miscellaneous) (Amendment) (EU Exit) Regulations 2019. The Schemes will transfer the EEA-based business of PLL and RLL to an EEA-based insurance company following the end of the transitional period relating to the UK's exit from the EU on 31 December 2020.

The primary motivation for the Schemes is to provide long term stability and certainty for EEA-based policyholders following the UK's withdrawal from the EU.

Prior to 31 December 2020, RLL was authorised to write and administer insurance business on a Freedom of Services basis in Germany, Norway and Sweden in accordance with the Passporting Regulations (or predecessor legislation) as well as every other EEA State.

Post Brexit, the EEA Passporting Rights for UK-based financial institutions ended. Consequently, the provision of benefits in respect of, and the administration of, EEA policies is only permitted in limited circumstances.

In order to safeguard future customer stability and the ability to continue providing benefits under the Transferring Policies in accordance with the terms of such policies and in compliance with applicable law in the relevant EEA jurisdictions, the EEA-based business of RLL will transfer into PLAE as set out in the UK Scheme. Whilst in the short term, the UK and the EU continue to have similar rules around the management of insurance business, the UK Exit from the EU means that there may be future divergence or regime changes[5] on a regulatory and legislative level which may bring the delivery of the benefits under, or the administration of, the Transferors' EEA-based policies into question.

By transferring the business to PLAE, transferring customers will continue to receive benefits under their policies and to have their policies administered by an EU insurer in a single EEA-based entity. The transfer will ensure consistency and provide greater certainty over the continuity of the provision of such benefits and administration of policies in the event of future legislative and regulatory divergence between the UK and the EU.

If the Schemes are not sanctioned, the consequences would depend on the reasons for refusing to sanction either scheme. If the grounds for refusal could not be remediated, RLL and PLL would need to explore, with local counsel and regulators, alternative options available which are likely to be less optimal than achieving the transfers.

[5] As set out in section 5.2, consultations on potential UK Solvency II regime changes have already begun.

6.2. Terms of the transfer relevant to RLL transferring policies

The UK scheme will transfer the relevant policies from RLL into the PLAE non-profit fund, along with any transferring assets and liabilities associated with those policies.

Should it not be possible for technical reasons to transfer any policy or group of policies at the time the UK Scheme is implemented then such policies will be reinsured to PLAE. In effect, this arrangement will ensure that any residual policies will be treated for all practical purposes in the same way as if they had been transferred to PLAE at the Effective Date until it is possible for them to be transferred.

Any historical mis-selling liabilities of RLL will not transfer.

6.2.1. Proposed reinsurance and security agreement between RLL and PLAE

At the point of transfer a unit-linked reinsurance arrangement and associated floating charge will come into force between RLL and PLAE.

Through the portfolio transfer, all the liabilities related to transferring RLL unit-linked policyholders will move to PLAE. RLL has approximately 250 funds that EEA-based policyholders can invest in. It would not be operationally feasible to replicate that many funds within PLAE on the same terms as in the UK. Therefore, to provide continuity for those customers, 100% of the unit investment will be reinsured back to RLL on a quota share basis, thus allowing transferring customers to continue investing in their chosen funds.

Cash Flows

The initial reinsurance premium payable from PLAE to RLL will equal the bid value of units relating to RLL policies transferring under the UK scheme. The transferring assets under the UK Scheme to match the unit liability under the UK Scheme will be netted off against the initial reinsurance premium, and no actual assets will move.

Following the transfer, customers will pay premiums to PLAE. PLAE will then transfer the proportion of the premium that is used to purchase units to RLL who will invest that money.

For the unit-linked business reinsured back to RLL, PLAE will retain any bid offer spread, policy fee, allocation charge and any switch or claim charge. RLL will take the AMC on this business and once any external investment management expenses have been taken (net of rebates), and 2bps to cover management costs, pass any excess to PLAE.

RLL will pay to PLAE the bid value of allocated units on claim of a policy. PLAE will pay the full benefit or surrender/transfer value to its policyholder.

Premiums and claims would be set off in the preparation of the reinsurance accounts, and any net amount due to PLAE or RLL would be due without delay upon receipt of the monthly accounts (and in any event within 30 days).

Termination

PLAE can unilaterally terminate on 90 days' notice at any time and immediately (subject to the time taken to complete the termination process) on insolvency related events including RLL failing to make payment within a specified period, RLL insolvency events, or if RLL falls below 105% solvency cover ratio.

Specific termination rights for either party are listed when:

- The other party is in breach of a fundamental provision;
- The reinsurance becomes unlawful; and/or
- There is a loss of authorisation.

The termination amount will be calculated by reference to the bid value of the allocated units at the date of termination, adjusted for any outstanding cash flows.

Governance and Oversight

The Reinsurance Business Committee ("RBC") will monitor the management of the PLAE reinsurance agreements. The RBC shall be responsible for:

- Monitoring and managing the operation of the UL PLAE Reinsurance Agreements including provision of services including review and approval where required
- Reviewing the addition, amalgamation, closure or sub-division of unit linked funds
- Monitoring UL asset management, fund performance, investment MI.

On dispute internal escalation procedures apply but if unresolved an Independent Person (or other suitable person) may be used to make a determination.

Floating charge

RLL will grant a floating charge to PLAE, which is not restricted to any specified pool of assets but will attach to all available assets. The floating charge will cover the total obligations of RLL to PLAE on an insolvency of RLL and ensures that PLAE ranks at an equal priority with unsecured insurance creditors of RLL in that insolvency.

The floating charge contains provisions which restrict the amount recoverable by PLAE to that of unsecured direct (as opposed to reinsured) insurance debts of RLL to ensure fairness with the non-transferring policyholders remaining. This ensures the amount cannot exceed the amount that transferring policyholders would have been paid if they had not transferred.

6.3. Proposed investment management agreement

All of the shareholder assets would be managed by the Phoenix group asset management function under the PLAE MSA with SLAESL, according to PLAE's strategic asset allocation and under the oversight of PLAE's Chief Investment Officer.

6.4. Taxation

Subject to confirmation that is being sought from the Irish tax authorities, the transferring policies will be treated as New Basis Business ("NBB") in Ireland. Investment income and gains within unit linked funds are credited gross of tax. A tax charge may be payable by any policyholders who are resident in Ireland for tax purposes at the point when a chargeable event occurs, which in Ireland is on exit or every eight years of the policy term.

The Norwegian book of business was written as part of the Overseas Life Assurance Business ("OLAB") of RLL, and investment income and gains within unit linked funds are credited gross of tax. Therefore, there should be no material adverse tax consequences for any transferring Norwegian policyholders, unless they happen to be resident in Ireland for tax purposes at the point when a chargeable event occurs.

The German book of business was written as part of the OLAB of RLL. I understand that no policyholder tax is payable on the non-linked critical illness policies sold to German residents
either under the UK or Irish tax regimes.

The Swedish book of business was written as part of the Basic Life Assurance and General Annuity Business ("BLAGAB") of RLL, where tax is deducted on investment income and gains within the unit linked funds. The RLL Swedish UL Funds operated under the UK BLAGAB tax regime until 31 December 2021. Since this date, the RLL reinsured UL funds operate under the non-BLAGAB tax regime with investment income and gains therefore credited gross of tax, and therefore there will be no change to the tax paid on these funds following the transfer.

The unfavourable tax treatment which would apply if any transferring policyholders subsequently become resident in Ireland is noted in the information provided to policyholders in the Part VII communication pack.

In addition to the confirmation that PLAE can treat the transferring business as NBB, confirmation will be sought from the UK tax authorities that the proposed transfer is compliant with the Targeting Anti-Avoidance Rules (TAAR).

6.5. Policy terms and conditions

The UK Scheme does not change any of the following both in relation to the transferring and non-transferring RLL business:

- Policy terms and conditions,

- The level and timing of premiums and claims payments,
- The level or calculation of policy charges,
- Unit pricing methods or parameters, and
- The provision and operation of options and guarantees.

Although the level and timing of premiums and claim payments will not change, transferring policyholders will pay premiums to, and receive claim payments from, PLAE rather than RLL.

6.6. Costs

The cost of the carrying out the transfer and entering into the associated agreements will be met by the shareholder funds of RLL and PLL.

6.7. Policyholder communication

Subject to a dispensation sought in relation to certain exceptional groups, the intention is to notify the transferring policyholders of the UK Scheme by sending a mailing pack via post, including a summary of the UK Scheme and a question and answer booklet.

As at YE21, the transferring population comprises only 4.5% of the business of RLL (by policies, 2.2% by BEL), so RLL will apply for a dispensation from the requirement to write to its non-transferring policyholders about the UK Scheme.

As at 1 April 2022 only 46 transferring policyholders were marked as gone away according to a recent search of RLL's records, and therefore the mailing exercise is expected to individually notify the majority of RLL transferring policyholders.

The parties are seeking a waiver from the requirement to publish a Notice of the UK Scheme in the UK, on the basis that advertising is unlikely to have the effect of notifying any additional transferring policyholders than would be notified through the mailing exercise. The parties propose to advertise the legal notice in two newspapers in each of the Republic of Ireland, Germany, Iceland, Norway, and Sweden, with additional advertising in Ireland to address the higher number of PLL Irish TCB gone away policyholders identified by PLL.

RLL will make arrangements to manage policyholder responses to the communications, and to handle any objections received.

7. EFFECT OF THE TRANSFER ON THE TRANSFERRING POLICIES

7.1. Principles for assessment

Following the UK Scheme becoming effective, the transferring policyholders will become policyholders of PLAE. This section focuses on the impact of the UK Scheme on the transferring RLL policyholders. It considers the impact of the UK Scheme on:

- The security of the benefits of the transferring RLL policyholders
- The reasonable benefit expectations of the transferring RLL policyholders
- The fair treatment of the transferring RLL policyholders
- The legal uncertainty if the UK Scheme is not sanctioned

As described in section 3.2 above, the majority of the risks and rewards of the transferring business have been transferred to RAL under the IGR.

In the event that either this transfer is not sanctioned, or if the proposed subsequent transfer of the UK business of RLL and RAL to PLL is not sanctioned, then the IGR would remain in force over the full duration of the liabilities and can only be cancelled in certain circumstances. Therefore, it is appropriate to include the IGR as part of the status quo position when assessing the impact of the UK Scheme.

RAL is not directly a party to the transfer, although if it proceeds there will be a small associated recapture of part of the IGR, which is not material to RAL. I do not consider that I need to assess the effects of the transfer upon RAL (or its policyholders).

7.2. PLAE operational readiness

My assessment of the impact of the UK Scheme and my subsequent conclusions assume PLAE will be operationally ready to receive the transferring policyholders at the transfer date. Phoenix has set up an operational readiness project for PLAE with appropriate terms of reference, governance, workstreams and milestones.

I am monitoring the progress of the project, and the finalisation of the PLAE MSA, and will provide an update in my supplementary report.

7.3. Security of benefits

If the transfer is approved and implemented then the security of benefits for transferring policies will be provided by:

- The EU Solvency II regulatory requirements, which are intended to ensure that insurance companies have sufficient Own Funds to be able to remain solvent following a 1 in 200 year stress scenario;

- The PLAE capital management policy, which provides for additional security over and above the regulatory requirements, together with governance around how this operates and when changes can be made to it;
- The level of oversight provided by the Irish regulator (the CBI) and the regulatory regime that will apply to the transferred RLL policies; and
- The strength of PLAE's reinsurance agreements and associated security.

These protections are reinforced by:

- PLAE taking appropriate management actions should any thresholds set out in the PLAE capital management policy be breached;
- The CBI taking action if the solvency requirements are breached; and
- The controls over how the PLAE capital management policy can be changed.

Table 7 shows the Solvency II balance sheet of RLL pre-transfer (on a post IGR basis) and of PLAE post transfer if the UK scheme had been effective at YE21. The information regarding PLAE has been reviewed and approved by the proposed Head of Actuarial Function for PLAE.

Table 7: RLL balance sheet pre-transfer and PLAE balance sheet post transfer YE21

£m	RLL Pre- Transfer	PLAE Post Transfer
Total Assets	**8218.3**	**1,090.9**
Best Estimate Liability	7,571.4	950.9
Risk Margin	7.5	40.6
Technical Provisions	7,578.9	991.5
Other Liabilities	406.6	-
Total Liabilities	**7,985.6**	**991.5**
Own Funds	**232.7**	**99.4**
SCR	36.6	66.2
Capital management policy buffer	6.0	33.1
Excess capital	190.1	-
Solvency ratio pre buffer	**636%**	**150%**

The PLAE post-transfer figures above assume the IGR in respect of the transferring policyholders is recaptured and the associated risks are transferred to PLAE. The PLAE post transfer balance sheet also includes the business transferring from PLL.

As set out in section 5.6, PLAE will have been capitalised via a cash injection from RAL such that it will cover its proposed capital management policy buffer of 50% following the transfer. This level of capitalisation is a condition precedent to the UK scheme becoming effective.

Both PLAE and RLL are subject to currently equivalent Solvency II regimes[6], both companies use the Standard Formula to calculate their capital requirements, and neither company currently makes use of any additional regulatory permissions to reduce their technical provisions.

The pre-transfer ratio is high because of the IGR between RLL and RAL. There is currently a restriction preventing the payment of the excess capital out of RLL as dividends due to the amortization of the IGR premium on an IFRS basis. However, if the Boards of RLL and RAL wished to access this dividend potential then they could do so by terminating the IGR and recapturing the risks in RLL. In this case RLL's capital policy would have to be recalibrated to be consistent with the RAF, and any excess capital over the revised RLL capital policy could then be paid out. If the IGR is not terminated, excess capital will eventually be paid out as dividends in line with the IFRS amortisation of the IGR premium.

In either case, it would ultimately be the strength of the RLL capital management policy that determines the level of excess which could be paid as dividends, and the relative security of policyholder benefits can most appropriately be assessed by a comparison of the strengths of the capital management policies of RLL and PLAE.

Both capital management policies are currently derived from broadly equivalent frameworks, which require them to hold buffers as set out in sections 3.5 and 5.5. Before the transfer becomes effective, RLL is expected to have moved to the same RAF as PLAE. As set out in section 3.5, this move is not expected to lead to a material change in the RLL buffer. The buffers of RLL and PLAE reflect the respective risk profiles of the companies concerned.

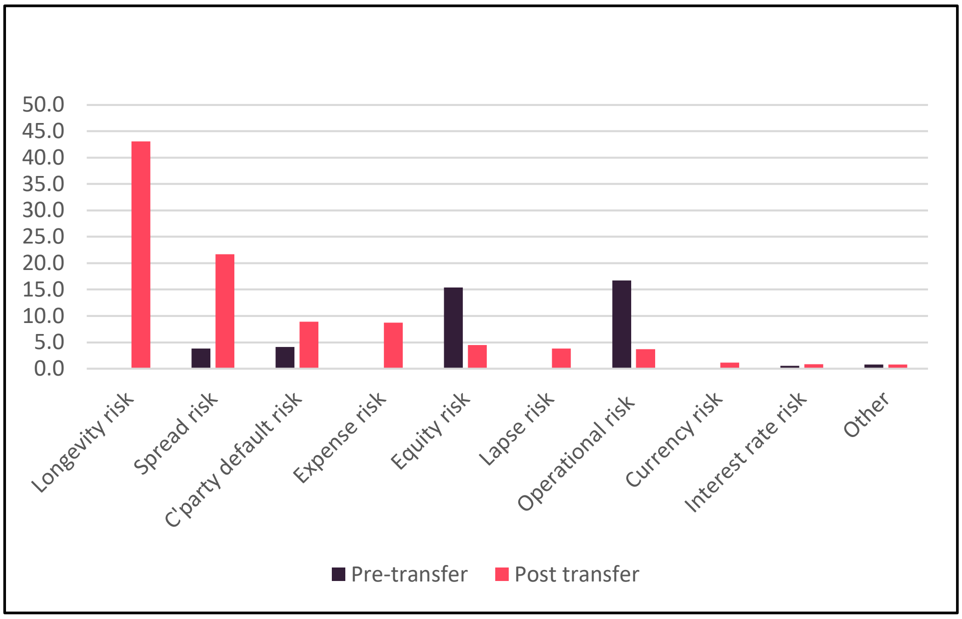
The governance arrangements around changes to their capital management policies are broadly equivalent between RLL and PLAE as the companies are part of the same group.

The management actions that could be taken by PLAE in the event of a breach of its capital policy include improving the credit quality of assets backing the annuity business, applying to the CBI to use a Matching Adjustment, dividend restrictions, the further use of reinsurance, emergence of expected surplus, and requesting a parental capital injection. Other than credit quality and further reinsurance, these are essentially the same actions that would be available to RLL.

The figure below compares the risk profile transferring policyholders would be exposed to pre and post transfer.

[6] As set out in section 5.2, HM Treasury and the PRA have now launched consultation papers on proposed reforms to the UK Solvency II regime. However, for the purposes of this report, I continue to regard the current regimes as equivalent and have no reason to expect any future divergence would result in a material strengthening of RLL relative to PLAE.

Figure 5: Risk profile for transferring policyholders pre and post transfer Standard Formula SCR YE21 £m



The transferring policyholders will be exposed to a significantly different profile of risks within PLAE.

The key change in risk profile for transferring policyholders is the exposure to risks associated with annuity liabilities - longevity and credit risk. There will also be an increased exposure to counterparty default risk, given the reinsurance agreements in place in PLAE. The change in operational risk capital is distorted by the fact that it is artificially inflated pre-transfer, given the current level of expenses within RLL, on which the risk capital under the Standard Formula is based.

Although directly exposed within PLAE, RLL transferring policyholders remain part of the same group and the profile of risks at the group level is not materially changed by the transfer.

The transferring policyholders will become exposed to the risk of counterparty default by PLL through the new reinsurance arrangements put in place between PLL and PLAE. This has been allowed for in the SCR calculation of PLAE. I can draw comfort that this additional risk exposure for transferring policyholders is further mitigated through the PLL security agreements and the PLAE capital management policy. In particular, the PLL reinsurance agreements may be terminated by PLAE in the event of a material downgrade to the solvency level of PLL.

I also note that the majority of the transferring RLL business is unit-linked and protected by a floating charge on the assets of RLL, and all unit liabilities will be matched in value to assets in the unit linked funds. PLAE would also have the right to recapture the unit-linked reinsurance arrangement if RLL's solvency ratio ever deteriorated to less than 105% of SCR.

Financial Services Compensation Scheme (FSCS) and Ombudsman

There would be a loss of protection and benefit rights under the FSCS for certain policyholders who will no longer be with a UK insurer.

The FSCS provides protection to eligible policyholders, amongst other things, in respect of insurance policies issued by a relevant authorised insurer in the event of the failure of that firm. That is the FSCS provides protection to contracts written by a UK based insurance firm or by a European Economic Area firm passporting into the UK to a UK resident that, if their firm were to fail (and the policyholder satisfies the eligibility criteria), their contracts are protected and they would be able to make a claim.

Certain RLL policyholders who are currently covered by the FSCS and whose policies are to be transferred to PLAE will lose that cover as a result of the transfer as there is no equivalent scheme in Ireland. Due to the capitalisation of PLAE as described above, the likelihood of requiring recourse to the FSCS for policyholder protection is very remote. Given the very low likelihood that a transferring policyholder would have a need for such a compensation scheme I consider that there is no material detriment to those customers who will lose this. PLAE will have a capital coverage target consistent with RLL's, which provides it with capital to withstand an event significantly stronger than a 1-in-200 year event.

Therefore I do not consider that loss of access to the FSCS is a material adverse effect to benefit security, and should be weighed against the primary rationale for the UK Scheme to enable the group to continue to provide benefits under the transferring policies in accordance with applicable law in Ireland and to administer these policies following the EU withdrawal period with more certainty.

Certain policyholders have the right to make a complaint to the Financial Services Ombudsman (FOS). Following the transfer they will only be able to make a complaint to the FOS about something that occurred before the Effective Date, otherwise they will need to direct their complaint to the Financial Services and Pensions Ombudsman Service (FSPO) in Ireland. For transferring policyholders that are not based in Ireland, such policyholders will continue to have the option of referring their complaint to the appropriate regulatory authority or ombudsman in their home state, which we expect to be more helpful for these policyholders. The home state regulator or ombudsman will ultimately refer the complaint to the FSPO in Ireland.

Prior to the transfer, the transferring policyholders may refer any unresolved complaints to the FOS in the UK. Following the transfer, if their complaint is related to activities that took place prior to the transfer, or related to activities carried out in the UK, then they may still refer their complaint to the FOS.

If, following the transfer, their complaint relates to activities carried out in Ireland, then it may be referred to the Irish Financial Services and Pensions Ombudsman (FSPO) who, like the FOS, can make binding decisions with regard to redress and remediation. There would be no change to any rights that transferring policyholders have to access the relevant Ombudsman schemes in Germany, Norway, or Sweden.

Therefore I do not consider that the transfer would lead to a loss of policyholder rights to refer unresolved complaints to an independent Ombudsman.

7.4. Benefit expectations

For all types of transferring business, the level of benefits payable is determined according to the policy Terms and Conditions. As noted in 6.5, the proposed UK Scheme does not make any changes to transferring policies in respect of:

- Policy terms and conditions,
- The process of calculating premiums and claims payments,
- The level or calculation of policy charges,
- Unit pricing methods or parameters, and
- The provision and operation of options and guarantees.

Additionally, for transferring unit-linked business, benefit expectations are also influenced by the exercise of discretion in such areas as the range of funds offered, fund investment management, unit-pricing, and charges.

The proposed reinsurance agreement will allow transferring unit linked policies to access the same range of unit linked funds as before the transfer, through the maintenance of unit funds aligned to the existing unit holdings. There are no intended changes to the management practices of the unit-linked business, and no changes to discretionary charges.

I have reviewed the provisions in the UK Scheme relating to PLAE's ability to close to new investment, amalgamate, divide, or amend unit-linked funds, subject to the terms of the reinsurance agreement with RLL. These provisions broadly replicate the current ability of RLL to manage the proposition for unit-linked business, and I am satisfied that sufficient safeguards are in place to ensure that there would be no material adverse effect on transferring policyholders.

I also note that the RLL will retain broadly the same powers to close to new investment, amalgamate, divide, or convert unit linked funds provided through the UL reinsurance as it has currently, subject to the requirement to notify and consult with PLAE. A Reinsurance Business Committee within PLAE will monitor and manage the PLAE reinsurance agreements and will include a representative from RLL.

Therefore I am satisfied that the range of investment choices available to transferring unit linked policyholders will not be materially affected as a direct result of the UK Scheme.

In section 6.4 I described the potential impacts on policyholder taxation arising from the proposed solution for unit linked business, and for non-linked business. Except in the exceptional circumstances of a policyholder being an Irish resident at the time a chargeable event is made, policies are expected to bear the same or lower tax deductions as a result of the transfer to PLAE.

The future treatment of transferring policies will not be subject to UK COBS rules but will instead follow the rules of the Consumer Protection Code in Ireland.

7.5. Administration arrangements

The servicing of the transferring policies will switch from RUKSL in the UK to staff provided by SLAESL in Ireland following the transfer under the direct control and oversight of PLAE. Other than a change in contact details from the UK to Ireland, administration arrangements are not expected to change from the perspective of transferring policyholders as a result of the transfer,

I currently have no reason to expect the quality of administration or the level of service provided to transferring policyholders to reduce as a consequence of the Scheme. I will provide an update on this view in my supplementary report.

The implementation of the UK Scheme would remove the uncertainty over the policy administration continuing to be lawfully carried out following the end of the Brexit transitional arrangements.

I have reviewed the respective governance and oversight bodies for transferor and transferee; and in particular the provisions for oversight of the transferring business by PLAE following the transfer.

7.6. Policyholder communications

I have reviewed the proposed communications strategy to transferring policyholders and drafts of the communications and consider that they are appropriate for these groups of policyholders.

7.7. If the Scheme is delayed

If either the UK Scheme or the Irish Scheme were not sanctioned, then the transfer of the business cannot be effected. The consequences would depend on the reasons for refusing to sanction either Scheme. If the issues leading to refusal could be remediated easily and quickly, RLL and Phoenix would seek to schedule a revised hearing to address the concerns raised before the end of 2022. If the grounds for refusal could not be remediated, RLL and Phoenix would need to implement contingency plans for the business in scope to transfer.

7.8. Conclusions

Overall, I am satisfied that the transfer would not have a material adverse effect of the security of the benefits of transferring policyholders.

For the reasons set out above, I am satisfied that the benefit expectations of transferring policyholders would not be materially adversely affected by the proposed transfer.

I am satisfied that the proposed arrangements for the administration of the transferring policies subject to the governance oversight by PLAE will not lead to a material adverse effect on the fair treatment of transferring policyholders. I will provide an update on this matter in my supplementary report.

I also note the motivation for the UK Scheme, the future legal uncertainty and risk to policyholders which the contingency plans would necessarily entail and conclude that the sanctioning of the UK Scheme is in the interests of transferring policyholders.

8. EFFECT OF THE TRANSFER ON THE NON-TRANSFERRING POLICIES OF RLL

8.1. Principles for assessment

Following the UK Scheme, the non-transferring policyholders of RLL will remain with RLL. This section focuses on the impact of the UK Scheme on the non-transferring RLL policyholders. In particular, it considers the impact of the UK Scheme on:

- The security of the benefits of the non-transferring RLL policyholders
- The reasonable benefit expectations of the non-transferring RLL policyholders
- The fair treatment of the non-transferring RLL policyholders

As described in section 3.2 above, the majority of the risks and rewards of the non-transferring business have been transferred to RAL with effect from 31 December 2019 under the IGR.

As RAL is not a party to the transfer I do not need to consider the effects of the transfer upon RAL (or its policyholders).

8.2. Security of benefits

If the transfer is approved and implemented then the security of benefits for non-transferring policies will be provided by:

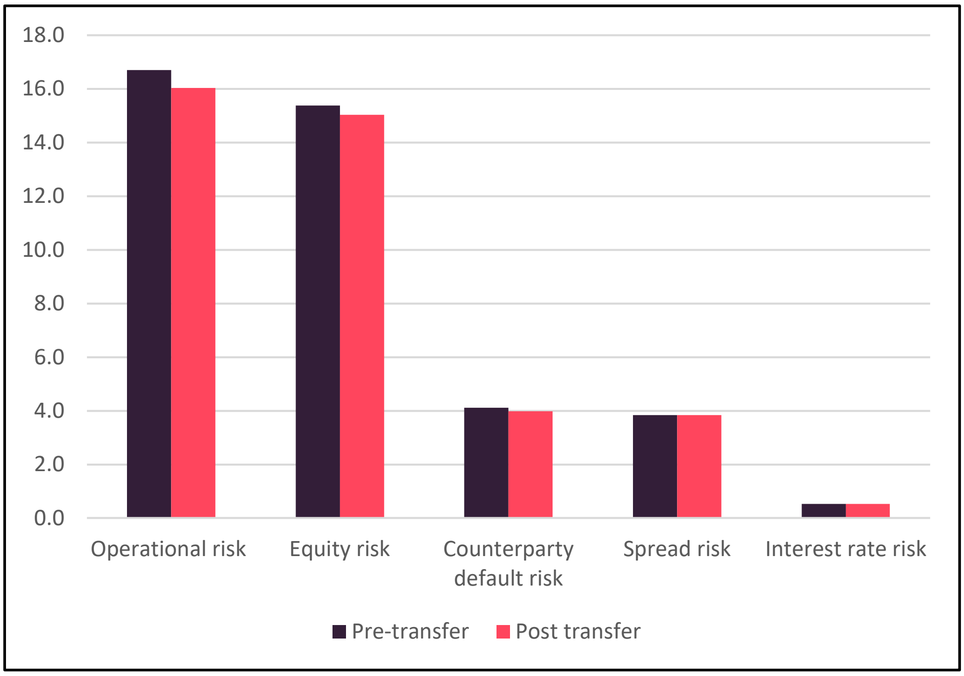
- The UK Solvency II regulatory requirements, which are intended to ensure that insurance companies have sufficient Own Funds to be able to remain solvent following a 1 in 200 year stress scenario; and
- The RLL Capital Management Policy, which provides for additional security over and above the regulatory requirements.

These protections are reinforced by:

- RLL taking appropriate management actions should the capital policy be breached;
- The PRA taking action if the minimum capital requirements are breached;
- The controls over how the RLL Capital Management Policy can be changed; and
- Policyholder protections and rights under the FSCS.

The risk profile of RLL is not materially changed by the proposed transfer, as shown in the figure below.

Figure 6: Risk profile for remaining policyholders pre and post transfer Standard Formula SCR YE21 £m



The table below shows the change in Own Funds as a result of the transfer and associated partial IGR recapture, assuming it happened at YE21.

Table 8: Change in Own Funds as a result of the transfer at YE21

YE21 Post IGR	Own Funds £m
Pre Part VII	**232.7**
IGR recapture premium paid to RAL	(4.0)
Transfer price received from PLAE	5.8
Risk Margin reduction	0.2
Post Part VII	**234.7**

The table above assumes the following:

- Immediately prior to the transfer, an IGR premium of £4.0m is paid to RAL to recapture the EEA-based business
- The EEA-based business is then transferred to PLAE in return for a transfer price of £5.8m
- There is a small reduction in the risk margin following the transfer

The transfer of EEA-based liabilities will also reduce the SCR by a small amount, and, together with the increase in Own Funds, will lead to an increase in the solvency ratio post transfer, as set out in the table below.

Table 9: Own Funds, SCR and Solvency Ratio (pre-buffer) as a result of the transfer at YE21

YE21 Post IGR	Own Funds £m	SCR £m	Solvency Ratio	
Pre Part VII	232.7	36.6	636%	
Post Part VII	234.7	35.5	661%	

As noted in 3.5, the RLL capital management policy is intended to be aligned to the Phoenix RAF before the UK Scheme is implemented. Due to the low materiality of the business being transferred out of RLL, there are no proposed changes to the RLL capital management policy as a result of the implementation of the UK Scheme.

As noted in section 6.2.1, PLAE will have a floating charge on the assets of RLL so that its policyholders will rank equally to the non-transferring policyholders of RLL in the event of insolvency of RLL.

As the transferring policyholders rank equally to the non-transferring policyholders prior to the UK Scheme, then the introduction of the floating charge does not give rise to a reduction in the security of the non-transferring policyholders.

The entitlement of non-transferring policyholders to protection and benefits from the FSCS would be unaffected by the proposed transfer.

8.3. Benefit expectations

There are no changes to the terms and conditions of any non-transferring RLL policyholders as a result of the UK Scheme, and similarly there are no changes to the exercise of discretion in respect of this business.

8.4. Administration arrangements

No changes are proposed to the administration and servicing of any non-transferring policies of RLL as a result of the UK Scheme. The UK Scheme will not cause any changes to the governance arrangements or service standards for the non-transferring policies.

8.5. Policyholder communications

As noted in section 6.7 it is proposed that a dispensation be sought from the High Court of England and Wales from the requirement to mail the non-transferring RLL policyholders. In view of my assessment of the impact of the UK Scheme on non-transferring policyholders, I agree that an individual mailing to this group would be disproportionate. I note that in line with the communications strategy, the information regarding the UK Scheme is to be published on the RLL website.

8.6. Conclusions

I am satisfied that the transfer would not have a material adverse effect of the security of the benefits of non-transferring policyholders.

For the reasons set out above, I am satisfied that the benefit expectations of non-transferring policyholders would not be materially adversely affected by the proposed transfer.

The UK Scheme does not affect the current servicing and governance arrangements for non-transferring policies.

Therefore I am satisfied that the UK Scheme will not lead to a material adverse effect on the fair treatment of non-transferring policyholders.

9. OTHER CONSIDERATIONS

9.1. Historical liabilities

The transferring liabilities will not include any historic liabilities relating to the transferring business. There are no known liabilities of this nature and no corresponding reserves held in the actuarial liabilities of RLL relating to the transferring business.

9.2. Policyholders in Suspended Funds

I note that approximately 250 transferring Swedish policyholders hold units in funds that have been suspended as a result of sanctions imposed due to the ongoing conflict between the Russian Federation and Ukraine. The transfer will not directly affect the suspension of these funds. If the funds remain suspended at the time of the transfer then RLL is not expected to change its processes for applying the sanctions regime, which would continue to affect those PLAE policyholders through the unit-linked reinsurance.

Therefore my conclusions are not affected in respect of these policyholders, and I will provide an update in my supplementary report.

9.3. Matters for the supplementary report

I will prepare a Supplementary Report to this report prior to the Sanction Hearing, which will provide updates on any matters relevant to my conclusions. It will also include updated financial results.

10. CONCLUSIONS

In sections 7 and 8 I have considered the potential effects on the solvency position of RLL and PLAE if the UK Scheme is approved, and I considered whether any aspects of the proposed UK Scheme are likely to affect the benefit expectations or fair treatment of any group of RLL policyholders.

I have also considered the proposed approach to communication with transferring RLL policyholders in relation to the proposed transfer.

Therefore my overall conclusions may be summarised as follows:

- The security of the non-transferring policyholders in RLL will not be materially adversely affected by the UK Scheme.
- The security of the transferring policyholders in RLL will not be materially adversely affected by the UK Scheme.
- There is no reason to believe that the benefit expectations and fair treatment of the non-transferring policyholders of RLL will be materially adversely affected by the UK Scheme.
- There is no reason to believe that the benefit expectations and fair treatment of the transferring policyholders of RLL will be materially adversely affected by the UK Scheme.
- I agree with the proposed approach to communication in relation to both transferring RLL and non-transferring policyholders, and the proposals for handling their responses.
- There are grounds to believe that all policyholder interests, and transferring policyholders in particular, are best served by the sanctioning of the Schemes given the uncertainty around the contingency plans if they are not sanctioned.

S. Thomlinson

Simon Thomlinson, Fellow of the Institute and Faculty of Actuaries

Chief Actuary

ReAssure Life Limited

Phoenix

APPENDIX 1. Glossary of Terms

BEL	Best estimate Liabilities, the value being derived from a model using best estimate actuarial assumptions.
CBI	Central Bank Of Ireland, the regulator of insurance companies in Ireland.
Capital Management Policy	A Board approved policy for the amount of additional capital the firm holds in excess of the regulatory requirements to provide an additional solvency buffer.
Diligenta	Diligenta Limited, and external service company providing administration services to companies in the Phoenix Group
EIOPA	European Insurance and Occupational Pensions Authority, the European supervisory authority for Insurance business.
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for the conduct of financial services firm, including the fair treatment of customers.
FSCS	Financial Services Compensation Scheme
Floating Charge	An agreement giving the holder a right of charge over all of the assets of the counterparty in the event of default. This is generally limited to the termination amount of the associated contract.
Independent Person (IP)	In the context of the UK transfer this refers to the Independent Expert, and in the context of the Irish transfer this refers to the Independent Actuary. In both cases this is Mr Philip Simpson of Milliman.
Internal Model	An alternative methodology for determining the SCR instead of using the standard formula. Internal models require regulatory approval.
Minimum Capital Requirement (MCR)	The Solvency Capital Requirement is the minimum amount of capital a company is required to be authorised to write long-term business under Solvency II Pillar 1.
MSA	Management Services Agreement, an agreement that provides for the administration services in

	respect of the transferring business following the transfer date. PLAE will have MSAs with SLAESL and RUKSL.
Matching Adjustment	An increase to the risk-free discount rate used to value annuity liabilities backed by an identified portfolio of eligible assets. Requires regulatory approval and certain strict ongoing requirements must be adhered to.
Outsourced Service Provider (OSP)	An external service company. PLAE has two main OSPs – Diligenta and SS&C.
Own Funds	Free assets on an insurance company balance sheet in excess of the amount required to cover technical provisions and the regulatory capital requirements.
ORSA	Own Risk Solvency Assessment, a pillar of the Solvency II prudential regime based on the firm's own assessment of the risks of the business, rather than the regulatory prescribed methodology.
PGH	Phoenix Group Holdings company Limited
PGMS	Phoenix Group Management Services Limited, a UK-based service company of the Phoenix group.
PLAE	Phoenix Life Assurance Europe dac
PLAE NPF	The non-profits fund of PLAE
PLL	Phoenix Life Limited
PCF	Pre-Approved Controlled Function, a designated role in an Irish insurance company that requires the holder to be approved by the CBI.
PRA	Prudential Regulation Authority, the regulator of the financial services industry in the UK responsible for the safety and soundness of firms and securing an appropriate degree of protection for policyholders.
RAL	ReAssure Limited
RLL	ReAssure Life Limited
RLL IGR	The internal reinsurance agreement between RLL and RAL
RUKSL	ReAssure UK Services Ltd, a service company in the Phoenix group that provides administration for life companies that were part of the ReAssure group.
Ring-Fenced Funds (Ring fencing)	An arrangement where profits and losses on an identified block of business are segregated and

	cannot be shared with or used to absorb losses elsewhere in the company, commonly used for with-profits funds.
Risk Margin	An amount representing the amount required by a third party to take over the capital obligations of an insurance company
Risk Profile	The composition of different types of risk borne by an insurance company, typically subdivided into market risks, insurance risks, and operational risks.
Solvency Capital Requirement (SCR)	The Solvency Capital Requirement is the capital a company is required to hold under Solvency II Pillar 1.
Solvency Cover Ratio	The ratio of Own Funds divided by the SCR
Standard Formula (SF)	The methodology and calibration set by EIOPA to determine regulatory capital requirements for firms that do not use an internal model.
SLAESL	Standard Life Assets and Employees Services Ltd, a Phoenix group service company with a branch in Ireland
SS&C	SS&C International Managed Services Limited, an external service company providing administration for certain Irish policies in the Phoenix group.
Technical Provisions	The amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts.
Unit-Linked business (UL)	A type of long-term business where the policy benefits are determined by the value of assets held in policyholders' funds. These funds are divided into units of equal value and allocated amongst policies in proportion to their investment in the fund.
Unit-Linked Reinsurance Agreements (UL RAs)	New contracts that PLAE will enter into with PLL and RLL that reinsure 100% of the transferred unit-linked liabilities back to PLL and RLL.
Volatility Adjustment	An uplift to the risk-free discount rate used to value certain liabilities. Requires regulatory approval and certain conditions to be met.