MILLIMAN REPORT

FIL Life Insurance Limited

PART DISPOSAL BY PART VII TRANSFER

The Report of the Chief Actuary of FIL Life Insurance Limited on the impact of the Scheme

17 March 2026

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1. Introduction and purpose

OVERVIEW

1.1 The purpose of this report (this "**Report**") is to consider the effects of the currently proposed insurance business transfer scheme (the "**Scheme**") under Part VII of the Financial Services and Markets Act 2000 ("**FSMA**"). This is often referred to as a "**Part VII Transfer**". The purpose of the Scheme is to transfer certain unit-linked pensions business (known as "**Section 32**" business) and all in-payment annuity business from FIL Life Insurance Limited ("**FIL Life**") to Scottish Friendly Assurance Society Limited ("**Scottish Friendly**"), collectively the "**Companies**".

1.2 FIL Life is part of the "**Fidelity Group**" of companies, headquartered in Bermuda, and Scottish Friendly is a mutual friendly society incorporated in the UK. Both of the Companies are subject to full Prudential Regulation Authority ("**PRA**") Solvency UK regulation and full Financial Conduct Authority ("**FCA**") regulation.

1.3 The business will be transferred according to the terms of the Scheme and is referred to as the "**Transferring Business**". The Transferring Business includes the Section 32 policyholders and the in-payment annuitants, together referred to as the "**Transferring Policies**".

1.4 This Report is written in my capacity as the Chief Actuary of FIL Life to advise the Board of Directors of FIL Life (the "**Board"**) on the effects of the Scheme on the policyholders of FIL Life. This Report will also be made available to the High Court of Justice in England and Wales (the **"High Court**"), the PRA, the FCA, the Independent Expert ("**IE**"), and the policyholders of FIL Life and Scottish Friendly through their respective websites. It should be read in conjunction with the Scheme and the report of the Independent Expert. I note that the Chief Actuary and the With-Profits Actuary of Scottish Friendly have also produced reports on the effects of the Scheme.

1.5 An initial court hearing known as the "**Directions Hearing**" will be held to consider the proposed plan for notifying the policyholders affected by the Scheme. The Directions Hearing is scheduled to be held on 27 March 2026.

1.6 If then approved by Scottish Friendly's Delegates, and sanctioned by the High Court at a formal court hearing known as the "**Sanction Hearing**", the Scheme is expected to take effect on 30 September 2026 (the "**Effective Date**"). The Scottish Friendly Delegate vote is expected to take place on 29 April 2026 and the Sanction Hearing is currently planned for 7 September 2026. The Scheme will only proceed if voted for by the Scottish Friendly Delegates and if sanctioned by the High Court.

1.7 The purpose of this Report is to consider the effects of the Scheme on the policyholders of FIL Life, both those transferring to Scottish Friendly (the "**Transferring Policyholders**") and those remaining within FIL Life (the "**Remaining Policyholders**" or "**Remaining Business**"). In particular, this Report considers the effects on the reasonable benefit expectations (including "**Consumer Duty**" requirements), the security of benefits, and the standards of servicing, administration, management and governance applicable to the policies.

1.8 Since agreeing to undertake the currently proposed Scheme, Scottish Friendly has agreed to enter into a merger with another friendly society, Family Assurance Friendly Society Limited (known as "**OneFamily**"). The merger between Scottish Friendly and OneFamily will be subject to a separate legal and regulatory process which (if confirmed) will result in all of Scottish Friendly's policies being transferred to OneFamily, expected to take place in the first quarter of 2027. This will be achieved via a Part VIII transfer of engagements under the Friendly Societies Act 1992 (known as a "**Part VIII**"). While this Part VIII transfer is not part of the Scheme being considered in this Report, the Part VIII transfer will impact the Transferring Business if the Scheme is approved and, consequently, I have considered certain aspects of the proposed Part VIII transfer in this Report (see Section 9).

1.9 I note that I am also the Chief Actuary of OneFamily, having been appointed to this role in November 2025, and that I will have a separate role in considering the Part VIII transfer as a result. I have commented further on this aspect in Section 9.

1.10 Mr Marc Loh FIA of FTI Consulting has been appointed as the IE to prepare the independent expert report on the Scheme as mandated under Section 109 of FSMA. I have read an advanced draft of his report and have considered his conclusions. I have also read and considered advanced drafts of the reports of the Chief Actuary and the With-Profits Actuary of Scottish Friendly.

1.11 Throughout this Report I have for convenience referred to "policyholders" to include all the following in relation to FIL Life:

- For most trust-based pension scheme business, the individual members of the pension schemes whose benefits are invested with FIL Life. I note that in such cases it is the trustees of the pension scheme who are the formal FIL Life policyholders, but the members are the ultimate beneficiaries and are thus effectively the policyholders for the purposes of this Report. For this category of members, FIL Life maintains individual accounts for each member. Part of the Remaining Business falls into this category.
- For some trust-based pension scheme business, FIL Life acts on a bulk investment only basis for the trustees and does not maintain individual member accounts. In this case the policyholders for the purposes of this Report are the trustees, with no further consideration of the individual members of the relevant pension schemes being necessary. Part of the Remaining Business falls into this category.
- For contract-based pension business (where no trustees are involved), the individual policyholders of FIL Life who are themselves the ultimate beneficiaries. All of the Transferring Business and part of the Remaining Business falls into this category. For the in-payment annuities, this includes any contingent annuitants who will receive a benefit following the death of the primary annuitant.

1.12 Throughout this Report, where the context in relation to FIL Life implies, “policyholder” can also be taken to refer to “member” and vice versa. For the avoidance of doubt, the policyholders of Scottish Friendly can also be considered to be members, but this membership refers to membership of Scottish Friendly and not membership of a pension scheme as in the case of FIL Life.

DISCLOSURES

1.13 I am a Fellow of the Institute & Faculty of Actuaries (“**IFoA**”), having qualified in 1988. I hold a Chief Actuary (Life) Practising Certificate issued by the IFoA.

1.14 I am a Principal at Milliman LLP and have held the Chief Actuary role for FIL Life since 2022. My role as Chief Actuary is carried out in accordance with an engagement letter between FIL Life and Milliman LLP.

1.15 I am not a policyholder of either FIL Life or Scottish Friendly, and I do not hold any shares or otherwise have any financial interests in either Fidelity Group or Scottish Friendly. Neither I nor Milliman LLP is currently engaged in providing any services to Scottish Friendly.

RELIANCES AND LIMITATIONS

1.16 In preparing this Report, I have had access to certain documentary evidence provided by the Companies, the key items of which are listed in Appendix B. I have also had access to, and discussions with, senior management of the Companies in my role as Chief Actuary of FIL Life. My conclusions depend on the substantive accuracy of this information, and I have relied on this information without full independent verification. However, I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the UK life insurance industry and my ongoing role and knowledge of FIL Life. In relation to Scottish Friendly, I have relied on information provided by Scottish Friendly in relation to its business and its financial position, including as set out in the reports produced by the Chief Actuary and the With-Profits Actuary of Scottish Friendly.

1.17 I have relied on the work of the external auditors of the Companies in gaining confidence in certain aspects of the financial information applicable to and provided by the Companies throughout this Report. I note that not all of the financial information is subject to external audit, and hence this reliance is limited to that information which is subject to external audit. Where the financial information has been subject to external audit, I consider this to mean that the relevant results are in compliance with applicable rules and guidance, in particular those in relation to Solvency UK. I acknowledge that I have had a direct input into certain material aspects of the Solvency UK results for FIL Life.

1.18 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose.

1.19 This Report has been prepared in my capacity as Chief Actuary of FIL Life and must not be relied upon for any other purpose. No liability will be accepted by Milliman LLP, 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. In particular, no liability will be accepted by Milliman LLP or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.20 This Report does not provide financial or any other advice to any of the policyholders of FIL Life or Scottish Friendly.

1.21 The Report is based on information available to me as at 17 March 2026.

COMPLIANCE WITH ACTUARIAL STANDARDS

1.22 The Financial Reporting Council issues Technical Actuarial Standards ("**TASs**")[1] and compliance with the relevant TASs is compulsory for members of the IFoA. This Report and the work carried out to produce this Report is subject to the TASs on General Actuarial Standards Version 2.0 ("**TAS 100**") as well as the TAS specific to Insurance Version 2.0 ("**TAS 200**"). In my opinion, this Report complies with TAS 100 and TAS 200.

1.23 In addition, the IFoA has issued a number of Actuarial Profession Standards ("**APS**")[2], and in particular APS X2 requires members to consider whether their work requires an independent peer review. In my view the work carried out, and this Report, do require independent peer review and this has been carried out in accordance with APS X2. This Report and the work carried out to produce it is additionally subject to and, in my opinion, complies with APS X1 which relates to Applying Standards to Actuarial Work.

[1] Technical Actuarial Standards (TAS)

[2] Actuarial Profession Standards (APS)

2. Executive Summary

OVERVIEW OF THE COMPANIES AND THE SCHEME

2.1 FIL Life is a long-term UK insurance company within the Fidelity Group. It writes unit-linked pensions business and specialises in offering this business through providing workplace-based pension schemes of various types.

2.2 FIL Life has identified two classes of its business which are no longer core to its ongoing strategy and it thus wishes to dispose of these classes. These classes (referred to as the Transferring Business) are the Section 32 unit-linked business and the in-payment annuity business. No new business is being written in either of these classes.

2.3 Scottish Friendly is a UK incorporated friendly society which writes a variety of classes of long-term business including unit-linked and annuity business. Scottish Friendly has a proven track record in acquiring blocks of long-term business from other insurers which no longer align with the strategy of the company in question.

2.4 FIL Life and Scottish Friendly have agreed to transfer the Transferring Business from FIL Life to Scottish Friendly using a Part VII Transfer.

2.5 Both FIL Life and Scottish Friendly comfortably meet their regulatory solvency and capital requirements, and both have in place suitable governance processes in relation to their risk and capital management.

2.6 Under the Scheme, which is due to become effective on 30 September 2026:

- There will be no changes to any policy terms or conditions for the Transferring Business.
- The administration and servicing of the Transferring Business will migrate from FIL Life to Scottish Friendly.
- The Section 32 unit-linked policyholders will remain invested in the same underlying unit-linked funds as currently, and value of the unit-linked holdings in each unit-linked fund for each policyholder will be the same as currently.
- The key default investment strategy which is used by most of the Section 32 policies (known as "**FutureWise**") will be maintained by Scottish Friendly for at least 10 years.

2.7 The current external reinsurance with Hannover Re in respect of the in-payment annuity business, together with the associated outsourced annuity payment arrangements (which Hannover Re currently outsources to Equiniti), will both transfer from FIL Life to Scottish Friendly under a separate contract, known as a "**Deed of Novation**". The Deed of Novation will become effective on the Effective Date but will be executed prior to the Sanction Hearing.

EFFECTS OF THE SCHEME

2.8 I have analysed and considered the effects of the Scheme for both the Transferring Policyholders (covering both the in-payment annuity policyholders and the Section 32 policyholders) and the Remaining Policyholders. I have considered the key areas of benefit expectations and security of benefits. I have also considered the communications to the Transferring Policyholders, and the change in the administration and servicing arrangements (including the migration aspects) for the Transferring Policyholders, and the position in relation to governance for the Transferring Policyholders.

Benefit Expectations

2.9 For the Section 32 policyholders, the current unit-linked investment selections will (as noted above) remain unchanged, and the key FutureWise investment option will continue to be available for at least 10 years.

2.10 Although the charges on the Section 32 policies are not guaranteed and could be increased, any future increases would need to be justified taking into account the FCA requirements to treat customers fairly and to seek to achieve good customer outcomes under the Consumer Duty requirements. The position here is similar under FIL Life (pre-Scheme) and under Scottish Friendly (post-Scheme).

2.11 The benefits for the in-payment annuity policies are either fixed or are determined mechanically by the application of published inflation indices. No elements of discretion apply. The benefits will thus be unchanged by the Scheme.

2.12 Benefits for the Remaining Policyholders will be unaffected by the Transferring Policyholders leaving FIL Life. No actual splits of any underlying unt-linked funds are necessary, and the size of the Transferring Business is not large enough to have any potential impact on the Remaining Business.

2.13 I can thus conclude that there will be no material adverse effects on the benefit expectations for any of the Transferring Policyholders nor for any of the Remaining Policyholders.

Security of Benefits

2.14 I have analysed the solvency and financial effects of the Scheme on FIL Life, and I have considered the solvency and financial effects of the Scheme on Scottish Friendly making use of analyses provided by the Chief Actuary of Scottish Friendly.

2.15 The impact of the Scheme on the solvency and financial position of FIL Life is very small, this being as expected given the relative sizes of the Transferring Business and the Remaining Business.

2.16 The Scheme gives rise to a reduction in the solvency and financial position of Scottish Friendly, this being expected due to the consideration being paid by Scottish Friendly to acquire the Transferring Business and due to the additional risks being taken on. However, Scottish Friendly's solvency and financial position post-Scheme remains comfortable and within the range that it seeks to maintain.

2.17 I note that both FIL Life and Scottish Friendly are regulated by the PRA to the same standards under the Solvency UK regime.

2.18 I can thus conclude that there will be no material adverse effects on the security of benefits for any of the Transferring Policyholders nor for any of the Remaining Policyholders.

Communications

2.19 Subject to Court and regulatory approval, no communications in respect of the Scheme are taking place with the Remaining Policyholders. A waiver application will be submitted to the Court to allow the Remaining Policyholders not to be mailed. I am satisfied that no such communications are necessary given the relative sizes of the Transferring Business and the Remaining Business, and given that there are no material impacts on the Remaining Business.

2.20 I have reviewed the proposed Scheme communications for the Transferring Policyholders, including those parts of the communications which differ according to the different groups within the Transferring Policyholders. I am satisfied the communications are clear and appropriate.

Administration and servicing, including migration

2.21 A change in the administration and servicing arrangements for the Section 32 policies is planned in conjunction with the Scheme, where this will transition from FIL Life (actually outsourced to another entity within the Fidelity Group) to Scottish Friendly. This change is planned to take effect on the Effective Date.

2.22 The Section 32 policies will be administered on Scottish Friendly's existing administration system which I understand has the capacity to administer Section 32 business. Some additional work is underway at Scottish Friendly to prepare the system for the income drawdown feature, which is functionality that Scottish Friendly's current business does not require.

2.23 The Companies have agreed a timetable for the administration migration which includes planned steps to ensure that the migration is tested and ready ahead of the Effective Date.

2.24 Around the time of the Effective Date, there will be "a non-trading period" where the Section 32 policyholders will not be able to make any changes to their unit holdings (for example switching investments from one fund to another). This period is to enable the Companies to complete the final settlements and establishment of fund structures needed to finalise the transfer of the Section 32 policies. Policyholders' funds will remain fully invested through the non-trading period, and the non-trading period will be drawn to policyholders' attention in the communications.

2.25 I have considered the changes to the administration arrangements of the Section 32 policies and the planned migration, and I have considered the ongoing administration arrangements post-transfer. Given the operational nature of these areas, I have needed to place reliance on the work and the conclusions of the relevant specialists within the Companies. Scottish Friendly is a long-established life insurance firm which currently administers unit-linked pensions business and has previously taken on the management of other blocks of business. Based on the analyses I have seen and reviewed, and the service level agreements ("**SLAs**") in place in both Companies, I have no reason to believe that the administration arrangements under Scottish Friendly will not be at least the same standard as under FIL Life. I conclude that the migration is being well planned and tested and that there should be no material adverse effect on the standards of administration for Section 32 policyholders.

2.26 There will be no change to the administration and servicing arrangements for the in-payment annuities, which will continue to be provided by Hannover Re (and its outsourcing arrangement with Equiniti). There will additionally be no change to the administration and servicing applicable to the Remaining Policyholders as a result of the Scheme.

Governance

2.27 I have considered the governance structures of both FIL Life and Scottish Friendly and I have concluded that there will be no material change to the level of governance applicable to the Transferring Policyholders as a result of the Scheme.

2.28 The Remaining Policyholders will see no change to the governance of their policies under FIL Life.

Sanctioned Individuals and Sanctioned Assets

2.29 I am not aware that any of the Transferring Policyholders are sanctioned individuals according to the relevant rules which now exist.

2.30 I have reviewed the planned approach to the treatment of assets which are subject to sanctions (according to the relevant rules) and I am satisfied that appropriate steps have been taken to ensure the exposure to such assets has been considered and that the planned course of action in relation to the Scheme is reasonable. In particular, I note that all of the transferring assets which are subject to sanctions are all held within collective investment schemes of various types, and it is the holdings in the collective investment schemes which are subject to the transfer as opposed to the sanctioned assets themselves.

Part VIII transfer

2.31 I have considered certain aspects of the proposed merger between Scottish Friendly and OneFamily which is planned for the first quarter of 2027. I am satisfied that the existence of this proposed merger and the proposed timescales for it do not change any of my conclusions on the Scheme currently under consideration.

Conclusions

2.32 My overall conclusions are set out in Section 10 of this Report.

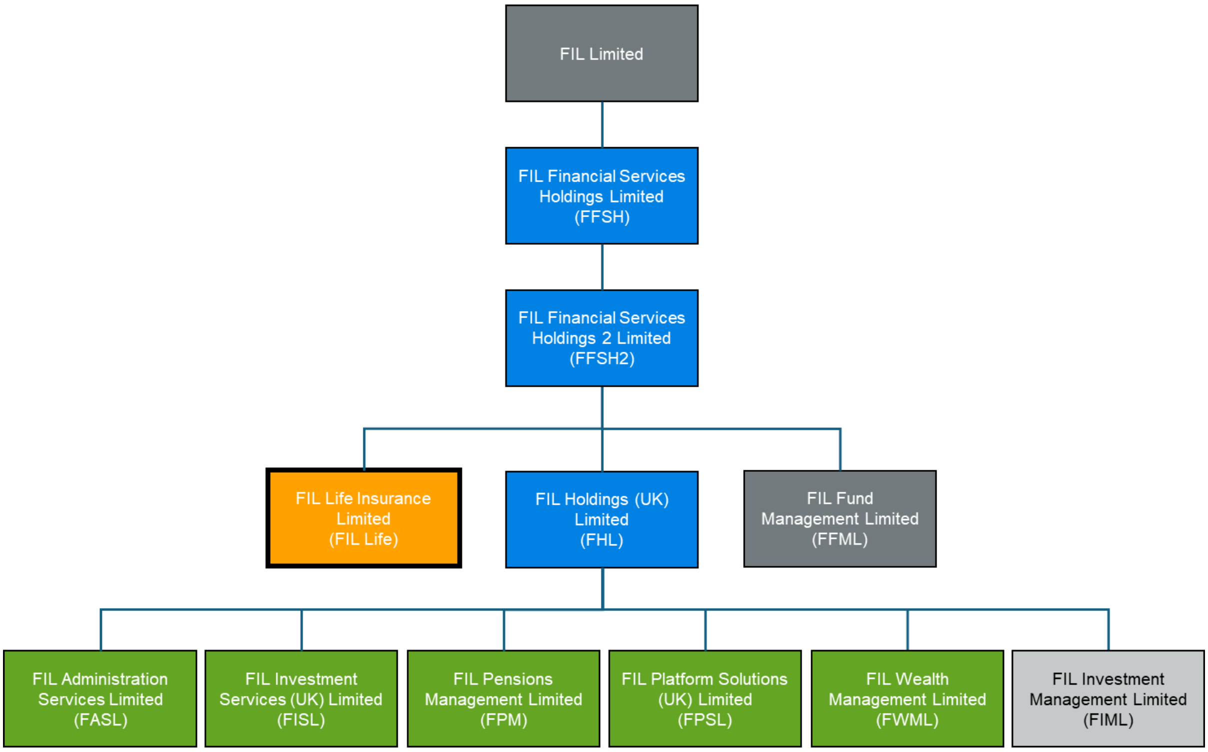
3. Overview of FIL Life

BACKGROUND

3.1 FIL Life is an authorised United Kingdom insurance company incorporated in England and Wales in 1997 and regulated by the PRA and FCA. FIL Life is a wholly owned subsidiary of FIL Financial Services Holdings 2 Limited ("**FFSH2**").

3.2 A simplified organisational structure for the Fidelity Group of companies (as applicable to FIL Life) is shown in Figure 3.1 below.

FIGURE 3.1 CURRENT FIDELITY GROUP STRUCTURE



3.3 In the diagram, FIL Life is shown in orange with a bold outline. Bermudan companies are shown in dark grey, holding companies are shown in blue, FCA-regulated non-insurance companies are shown in green, and other, unregulated, companies are shown in light grey.

3.4 The ultimate parent company of the Fidelity Group is FIL Limited, which is domiciled in Bermuda and regulated by the Bermuda Monetary Authority ("**BMA**").

3.5 FIL Life is the sole UK insurance entity of the Fidelity Group. The Fidelity Group also has a separate insurance entity registered in the Republic of Ireland, FIL Life Insurance (Ireland) DAC ("**FIL Life Ireland**"). FIL Life Ireland is not affected by the Scheme.

3.6 The functions of the other companies shown in Figure 3.1 are summarised below:

- FIL Holdings (UK) Limited ("**FHL**"), FIL Financial Services Holdings Limited ("**FFSH**") and FFSH2 are the holding companies within the Fidelity Group structure. FFSH2 is the direct holding entity of FIL Life.
- FIL Administration Services Limited ("**FASL**") acts as the settlement agent for FIL Life when buying and selling third-party funds.
- FIL Investment Services (UK) Limited ("**FISL**") is the investment manager for Fidelity's UK fund range. FIL Life offers these funds on its platform.

- FIL Pensions Management Limited ("**FPM**") provides operational services to other companies within the Fidelity Group. This includes the administration and other services related to the unit-linked business of FIL Life that are outsourced to FPM. This arrangement is covered by the Insurance Agency and Services Agreement ("**IASA**") between FPM and FIL Life, which is described in paragraph 3.34.
- FIL Platform Solutions (UK) Limited ("**FPSL**") offers pensions investment via non-insurance based approaches.
- FIL Wealth Management Limited ("**FWML**") provides pre-retirement and retirement advice and guidance for FIL Life's members.
- FIL Investment Management Limited ("**FIML**") acts as paymaster for expenses and as company secretary for FIL Life.

BUSINESS OF FIL LIFE

3.7 The business of FIL Life consists of two main classes of insurance business:

- Unit-linked pensions investment business of various types, which makes up the vast majority of FIL Life's business.
- A small number of fully reinsured in-payment annuities.

3.8 FIL Life is open to most types of new unit-linked business but is closed to new annuity business.

3.9 The unit-linked business of FIL Life can be further broken down into a number of products, namely:

- Section 32.
- Additional Voluntary Contribution ("**AVC**").
- Contracted In Money Purchase ("**CIMP**"), which includes Master Trust business.
- Group Appropriate Personal Pensions ("**GAPP**").
- Group Personal Pensions ("**GPP**").
- Investment Only ("**INVE**").
- Stakeholder Pensions ("**SHP**").

3.10 The Transferring Business consists of the entirety of the Section 32 business and the entirety of the in-payment annuity business, both of which are closed to new business. Section 32 policies are single premium pensions policies taken out by individuals leaving employer sponsored pension schemes who wished to transfer their accrued benefits to an individual arrangement with an insurance company. In-payment annuity policies provide a regular income for life on retirement, and include joint life cases where the annuity (or a proportion of it) continues to a surviving spouse on the death of the first life.

3.11 Figure 3.2 below shows the breakdown of FIL Life's unit-linked Funds Under Management ("**FUM**") as at 30 June 2025 into the transferring Section 32 business and the remaining non-transferring business.

FIGURE 3.2 BREAKDOWN OF FIL LIFE'S UNIT-LINKED FUM AS AT 30 JUNE 2025

Product	*Policyholders/ Members*	*FIL Life UL assets (£ million)*	*Outwards reinsured funds (£ million)*	*Total FUM (£ million)*
Section 32	37,926	2,072.4	24.9	2,097.3
Other unit-linked business	707,553	32,301.4	16,660.2	48,961.6
Total	**745,479**	**34,373.8**	**16,685.1**	**51,058.9**

3.12 There are a number of investment options available to unit-linked policyholders, including FIL Life's primary default investment strategy known as FutureWise, other default investment strategies, and a range of self-select funds (including investment pathways for certain drawdown cases). These investment options are described in more detail in paragraphs 3.24 to 3.34.

Section 32

3.13 Section 32 unit-linked policies (also called Section 32 buyout policies) were purchased by members of a pension scheme when the member left the pension scheme in question, with the relevant transfer value being paid to FIL Life as a premium. The member then became an individual policyholder with FIL Life.

3.14 The Section 32 unit-linked business comprises £2.10bn of assets under management with approximately 38,000 policies as at 30 June 2025. The Section 32 unit-linked business block is closed to new business and there are no ongoing contributions.

3.15 Some of the policies have additional policyholder protections, specifically Protected Tax-Free Cash ("**PTFC**") and/or Protected Pension Age ("**PPA**"). For policies with PTFC, the policyholder can take more than 25% of their pension fund as tax-free cash on retirement, up to the percentage that they had the right to take within their originating scheme's rules prior to 5 April 2006. For policies with PPA, the policyholder has the right to take their benefits prior to the normal minimum pension age set by the UK government (currently age 55).

3.16 Many Section 32 policies as written by other UK insurers provide an underpin guarantee that the policy benefits at retirement will be sufficient to fund a pension of at least the amount of any Guaranteed Minimum Pension provided by the originating pension scheme. None of the Section 32 policies written by FIL Life have any such underpin guarantee.

3.17 Additionally, some of the Section 32 policies are taking regular withdrawals through income drawdown.

3.18 The majority of the Section 32 unit-linked policies are invested in FutureWise, with the remainder invested in self-select funds. The self-select funds are provided through a mixture of both investment management and reinsurance arrangements.

3.19 The charging of fees (and incidental investment expenses) is carried out via unit pricing, with all charges being defined as annual management charges ("**AMCs**"). Costs such as custodian fees are charged directly to the unit-linked funds.

Annuities

3.20 FIL Life has a small block of wholly reinsured in-payment annuities. The annuity block is closed to new business and is in run-off. All annuities are current annuities with no deferred benefits. Some of the in-payment annuities include a joint life benefit where the annuity (or a proportion of it) continues to a surviving spouse on the death of the first life.

3.21 The annuity-in-payment business of FIL Life is fully reinsured and serviced by the UK branch of the German reinsurer Hannover Rück SE ("**Hannover Re**"). The administration of the annuity block has been outsourced to Hannover Re, which in turn outsources this to a specialist administrator called Equiniti. FIL Life does not make any of the annuity payments directly. The expenses of administering the annuity-in-payment business are met by Hannover Re/Equiniti, and not by FIL Life.

3.22 I understand that Hannover Re periodically reviews its administration outsourcing arrangements, including that with Equiniti. This arrangement is due for review and renewal in 2026. The outcome of this review is not yet known and I will comment on the outcome of this review in my supplementary Chief Actuary report.

3.23 As at 30 June 2025, the annuity block consisted of 927 annuitants with a gross best estimate liability ("**BEL**") of £6.4 million, equivalent to around 0.01% of the total Technical Provisions of FIL Life. The net BEL is zero due to the reinsurance.

INVESTMENT OPTIONS FOR UNIT-LINKED POLICIES

3.24 There are a number of investment options available to the FIL Life unit-linked policyholders generally, with the options available differing by originating scheme. Some schemes use FIL Life's standard fund offering, with FutureWise as the default investment fund and the standard offering of self-select funds, while other schemes are bespoke with their own default strategy and their own particular selection of available self-select funds. Bespoke schemes may have funds that are offered only to their members. FIL Life's range of investment options includes funds managed by Fidelity Group itself, and funds managed by other asset managers, including FutureWise as explained further below, and including funds accessed via external reinsurance as explained further below.

FutureWise

3.25 The main default investment strategy for members invested in FIL Life is known as FutureWise. FutureWise consists of a range of Target Date Funds ("**TDFs**"), which groups policyholders together into five-year blocks based on their target retirement date. The strategy underlying the TDFs involves a mixture of funds and investments that vary over the lifetime of the members in each TDF. The TDFs are constructed as UK-approved and authorised collectives, within an authorised contractual scheme ("**ACS**") wrapper (managed by BlackRock Fund Managers Limited ("**BlackRock**")). BlackRock manages some of the investments itself, with some of the investments being managed by Fidelity Group. FutureWise is an example of a "lifestyling" investment approach whereby the investments are more in risk-type assets when the member is further from retirement, with transitioning to less investment in risk-type assets and more in safer assets as the member approaches the planned retirement date.

3.26 The underlying funds are a mixture of Fidelity and BlackRock funds and cover different asset types, as well as an allocation to a Fidelity-managed Long-Term Asset Fund ("**LTAF**"). The LTAF invests in more illiquid type assets which are expected to earn a higher long-term return, and is subject to limits and controls to manage the illiquidity aspect. It should be noted that the only FutureWise TDFs to have an allocation to the LTAF are the TDFs known as the Early Days TDF and the 2045 TDF, both of which relate to policyholders with a longer-term target retirement date than the other TDFs, and the long-term allocation to the LTAF is being phased in. Use of LTAFs is now common within the pensions industry.

3.27 The FutureWise default investment strategy is subject to an ongoing charge. Leaving aside the LTAF, this charge remains constant as a percentage of policyholders' funds over the lifetime of their investments. The majority of FIL Life's unit-linked pensions business is subject to a charge cap of 0.75% p.a., which applies to the default investment strategy for workplace-based pension arrangements. The Section 32 business is not formally subject to any charge cap as it relates to individual policies. In the context of FIL Life, however, it would in my opinion be difficult for FIL Life to justify increasing charges on Section 32 business invested in FutureWise above 0.75% p.a. given the charge cap that applies on the majority of its other business.

3.28 The total actual charge currently applied to Section 32 policyholders invested in FutureWise (LTAF aside – see below) is 0.27% p.a., split as 0.075% p.a. in investment management charges levied by BlackRock (part of which is accrued to Fidelity in respect of the funds which it manages) and 0.195% p.a. in administration charges (which are retained by FIL Life). There is also up to 0.03% p.a. incurred relating to other charges/expenses such as depositary and custodian charges which are borne directly by the unit funds. Policyholders invested in self-select funds have other levels of charges applied according to the fund in question. It should be noted that the investment charges and the administration charges (and therefore the total current AMC) are not formally guaranteed and may be increased in the future if there is a clear rationale, subject to meeting the Consumer Duty and treating customers fairly requirements.

3.29 Additional investment management charges apply in respect of the FutureWise TDFs which have an allocation to the LTAF. For example, once fully phased-in, the investment management charge for the Early Days TDF will be increased by 0.128% p.a., plus some additional incidental expenses, giving a total addition of 0.158% p.a. The total investment management charge for the Early Days TDF will thus become 0.233% p.a. The total for the 2045 TDF will be marginally lower due to a lower allocation to the LTAF.

3.30 The majority of policyholders within FIL Life are invested within FutureWise, including 92.5% of the Section 32 business by FUM as at 30 June 2025.

Other Default Strategies

3.31 There are default investment strategies other than FutureWise which are available to certain FIL Life policyholders. However, none of the Section 32 policies are invested in other default investment strategies.

Self-Select Funds

3.32 A number of unit-linked policyholders have the ability to invest in self-select funds. The range of funds available to each policyholder is dependent on the originating scheme. This means that not all policyholders have access to the same self-select investment options.

3.33 As at 30 June 2025, some of the Section 32 business was invested in a total of 24 self-select funds, six of which are through outwards reinsurance agreements as described in paragraphs 3.36 to 3.41. Although there are six reinsured funds, there are only four reinsurance counterparties with which these reinsured funds are held (three of the six reinsured funds are with BlackRock, and there is one with each of L&G, M&G Prudential and Schroders).

The remaining self-select funds are accessed via direct investment in the underlying Open-Ended Investment Companies ("**OEICs**") and ACSs.

3.34 Of the total Section 32 FUM of £2,097.3 million as at 30 June 2025, 7.5% was invested in self-select funds. This can be split to show 6.3% of the total Section 32 FUM is invested in self-select funds through investment management contracts, while 1.2% is invested in self-select funds through outwards reinsurance. Of the 37,926 total Section 32 policyholders as at 30 June 2025, 2,521 (6.6%) had some investment in self-select funds.

3.35 Figure 3.3 shows the breakdown of the Section 32 FUM between FutureWise, self-select through investment management and self-select through outwards reinsurance.

FIGURE 3.3 BREAKDOWN OF SECTION 32 UNIT-LINKED FUM AS AT 30 JUNE 2025

£ million	*Section 32 UL assets*
FutureWise	1,939.4
Self-Select (Investment Management)	133.0
Self-Select (Outwards Reinsurance)	24.9
Total	**2,097.3**

OUTWARDS REINSURANCE

3.36 Part of FIL Life's total unit-linked business is invested with third-party asset managers through outwards reinsurance. As noted above, these agreements operate as a reinsurance agreement between FIL Life and the third-party's insurance entity to allow the FIL Life policyholders to access the third-party funds. As shown in Figure 3.2, £16,685.1 million of FIL Life's total FUM as at 30 June 2025 was invested through outwards reinsurance, of which £24.9 million related to the Section 32 unit-linked business.

3.37 Figure 3.4 shows the reinsurance fund partners (under the relevant parent company name) and the amount of FUM reinsured to each counterparty for the Section 32 unit-linked business as at 30 June 2025. It should be noted that the BlackRock outwards reinsurance referred to here is different to and separate from the BlackRock arrangements in respect of FutureWise, as the FutureWise structure is executed via investment management contracts with BlackRock and not via a reinsurance contract.

FIGURE 3.4 SECTION 32 OUTWARDS REINSURANCE AUM AS AT 30 JUNE 2025

Counterparty	*FUM - Section 32 business only (£ million)*
BlackRock	23.9
L&G	0.2
M&G Prudential	0.1
Schroders	0.7
Total	**24.9**

3.38 With outwards reinsurance of unit-linked benefits as referred to above, the question arises as to who bears the risk should there be a full or partial default by the reinsurer. FIL Life has in place floating charges in respect of all its outwards reinsurances in order to ensure that FIL Life ranks equally with the direct policyholders of the reinsurers in the event of any insolvency or winding up of the reinsurer. This is common industry practice.

3.39 FIL Life is currently in the process of creating new reinsurance and floating charge agreements to replicate the existing agreements that it has with the third-party reinsurance asset managers listed in Figure 3.4. These new reinsurance and floating charge agreements will be in all respects the same as the existing ones, except that they will apply solely to the Section 32 policyholders (i.e. the Transferring Policyholders). This will allow the new reinsurance and floating charge agreements to be transferred to Scottish Friendly by the Scheme without any impact on the reinsurance and floating charge agreements for the Remaining Policyholders of FIL Life.

3.40 For all of FIL Life's contracts issued in 2008 and later years, the contract wording makes it fully clear that it is the policyholder who bears the risk of reinsurer default, and thus FIL Life does not hold any capital for this counterparty default risk in its standard formula Solvency Capital Requirement ("**SCR**") calculation. For contracts issued pre-2008, the contract wording is not quite so explicit in this area as compared with the 2008 and later wordings, but there is some wording that could imply that the policyholders are bearing the risk. For these pre-2008 cases, FIL Life does (on grounds of prudence) hold capital for this counterparty default risk in its standard formula SCR calculation.

3.41 For the Section 32 policies, the percentage of policies issued pre-2008 as at 30 June 2025 is 9% (by number of policies) and 6% (by policy value), i.e. a small part of the block. Notwithstanding the less explicit wording in the pre-2008 contracts (as compared with later wordings), it is my view that any potential additional security risk arising in this area for the pre-2008 policyholders is not material. This is essentially because all of the reinsurers in question are regulated by the PRA in the same way as FIL Life, and the solvency coverage positions of the reinsurers (which FIL Life monitors on an ongoing basis) are more than adequate.

SERVICING AND POLICY ADMINISTRATION

3.42 FIL Life has various intra-group arrangements in place to effectively service and administer its business. The administration and other servicing related to the unit-linked business (including the Section 32 policies) is carried out by FPM through the IASA. Under the IASA, FIL Life's expenses are set at 95% of net income earned on the unit-linked FUM, where net income mainly consists of the AMCs levied on the business. If the FUM falls by 40% or more over a year, FIL Life's expenses will reduce to 92.5% of net income. This arrangement ensures that FIL Life is protected from expense risk and expense inflation risk, as its expenses will never exceed 95% of its income at any time.

3.43 As already noted above, servicing and administration of the annuity-in-payment business is carried out by Equiniti via the reinsurance sub-contracting arrangements with Hannover Re.

3.44 The actuarial function and role of Chief Actuary are outsourced to Milliman LLP.

3.45 Other than as noted above in relation to Equiniti/Hannover Re and Chief Actuary services, FIL Life does not make use of any material external outsourcing (i.e. outside the Fidelity Group) to service and administer its business.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE ARRANGEMENTS

3.46 As FIL Life is part of the Fidelity Group, it has adopted the group-wide Enterprise Risk Management ("**ERM**") policy approved by the Fidelity Group Board, which is supported by individual risk policies relating to FIL Life. The ERM policy includes the application of the enterprise-wide risk management framework. This includes the risk management strategy, the identification, management and monitoring of risks to the Risk Appetite Statement, risk reporting, and the Own Risk and Solvency Assessment ("**ORSA**") which is integrated into FIL Life's decision making.

3.47 FIL Life carries out an ORSA at least annually as outlined in the Solvency UK regime. The ORSA covers all material risks to which FIL Life is exposed and ensures that FIL Life maintains sufficient financial resources to cover its solvency and risk needs.

3.48 FIL Life operates a three lines of defence model to support its risk management framework, which is commonly used by insurers in the UK. The three lines of defence in FIL Life consist of:

- the first line, which involves business line management and employees responsible for daily operations and risk management;
- the second line, which includes oversight and specialist functions like Legal, Compliance, and Risk that provide policies and independent oversight; and
- the third line, which is Internal Audit, providing independent assurance on the effectiveness of systems and controls.

3.49 The Board has ultimate responsibility for FIL Life's strategy, business activities and compliance with relevant regulation. The Board has three main sub-committees, including an Audit, Risk and Compliance Committee, a Nominations Committee and a Policy Approval Committee. There is additionally a Governance Committee which is independent of the Board.

SOLVENCY, RISK PROFILE, AND CAPITAL MANAGEMENT POLICY

3.50 FIL Life's Capital Management Policy ("**CMP**") aims to ensure that the company maintains sufficient capital to readily absorb its material risks as well as meeting regulatory requirements. FIL Life maintains a capital buffer in excess of its calculated SCR, with the size of the buffer determined according to FIL Life's Risk Appetite.

3.51 Additional capital has been injected into FIL Life, in conjunction with a £500 million HSBC overdraft facility, to support various large fund transitions and new business onboardings which FIL Life has recently been undertaking and expects to undertake in future. When such a transition or new business onboarding is taking place, there is a temporary additional counterparty default charge for the duration of the transition, which gives rise to a material increase in the SCR. Additional capital is being maintained within FIL Life to ensure continuous solvency through such transitions and onboardings. As at 30 June 2025, such a fund transition was taking place, with the amount of the transition being £281.6 million.

3.52 FIL Life's reported regulatory solvency ratio as at 30 June 2025 (referred to in this Report as the "**Reported Basis**") is shown in Figure 3.5 below.

FIGURE 3.5 FIL LIFE SOLVENCY RATIO (REPORTED BASIS) AS AT 30 JUNE 2025

£ million	*30/06/2025*
Own Funds (A)	210.9
SCR (B)	76.4
Excess Own Funds over SCR (A-B)	134.4
Solvency Ratio (A/B)	**276%**

3.53 FIL Life calculates its SCR in line with the Solvency UK Standard Formula. The SCR is calibrated to ensure the company's resilience against a 1-in-200-year adverse event or combination of adverse events. The Board of FIL Life has determined that the Standard Formula is suitable for FIL Life's risk profile, and FIL Life conducts regular reviews to assess its continued appropriateness. The split of the SCR by risk category indicates the risk profile of FIL Life, as shown in Figure 3.6 as at 30 June 2025 on the Reported Basis. This includes the Basic Solvency Capital Requirement ("**BSCR**") which consists of the life underwriting, market and counterparty default risks allowing for diversification.

FIGURE 3.6 FIL LIFE SOLVENCY CAPITAL REQUIREMENT (REPORTED BASIS) AS AT 30 JUNE 2025

£ million	*30/06/2025*
Life underwriting risk	2.1
Market risk	6.8
Counterparty default risk	53.3
Diversification	(6.2)
BSCR	***56.0***
Operational Risk	20.6
LACDT*	(0.1)
SCR	**76.4**
(*Loss absorbing capacity of deferred tax)	

3.54 FIL Life's risk profile is dominated long-term by operational risk and market risk, which is as to be expected for a unit-linked company. The operational risk capital requirement under the Solvency UK standard formula is calculated using a formula-based approach. For FIL Life, this is effectively a prescribed multiple of the annual maintenance expenses on the unit-linked business, with some allowance for an amount relating to the annuity liabilities. The most significant market risks for FIL Life are spread risk and interest rate risk, with some exposure to equity risk.

3.55 FIL Life is exposed to counterparty default risk arising through its unit-linked business. The most material components of the counterparty default risk are the exposure to various reinsurance fund partners in respect of the pre-2008 business (as described in paragraph 3.40), and FIL Life's holdings in the Institutional Liquidity Fund ("**ILF**"). Additional counterparty default risk arises on the temporary basis when a fund transition is underway, and this is the reason for the large counterparty default risk shown in Figure 3.6. The fund transition of £281.6 million underway as at 30 June 2025 gives rise to an additional £41.4 million of counterparty default risk.

3.56 Life underwriting risk is not particularly material for FIL Life, though it has some exposure to lapse risk arising from the unit-linked business.

3.57 In addition to the regulatory solvency capital requirements, FIL Life maintains additional capital in relation to its Master Trust, through which some of its business is written. FIL Life seeks in practice to maintain capital at 135% of the SCR plus the additional Master Trust capital requirement. If this coverage ratio falls below 122% then FIL Life must inform the Trustees of the Master Trust and take appropriate action. As at 30 June 2025, the additional Master Trust capital requirement was £13.0 million, and the actual coverage ratio including this additional requirement was 236%. I note that the Section 32 business and the annuity-in-payment business which are transferring to Scottish Friendly are not in any way connected with the Master Trust.

3.58 As can be seen from Figure 3.5 and paragraph 3.57, FIL Life currently has a significant surplus of Own Funds over both the SCR and the capital requirement including the additional Master Trust requirement. This is due to the additional capital which has been injected into FIL Life as described in paragraph 3.51.

3.59 In order to show a solvency position more in line with that which would normally be expected absent the aspects explained above, Figure 3.7 below shows FIL Life's solvency ratio as at 30 June 2025 supposing a full £500 million transition was taking place at that date (referred to in this Report as the "**Pre-Funding Basis**"). As compared with Figure 3.5, the SCR is larger and there are some consequential effects which reduce the Own Funds.

FIGURE 3.7 FIL LIFE SOLVENCY RATIO (PRE-FUNDING BASIS) AS AT 30 JUNE 2025

£ million	*30/06/2025*
Own Funds (A)	208.5
SCR (B)	109.1
Excess Own Funds over SCR (A-B)	99.4
Solvency Ratio (A/B)	**191%**

3.60 Figure 3.8 below shows the corresponding SCR split by risk category on the Pre-Funding Basis as at 30 June 2025.

FIGURE 3.8 FIL LIFE SOLVENCY CAPITAL REQUIREMENT (PRE-FUNDING BASIS) AS AT 30 JUNE 2025

£ million	*30/06/2025*
Life underwriting risk	2.1
Market risk	6.8
Counterparty default risk	86.0
Diversification	(6.4)
BSCR	***88.5***
Operational Risk	20.6
LACDT*	-
SCR	**109.1**
(*Loss absorbing capacity of deferred tax)	

3.61 As Figure 3.7 shows, the solvency position on the Pre-Funding Basis is much more in line with that which would typically be expected for a UK unit-linked life company. As at 30 June 2025, coverage of the SCR plus the additional amount in respect of the Master Trust was 171% on the Pre-Funding Basis, which is comfortably above the 135% which FIL Life seeks to maintain. Figure 3.8 shows that the higher Pre-Funding Basis SCR is mainly driven by the increased counterparty default risk capital requirement. This arises due to an additional counterparty default exposure on the amount due back to FIL Life from the transition in order to repay the overdraft.

3.62 For completeness, I note that FIL Life does not make use of any of the possible Solvency UK measures to hold lower liabilities. Thus, it makes no use of the technical adjustments known as the volatility adjustment, the matching adjustment, or any transitional measures.

4. Overview of Scottish Friendly

BACKGROUND

4.1 In this section I have provided a high level overview of Scottish Friendly, sufficient for my purposes and role as Chief Actuary of FIL Life. Further detail on Scottish Friendly is contained within the reports of the IE and the Scottish Friendly Chief Actuary.

4.2 Scottish Friendly is a long-established friendly society incorporated in the UK. As a mutual organisation, Scottish Friendly does not have any shareholders.

4.3 Scottish Friendly consists of its main open fund and three closed ring-fenced sub-funds.

4.4 Scottish Friendly is open to new business and writes a range of life and health business, including with-profits, unit-linked and index-linked, conventional life insurance and health insurance. This includes existing Section 32 pensions business within Scottish Friendly's portfolio.

4.5 Scottish Friendly had assets under management of £4.06 billion and some 1.3 million policyholders and members as at 30 June 2025.

4.6 Scottish Friendly has extensive experience of acquiring and managing blocks of business via a Part VII Transfer process, most recently the following cases:

- The transfer of various blocks of with-profits, unit-linked and conventional life and pensions business from Canada Life in 2019.
- The transfer of a block of unit-linked pensions business from Mobius Life in 2018.
- The acquisition of the entire business (including unit-linked business) of Marine & General Mutual in 2015.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE ARRANGEMENTS

4.7 Scottish Friendly maintains a risk management framework that establishes an effective risk management capability throughout the business, in line with industry standards. Similar to FIL Life, Scottish Friendly has implemented a three lines of defence model to support its risk management framework and carries out an ORSA at least annually as outlined in the Solvency UK regime.

4.8 The Board of Scottish Friendly is ultimately responsible to the policyholders and members of the society. The Board is responsible for Scottish Friendly's affairs and compliance with relevant regulations and standards, and delegates powers to various sub-committees including a risk committee, nominations committee, investments committee, audit committee, with-profits committee and remuneration committee. Scottish Friendly is a type of friendly society known as a "**Delegate Society**", where some of the voting rights sit with a subset of the membership who are known as "**Delegates**". One of the matters which the Delegates have the right to vote on is in relation to inwards transfers of insurance business by Part VII Transfer.

INVESTMENT MANAGEMENT

4.9 Scottish Friendly makes use of external asset managers to manage its assets. In April 2025 it commenced a rationalisation of its asset management arrangements for its unit-linked business and appointed Schroders to manage all of its unit-linked assets. This rationalisation work is currently ongoing.

SERVICING AND POLICY ADMINISTRATION

4.10 Scottish Friendly carries out the servicing and policy administration of its "own brand" and its previously acquired business in house. It also engages a number of Third-Party Administrators ("**TPAs**") for the servicing and policy administration of some partnership business. These TPAs are considered material outsourcing arrangements, and are subject to Scottish Friendly's Procurement and Supplier Management Policy and Process. I note also that material outsourcing arrangements are subject to regulatory requirements.

SOLVENCY, RISK PROFILE, AND CAPITAL MANAGEMENT POLICY

4.11 Scottish Friendly calculates its SCR in line with the Solvency UK Standard Formula. Scottish Friendly's regulatory solvency ratio as at 30 June 2025 is shown in Figure 4.1 below.

FIGURE 4.1 SCOTTISH FRIENDLY SOLVENCY RATIO AS AT 30 JUNE 2025

£ million	*30/06/2025*
Own Funds (A)	141.7
SCR (B)	62.7
Solvency Ratio (A/B)	**226%**

Source: Scottish Friendly Chief Actuary Report on the Part VII Transfer.

4.12 Figure 4.2 shows the split of the undiversified SCR into the high-level risks to which Scottish Friendly is exposed.

FIGURE 4.2 SCOTTISH FRIENDLY UNDIVERSIFIED SOLVENCY CAPITAL REQUIREMENT BREAKDOWN AS AT 30 JUNE 2025

Percentage of the undiversified SCR	*30/06/2025*
Life underwriting risk	49%
Market risk	33%
Counterparty default risk	7%
Health underwriting risk	1%
Operational Risk	10%

Source: Scottish Friendly Chief Actuary Report on the Part VII Transfer.

4.13 Scottish Friendly's risk profile corresponds to the wide variety of types of business which it writes, in particular business subject to life underwriting risks such as mortality, lapse, and expense risk.

4.14 As a mutual organisation Scottish Friendly does not have access to shareholder capital. There are however various management actions which a mutual such as Scottish Friendly can undertake to manage its ongoing solvency position. Scottish Friendly aims to manage its business and its capital position in order to seek to cover its regulatory capital requirements following a 1-in-20 year adverse event (without use of more extreme management actions). This in practice currently translates into seeking to maintain a solvency ratio (as set out in Figure 4.1) in excess of 130% with a review point should this ratio fall below 150%.

4.15 For completeness, I note that Scottish Friendly does not make use of any of the possible Solvency UK measures to hold lower liabilities. Thus, it makes no use of the technical adjustments known as the volatility adjustment, the matching adjustment, or any transitional measures.

4.16 I note that, similar to FIL Life, Scottish Friendly also has in place both fixed and floating charge agreements (depending on the nature of the business) for its unit-linked business that are subject to outwards reinsurance of the relevant funds under management.

5. The Scheme

RATIONALE

5.1 FIL Life wishes to dispose of the Transferring Business because the two classes in question (Section 32 and annuities in payment) are both closed to new business and no longer fit with the company's strategy of focussing on workplace-based pensions business. FIL Life has identified Scottish Friendly as an appropriate firm to look after the Transferring Business on a long-term basis.

SUMMARY OF THE SCHEME

5.2 The Scheme sets out the basis for the transfer of the Transferring Business from FIL Life to Scottish Friendly. The Scheme itself is a straightforward one, as summarised below and in Figure 5.1.

5.3 As from the Effective Date, the Transferring Business will transfer from FIL Life to Scottish Friendly, and Scottish Friendly will become responsible for the investment administration and servicing of the Transferring Business and meeting the liabilities as they become due.

5.4 The Scheme transfers all policyholder liabilities in respect of the Transferring Business to Scottish Friendly. This includes any potential mis-selling claims that the Transferring Policyholders may have, and any historical administration errors that may come to light in future. I note that no actual or potential mis-selling claims, or known historical administration errors, currently exist in respect of the Transferring Business, but nevertheless these contingencies are covered by the Scheme.

5.5 The Transferring Business will sit within Scottish Friendly's main open fund (as opposed to any of its closed and ring-fenced sub-funds). This approach is logical. I note that the Transferring Policyholders will become members of Scottish Friendly and will have voting rights similar to other non-delegate members of Scottish Friendly. The Scheme is silent on whether the Transferring Policyholders will have any entitlement to any surplus of or within Scottish Friendly, including in relation to any future dissolution, demutualisation, or other change of structure, and thus the Transferring Policyholders will fall to be considered like any other Scottish Friendly main fund non-profit or unit-linked members in such circumstances. For transferring annuity-in-payment policyholders, any contingent annuitant will also become a member as appropriate, in accordance with Scottish Friendly's Rules.

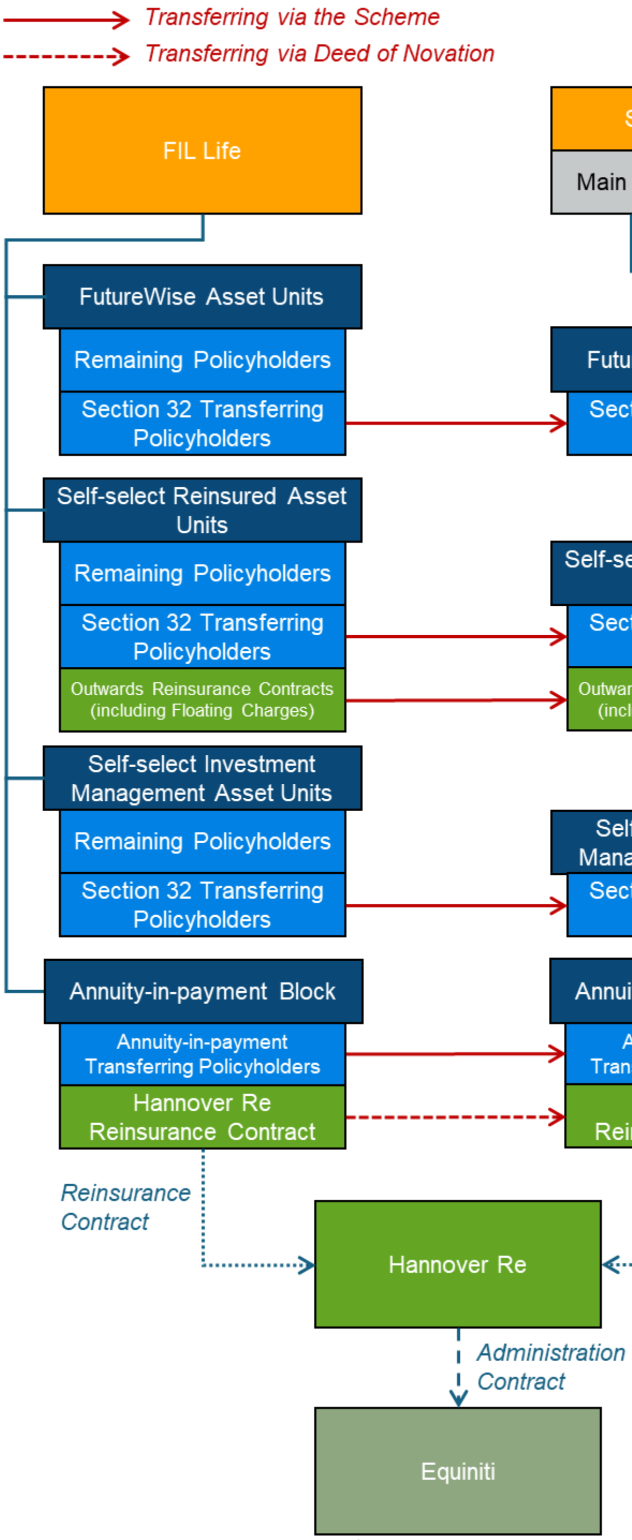
5.6 As described in paragraph 3.39, FIL Life is currently in the process of establishing new reinsurance and floating charge agreements which will replicate its existing agreements and apply solely to the Section 32 policyholders. These new reinsurance and floating charge agreements will transfer to Scottish Friendly under the Scheme.

5.7 For the self-select funds that are not invested via outwards reinsurance, Scottish Friendly will put in place investment management contracts with the respective asset managers such that units held in the OEICs and ACSs can be registered in the name of Scottish Friendly on the Effective Date.

5.8 The Scheme will not transfer the Hannover Re reinsurance treaty in respect of the transferring annuity-in-payment business. Instead, this reinsurance arrangement will be transferred by a separate Deed of Novation which will be executed prior to the Sanction Hearing. This Deed of Novation will then become effective on the Effective Date and serves as the mechanism to transfer the Hannover Re arrangements (including the annuity payment arrangement which Hannover Re has in place with Equiniti) to Scottish Friendly.

5.9 Figure 5.1 below shows a diagrammatic representation of the key aspects of the Scheme.

FIGURE 5.1 SCHEME DIAGRAM



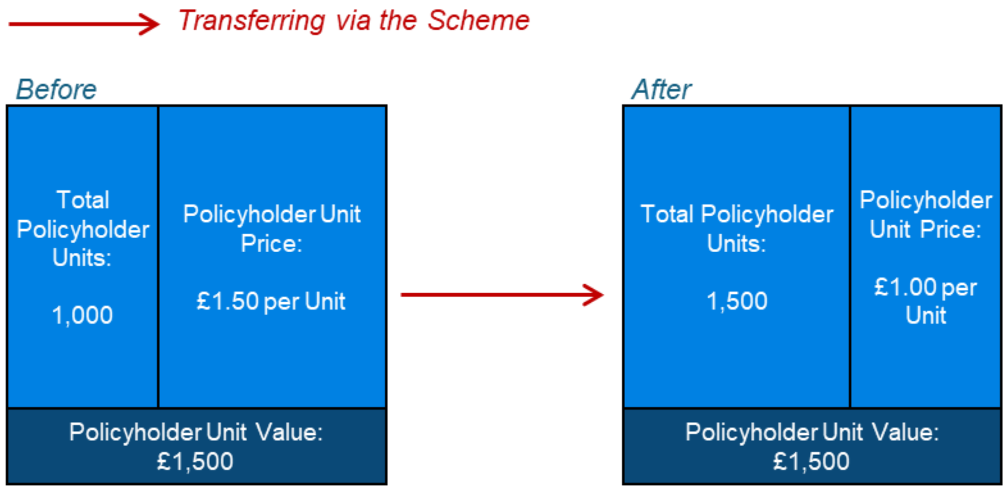
The size of the boxes does not indicate the relative magnitudes of the business.

5.10 The Scheme will not make any amendments to the policy terms and conditions for any of the Transferring Policies. For the Section 32 unit-linked policies, the Scheme provides that each policy will be allocated units of the same value in the same underlying unit-linked funds with the same underlying asset managers as applies immediately prior to the transfer. In other words, for each Section 32 policy, the current policyholder investment choice within FIL Life will be replicated within Scottish Friendly with the same unit value for each fund at the point of transfer.

This, in particular, applies to the FutureWise investment strategy in which the majority of the Section 32 policies are invested.

5.11 The number of policyholder units allocated to each Section 32 policy, as well as the policyholder unit price, will change when the business is transferred to Scottish Friendly. This is due to certain practical considerations that arise when the policies are transferred from FIL Life's systems to Scottish Friendly's systems. However, the Scheme provides that this will be done in such a way that the Policyholder Unit value remains the same for each fund held by each policyholder both before and after the transfer. Figure 5.2 below shows a simple illustrative example of how this will be achieved. This example illustrates a policy currently allocated 1,000 units in a particular fund by FIL Life with a unit price of £1.50, and hence a Policyholder Unit value of £1,500 in respect of this fund. After the transfer, the unit price has been reset to £1.00 per unit, but the number of units allocated has been increased to 1,500 so that the Policyholder Unit value for the fund remains the same at £1,500. Each Section 32 policy will thus see no change in Policyholder Unit value in respect of each unit fund holding, and thus no change in the overall policy value.

FIGURE 5.2 UNIT PRICE AND UNIT ALLOCATION EXAMPLE ON TRANSFER



5.12 I note that in relation to the FutureWise default investment strategy in which the majority of the Section 32 unit-linked policies are invested, the commercial agreement between FIL Life and Scottish Friendly is such that Scottish Friendly will maintain the current FutureWise approach and investment management arrangements for at least 10 years from the Effective Date.

5.13 I note that a range of practical implementation approaches (involving both investment management agreements and reinsurance agreements) will be adopted by Scottish Friendly to achieve the replication of the current investment choice for each policy, as noted above. In particular, Scottish Friendly's existing investment management contract with BlackRock will be amended to include access to the FutureWise ACSs and Scottish Friendly will invest in the ACSs that correspond to the wrapped funds. Scottish Friendly is currently in the process of agreeing the amendment to the BlackRock contract.

5.14 The Scheme provides for Scottish Friendly to close or merge unit-linked funds, subject to actuarial advice. Such provisions are common in Schemes which transfer unit-linked business, and any future closures or mergers of unit-linked funds will need to consider the FCA Consumer Duty requirements and the need to treat customers fairly. The Scheme contains an overriding requirement however that Scottish Friendly will maintain the current FutureWise investment offering as set out in the Framework Agreement made between the Companies for the acquisition of the Transferring Business. This sets out that FutureWise will be maintained for at least 10 years from the Effective Date and will then be subject to a review. If the arrangements are working satisfactorily from Scottish Friendly's viewpoint, then FutureWise may be maintained beyond the 10-year point. I note also that Scottish Friendly is undertaking not to carry out any mergers or closures in respect of the self-select funds for at least one year following the Effective Date.

5.15 The Scheme contains various provisions which are standard for a Scheme transferring long-term business, for example provisions in relation to policies which cannot for various reasons be transferred at the Effective Date.

5.16 Both FIL Life and Scottish Friendly will each meet their own costs in carrying out the Scheme. The costs of the Independent Expert, certain Court costs, regulator fees, and the costs of communications with the Transferring Policyholders and interested third parties (prior to the Effective Date), will be borne equally by FIL Life and Scottish Friendly.

ADMINISTRATION AND SERVICING

5.17 Post-Scheme, the administration of the Transferring Business will become the responsibility of Scottish Friendly. Further details on this aspect, including the migration from FIL Life to Scottish Friendly, are set out in Section 8 of this Report.

COMMUNICATIONS IN RELATION TO THE SCHEME

5.18 As required by the rules governing Part VII transfers, the Transferring Policyholders will each receive a communication informing them of the Scheme, and where and how they can obtain further information and assistance. This will also include how they can object to the Scheme if they so wish.

5.19 For the Remaining Policyholders, FIL Life is seeking a waiver from the High Court to not be required to send them a communication. This is on the grounds that the removal of the Transferring Policies from FIL Life will not have a material impact on FIL Life itself and will not have any impact on the Remaining Policyholders. Furthermore, communicating with most of the Remaining Policyholders is not straightforward as the communication would necessarily be via the trustees of the pension schemes in question. I concur with FIL Life's justification for seeking this waiver, and the analyses and conclusions set out in this Report support this justification.

5.20 I note also that FIL Life (in conjunction with Scottish Friendly) will be placing notices of the Scheme in various newspapers (as required by the Part VII rules). Remaining Policyholders seeing such notices will be able to request more information should they so wish.

5.21 Information on the Scheme and the associated arrangements will be available for all FIL Life policyholders on its website, and there will be a dedicated telephone helpline which all FIL Life policyholders can use.

5.22 Further consideration of the communications to the Transferring Policyholders is given in Section 8 of this Report.

EFFECTIVE DATE

5.23 The Effective Date of the Scheme is currently scheduled to be 30 September 2026, subject to the Scheme being approved by a vote of the Scottish Friendly Delegates and subject to the High Court's sanction at the Sanction Hearing.

5.24 The Effective Date could be delayed for a period of up to three months (so occurring on or prior to 31 December 2026) without further court approval upon agreement between FIL Life and Scottish Friendly. This could occur if there was a reason that the Transferring Business was not able to transfer at the planned Effective Date, for example a delay to the administration migration. Any delay to the Effective Date would need to take into account the interests of the Transferring Policyholders and would require notification to the PRA and the FCA.

5.25 If the Effective Date of the Scheme needed to be delayed beyond 31 December 2026, further court approval would need to be sought.

TAX CLEARANCES

5.26 FIL Life and Scottish Friendly will seek the appropriate tax clearances from His Majesty's Revenue and Customs ("**HMRC**") under Section 133 of the Finance Act 2012 that neither party has an unallowable purpose (that is, the securing of a tax advantage or a purpose which is not a business or commercial purposes) as a main purpose of entering into the Part VII Transfer or the wider transactions between the parties, and accordingly, that the anti-avoidance provisions of Section 132 of that Act will not apply.

5.27 Scottish Friendly will additionally seek confirmation from HMRC that the Transfer will not give rise to UK stamp duty taxes.

5.28 Both of the above are consistent with the normal procedures for a Part VII Transfer. My understanding is that the tax clearance process will also ensure the necessary arrangements such that the transfer gives rise to no additional tax payments (for example stamp duty).

6. Financial effects of the Scheme

6.1 Before considering the effects of the Scheme on the Transferring Policyholders and on the Remaining Policyholders, it is useful to set out financial effects of the Scheme on the Solvency UK balance sheets of FIL Life and Scottish Friendly. These financial effects are set out below in terms of the pro-forma solvency balance sheets as at 30 June 2025, as if the Scheme had been effective as at 30 June 2025.

FIL LIFE

6.2 Figure 6.1 below shows both the pre-Scheme and the pro-forma post-Scheme balance sheet for FIL Life as at 30 June 2025 on the Reported Basis.

FIGURE 6.1 FIL LIFE BALANCE SHEET (REPORTED BASIS) AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

£ million	*Pre-Scheme (Reported Basis)*	*Post-Scheme (Reported Basis)*	*Difference*
Total Assets	**51,664.2**	**49,560.5**	**(2,103.7)**
Unit-linked assets	51,058.9	48,961.6	(2,097.3)
Annuity reinsurance	6.4	-	(6.4)
Other Assets	598.9	598.9	-
Total Liabilities	**51,453.3**	**49,350.7**	**(2,102.7)**
Unit-linked FUM	51,058.9	48,961.6	(2,097.3)
Unit-linked PVFP*	(6.5)	(4.7)	1.9
Annuity BEL	6.4	-	(6.4)
Risk Margin	6.0	5.3	(0.6)
Other Liabilities	388.6	388.4	(0.1)
Own Funds	**210.9**	**209.8**	**(1.0)**
SCR	**76.4**	**76.2**	**(0.2)**
Solvency Ratio	***275.8%***	***275.3%***	***-0.6%***

(*Present Value of Future Profits)

6.3 Figure 6.1 shows that the unit-linked assets and base/FUM liabilities both reduce by the same amount due to the transfer out of the Section 32 business. The annuity-in-payment reinsurance asset and liabilities both reduce to zero due to the transfer out of the annuity-in-payment business. There are small consequential adjustments to certain other components of the balance sheet which result overall in a less than 1% fall in the solvency ratio, which I am satisfied is immaterial.

6.4 The above analysis does not take into account the commercial consideration which FIL Life will receive from Scottish Friendly in respect of the Section 32 business. If allowance for this were to be included there would be a beneficial effect on FIL Life's solvency ratio.

6.5 The Pre-Funding Basis balance sheet of FIL Life as at 30 June 2025 with a full £500 million transition taking place, both pre-Scheme and post-Scheme, is shown in Figure 6.2.

FIGURE 6.2 FIL LIFE BALANCE SHEET (PRE-FUNDING BASIS) AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

£ million	*Pre-Scheme (Pre-Funding Basis)*	*Post-Scheme (Pre-Funding Basis)*	*Difference*
Total Assets	**51,882.7**	**49,778.9**	**(2,103.7)**
Unit-linked assets	51,058.9	48,961.6	(2,097.3)
Annuity reinsurance	6.4	-	(6.4)
Other Assets	817.4	817.4	-
Total Liabilities	**51,674.1**	**49,571.4**	**(2,102.8)**
Unit-linked FUM	51,058.9	48,961.6	(2,097.3)
PVFP	(6.5)	(4.7)	1.9
Annuity BEL	6.4	-	(6.4)
Risk Margin	8.5	7.6	(0.9)
Other Liabilities	606.8	606.8	-
Own Funds	**208.5**	**207.5**	**(1.0)**
SCR	**109.1**	**108.8**	**(0.3)**
Solvency Ratio	***191.1%***	***190.8%***	***-0.3%***

(*Present Value of Future Profits)

6.6 This again shows an immaterial impact on FIL Life solvency coverage position. Similar analysis as applied to the solvency coverage position including the additional Master Trust capital requirement also shows an immaterial impact.

6.7 Figure 6.3 below sets out the change in the composition of the SCR due to the Scheme on the Reported Basis.

FIGURE 6.3 FIL LIFE SOLVENCY CAPITAL REQUIREMENT (REPORTED BASIS) AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

£ million	*Pre-Scheme (Reported Basis)*	*Post-Scheme (Reported Basis)*	*Difference*
Life underwriting risk	2.1	1.9	(0.2)
Market risk	6.8	6.2	(0.6)
Counterparty default risk	53.3	53.2	(0.0)
Diversification	(6.2)	(5.7)	0.5
BSCR	***56.0***	***55.6***	***(0.3)***
Operational Risk	20.6	20.6	(0.0)
LACDT*	(0.1)	-	0.1
SCR	**76.4**	**76.2**	**(0.2)**

(*Loss absorbing capacity of deferred tax)

6.8 Figure 6.4 below sets out the change in the composition of the SCR due to the Scheme on the Pre-Funding Basis.

FIGURE 6.4 FIL LIFE SOLVENCY CAPITAL REQUIREMENT (PRE-FUNDING BASIS) AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

£ million	*Pre-Scheme (Pre-Funding Basis)*	*Post-Scheme (Pre-Funding Basis)*	*Difference*
Life underwriting risk	2.1	1.9	(0.2)
Market risk	6.8	6.2	(0.6)
Counterparty default risk	86.0	85.9	(0.0)
Diversification	(6.4)	(5.8)	0.6
BSCR	***88.5***	***88.2***	***(0.3)***
Operational Risk	20.6	20.6	(0.0)
LACDT	-	-	-
SCR	**109.1**	**108.8**	**(0.3)**
(*Loss absorbing capacity of deferred tax)			

6.9 Figure 6.3 and Figure 6.4 both show that FIL Life's SCR reduces marginally on both the Reported Basis and the Pre-Funding Basis. The SCR component with the most material reduction is market risk, decreasing by £0.6 million on both bases. This is a result of the PVFP being lower post-Scheme (as shown in Figure 6.1 and Figure 6.2), and hence the impact of a market shock is reduced. This is then offset by a reduction in diversification (and in LACDT on the Reported Basis).

SCOTTISH FRIENDLY

6.10 Figure 6.5 below shows both the pre-Scheme and the pro-forma post-Scheme Solvency Ratio for Scottish Friendly as at 30 June 2025.

FIGURE 6.5 SCOTTISH FRIENDLY SOLVENCY RATIO AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

£ million	*Pre-Scheme*	*Post-Scheme*
Own Funds	141.7	156.9
SCR	62.7	87.6
Solvency Ratio	***226%***	***179%***

Source: Scottish Friendly Chief Actuary Report on the Part VII Transfer.

6.11 Figure 6.6 shows the split of the undiversified SCR into the high-level risks to which Scottish Friendly is exposed as at 30 June 2025, both pre- and post-Scheme.

FIGURE 6.6 SCOTTISH FRIENDLY UNDIVERSIFIED SOLVENCY CAPITAL REQUIREMENT EXPOSURE (%) AS AT 30 JUNE 2025 PRE- AND POST-SCHEME

Percentage of the undiversified SCR	*Pre-Scheme*	*Post-Scheme*
Life underwriting risk	49%	48%
Market risk	33%	37%
Counterparty default risk	7%	6%
Health underwriting risk	1%	1%
Operational Risk	10%	8%

Source: Scottish Friendly Chief Actuary Report on the Part VII Transfer.

6.12 Figure 6.5 shows that Scottish Friendly's Solvency Ratio reduces following completion of the Scheme, driven by a larger proportional increase to its SCR than to its Own Funds. The Solvency Ratio, however, remains comfortably above the review level of 150%. Figure 6.6 shows that the breakdown of Scottish Friendly's SCR is broadly similar pre- and post-Scheme, with the proportion of undiversified SCR attributable to market risk moving most as a result of the Scheme, increasing by 4%.

7. Effects of the Scheme on the FIL Life Policyholders

7.1 This section sets out my consideration of the effects of the Scheme on both the Transferring Policyholders and the Remaining Policyholders. In each case I consider the effects in terms of benefit expectations, financial security and administration and servicing.

TRANSFERRING POLICYHOLDERS

Benefit expectations

7.2 For the Section 32 policyholders, there will be no change to the policy terms and conditions. The PTFC and PPA protections which apply to some policies will remain in place and unchanged.

7.3 Section 32 policyholders will remain invested post-Scheme in the same underlying unit-linked funds as they are invested in pre-Scheme. This in particular includes the FutureWise default investment strategy in which the majority of Section 32 policies are invested. The choice of self-select funds will remain the same post-Scheme as pre-Scheme.

7.4 The charges for investment management and administration will not change on the implementation of the Scheme. I note that the charges on the policies are not guaranteed and could be increased (or reduced) in future. However, any future increases would need to be justified by Scottish Friendly, taking into account the FCA requirements to treat customers fairly and comply with the FCA rules in relation to Consumer Duty. This position is no different to that which currently exists under FIL Life. I note also that Scottish Friendly has taken the current level of charges into account in determining its commercial consideration to acquire the Section 32 business from FIL Life, and thus any future increase in charges would have to be justified by events (excluding normal inflation) arising post-Scheme.

7.5 As already noted in Section 5, the provision of the current FutureWise investment approach will be reviewed after 10 years, and this could lead to changes taking place. Such changes could however arise in any case under FIL Life, and I am satisfied that 10 years is a sufficiently long period before any such changes could arise under Scottish Friendly. Any proposed change to the FutureWise arrangements would again need to take into account the FCA requirements to treat customers fairly and comply with the FCA rules in relation to Consumer Duty. The same is true should Scottish Friendly seek in due course to rationalise the current range of self-select funds with its own range of available unit-linked funds.

7.6 The charges for investment management and administration are all currently levied through annual management charges which are allowed for in the unit prices which apply to the Section 32 policies and which policyholders see on their benefit statements. This will not change, and post-Scheme the same charges will be levied by Scottish Friendly using the same mechanism. Any future changes would be subject to the requirements to treat customers fairly and comply with the Consumer Duty rules (as currently with FIL Life).

7.7 Scottish Friendly will need to set up the relevant new unit-linked “wrapper” funds on its administration and unit-pricing systems, with the underlying unit-linked investments being the same as currently as noted above. For practical reasons, the opening unit prices (post-Scheme) on Scottish Friendly’s systems will not be the same as the closing unit prices (pre-Scheme) on FIL Life’s systems. However, Scottish Friendly will, for each policyholder and for each policyholder unit fund holding, allocate the appropriate number of new Scottish Friendly wrapper units such that the unit value (determined by multiplying the unit price by the number of allocated units) is identical as between the immediate post-Scheme value with Scottish Friendly and the pre-Scheme value with FIL Life. Figure 5.2 in Section 5 above illustrates this approach. This aspect will clearly need to be communicated clearly to the Section 32 policyholders – see section 8.

7.8 In setting up the new unit holdings for the Section 32 policies, I note that no actual splitting of any unit-linked funds by either FIL Life or by Scottish Friendly will be necessary. This is because all of the current unit-linked funds maintained by FIL Life are effectively wrapper funds, and the underlying asset unit holdings will simply be transferred from the existing FIL Life wrapper funds to the Scottish Friendly wrapper funds. None of the issues that would arise with an actual split of a unit-linked fund are thus applicable in this case.

7.9 FIL Life does not currently charge policyholders for fund switches. Similarly, Scottish Friendly does not currently charge policyholders for fund switches. Therefore, there will be no change to the treatment of the Transferring Policyholders with respect to fund switches post-Scheme. I note that Scottish Friendly could change its current practice in this area, but the same is also true of FIL Life.

7.10 For the annuity-in-payment policyholders, there will be no change to the policy terms and conditions. The annuity benefits (including spouses benefits where applicable) are either fixed or determined mechanically by the application of published inflation indices. No elements of discretion apply. The benefits will thus be unchanged by the Scheme.

7.11 I note that in practice the annuities will continue to be administered and paid by Equiniti under the reinsurance agreements with Hannover Re which are transferring to Scottish Friendly by the Deed of Novation. There will thus be no new "set-up" process to consider.

7.12 In summary, and based on the above considerations, I conclude that the Scheme will give rise to no material effects on the benefit expectations of the Section 32 policyholders and no effects on the benefit expectations of the annuity-in-payment policyholders.

Security of benefits

7.13 The financial analyses set out in Section 6 of this Report show that Scottish Friendly comfortably meets its regulatory solvency requirements and will continue to do so post-Scheme. Its level of solvency coverage post-Scheme also comfortably meets the values which it targets under its capital management approach.

7.14 Those Section 32 policies which are invested in funds accessed via reinsurance are subject to the risk of the reinsurer defaulting. This is fully clear on the post-2008 cases. The position is not fully clear on the pre-2008 cases. These risks exist both pre-Scheme and post-Scheme. However, given the regulated nature and solvency positions of the UK insurance entities acting as the reinsurers, the risk of such default is in my opinion remote.

7.15 In the event of Hannover Re defaulting in relation to its reinsurance of the annuity-in-payment business, the liability would fall back on FIL Life (pre-Scheme) or Scottish Friendly (post-Scheme). Both firms have a sufficient excess of Own Funds over their SCRs to absorb the relatively small additional liability of c.£8m. The position is thus similar pre- and post-Scheme. Moreover, Hannover Re is regulated by the German equivalent of the PRA using standards that are similar to those of Solvency UK, and must hold capital to cover its risks at the level of a 1-in-200 year adverse event.

7.16 Taking all of the above into consideration, and noting that the capital management standards are similar between the two firms, I am satisfied that the Scheme will give rise to no material adverse effects on the financial security of the Transferring Policyholders.

7.17 I can note further that as both FIL Life and Scottish Friendly are fully regulated UK insurers, there will be no change in how the Financial Services Compensation Scheme ("**FSCS**") will apply to the Transferring Policies in the event of the insolvency of either FIL Life or Scottish Friendly. This aspect does not form part of the grounds for my opinion on financial security as set out above, but I note it for completeness.

7.18 Access to the Financial Ombudsman Service ("**FOS**") for Transferring Policyholders will be similarly unaffected by the Scheme.

Administration and servicing

7.19 For the Section 32 policies there will be a fully controlled migration of the administration and servicing of the policies from FIL Life to Scottish Friendly. I have considered this further in Section 8 of this Report.

Communications Strategy

7.20 There will be an extensive program of communication with the Transferring Policyholders. This is considered further in Section 8 of this Report.

REMAINING POLICYHOLDERS

Benefit expectations

7.21 The transfer to Scottish Friendly of the unit-linked Section 32 business will not have any impact on the range or choices of unit-linked funds available to the Remaining Policyholders, nor on the operation or unit-pricing of those funds. The lack of any need to split any unit funds (as already noted above) reinforces this conclusion for the Remaining Policyholders. Furthermore, the magnitude of the transferring unit-linked business is relatively small in relation to the Remaining Business and there is no risk in my view of the transfer giving rise to any changes in processes or approaches within FIL Life which could be to the detriment of the Remaining Policyholders. If anything, and as stated in paragraph 5.1 above, the transfer of the Section 32 business will allow FIL Life to focus on its core business strategy to the general benefit of the Remaining Policyholders.

7.22 The transfer to Scottish Friendly of the annuity business will have no impact on the benefit expectations of the Remaining Policyholders as this annuity business is fully reinsured and managed quite separately within FIL Life.

7.23 I can thus conclude that the Scheme will give rise to no material effects on the benefit expectations of any of the Remaining Policyholders.

Security of benefits

7.24 The analysis set out in Section 6 shows that the removal of the Transferring Business from FIL Life has a negligible impact on FIL Life's solvency position. Furthermore, the small magnitude of the Transferring Business in relation to the magnitude of the Remaining Business is such that the transfer will not have any material impact on the wider considerations of FIL Life's solvency and security for the Remaining Policyholders.

7.25 I can thus conclude that the Scheme will give rise to no material impacts on the security of benefits for the Remaining Policyholders.

7.26 For completeness, I note that the Remaining Policyholders will also see no change to the applicability of the FSCS and the FOS as a result of the Scheme.

Communications Strategy

7.27 There would be material additional costs associated with mailing all of the Remaining Policyholders of FIL Life which would increase the overall costs associated with the Scheme. As the impact of the Scheme on the benefit expectations and security of benefits of the Remaining Policyholders is not material (as referred to above), I am satisfied that seeking the waiver from mailing the Remaining Policyholders of FIL Life is appropriate.

Administration and servicing

7.28 The transfer out of FIL Life of the Transferring Business will not have any direct impact on the administration and servicing of the Remaining Business. In the medium to longer term there will be some reduction in the workload of the relevant teams within FIL Life and its inter-group outsourcer companies.

7.29 There will be a certain amount of additional project work to implement the transfer and to staff the helplines to receive queries from both Transferring Policyholders and Remaining Policyholders. I have discussed these aspects with the relevant FIL Life and Fidelity management, and I am satisfied that sufficient staff resources are available to deal with these aspects whilst continuing to service the Remaining Policyholders.

CONSUMER DUTY

7.30 In July 2022, the FCA published its Consumer Duty rules which set higher and clearer standards of consumer protection across financial services in the UK and requires firms to put their customers' needs first. These rules came into effect for all products from 31 July 2024, including the business of FIL Life and Scottish Friendly.

7.31 The Consumer Duty consists of three parts:

- A Consumer Principle (Principle 12 of the FCA Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers;
- The "cross-cutting rules" which develop expectations for firms' behaviour and how they should act to deliver good outcomes. It also informs firms on how to interpret the "four outcomes"; and
- The "four outcomes" which are rules and guidance to provide detailed expectations for firms. The outcomes cover:
  - The governance of products and services;
  - Price and value;
  - Consumer understanding; and
  - Consumer support.

7.32 FIL Life has embedded the Consumer Duty requirements within its business and the firm's governance framework. This includes, but is not limited to, oversight provided by the FIL Life Board, designated individuals responsible for monitoring specific aspects of the business, and management information dashboards to track performance against defined metrics. FIL Life has defined its own internal outcomes which are mapped to the four Consumer Duty outcomes which are monitored as part of a quarterly report to the Board.

7.33 There will be no change to FIL Life's approach to Consumer Duty as a result of the Scheme, and consequently no impact on the Remaining Policyholders.

7.34 Scottish Friendly is also required to comply with the Consumer Duty rules and compliance is overseen by the Scottish Friendly Board with delegated responsibility to relevant individuals within the firm. The Scottish Friendly Board reviews and agrees an assessment of the company's Consumer Duty compliance on an annual basis. Scottish Friendly's approach to Consumer Duty is not expected to change as a result of the Scheme and the taking-in of the Transferring Policyholders.

7.35 Based on the information in respect of Scottish Friendly which I have reviewed, I am satisfied that Scottish Friendly's overall approach to Consumer Duty is comparable with that of FIL Life, and thus that there will be no material adverse effect on the Transferring Policyholders from the perspective of Consumer Duty. In making this statement, I note the following points in relation to the Transferring Policies, which I believe position the application of the Consumer Duty rules to these policies at the more straightforward end of the spectrum:

- The transferring unit-linked Section 32 policies are single premium (with no possibility of future premiums being paid), with a simple charging structure, with no financially valuable options or guarantees, and with the majority of the funds invested in a default investment strategy which will be available for at least 10 years.
- The in-payment annuity policies are fixed benefit policies (again with no possibility of future premiums being paid), with any future changes to the fixed benefits being determined mechanically via published inflation indices.

8. Further considerations

8.1 There are no further considerations arising in relation to the Remaining Policyholders. In relation to the Transferring Policyholders, I have given further consideration below to the area of the communications to the Transferring Policyholders, and to the area of the migration of the administration and servicing arrangements from FIL Life to Scottish Friendly. I have noted some aspects in relation to governance.

COMMUNICATIONS

8.2 FIL Life and Scottish Friendly have prepared a communication plan for communicating with policyholders regarding the proposed Scheme.

8.3 Regulations under the FSMA require a communication regarding the Scheme to be sent to every policyholder of the parties under the Scheme. However, and subject to the agreements of the PRA and the FCA, this requirement may be modified via waivers at the discretion of the Court at the Directions Hearing, which will give consideration to issues such as the impact of the Scheme on each group of policyholders. The proposed communications regarding the Scheme can be split into three broad groups:

- Communications to the Transferring Policyholders;
- Communications to the Remaining Policyholders of FIL Life; and
- Communications to the existing Scottish Friendly policyholders.

8.4 Subject to the approval process, noted above, no communications in respect of the Scheme are taking place in respect of the Remaining Policyholders. A waiver application will be submitted to the Court at the Directions Hearing to seek this approval. As noted previously, I am satisfied that no such communications to the Remaining Policyholders are necessary given the relative sizes of the Transferring Business and the Remaining Business (38,000 Transferring Policyholders versus 707,000 Remaining Policyholders as at 30 June 2025) and given that there are no material impacts on the Remaining Business. Furthermore, this will reduce the cost of communicating with policyholders about the Scheme quite considerably, which is a valid consideration alongside these other considerations.

8.5 Waivers will also be sought in relation to mailing the following groups of policyholders at the Directions Hearing:

- Existing Scottish Friendly policyholders, to which I give no further consideration in this Report.
- Transferring Section 32 policyholders classified as “goneaways”.
- Transferring policyholders in relation to whom a power of attorney is recorded.
- Contingent annuitants, former spouses and former civil partners within the transferring in-payment annuity block.
- Trustees in bankruptcy, bankruptcy lawyers, receivers, and administrative receivers for any of the Transferring Policyholders.
- Executors and personal representatives of deceased policyholders.

8.6 The communications are therefore planned to only include the current Section 32 policyholders and annuitants who form the Transferring Policyholders. Section 32 policyholders will receive the communications via email unless FIL Life’s policyholder records indicate that a preference for paper communications has been recorded or FIL Life does not hold a reliable email address. Annuitants will receive the communications via conventional mail. The communications will differ between the Section 32 policyholders and the in-payment annuitants in order to address the different information needs of these two groups of policyholders.

8.7 The Transferring Policyholders will receive a Policyholder Pack which includes documents relevant to the Scheme such as the notice of the application for sanctioning the Scheme; a summary of the Scheme; a summary of the Independent Expert’s report; and document covering frequently asked questions.

8.8 The Policyholder Pack will differ as between the Section 32 policyholders and the in-payment annuitants, but both versions will cover key areas which are relevant to the Scheme. This includes:

- What the Scheme means for Transferring Policyholders;
- How the transfer will work;

- How policyholders can update their contact details if necessary;
- How policyholders can make enquiries;
- The policyholders' right to object to the Scheme and how the policyholder can do this;
- The options available to Section 32 policyholders with respect to making changes to their investments;
- Where policyholders can access further information on the Scheme, including the website; and
- The ability for policyholders to request the information about the Scheme in alternative formats e.g. Braille, audio or large print.

8.9 The Policyholder Packs will commence being distributed to the Transferring Policyholders following the Directions hearing (scheduled for the 27 March 2026).

8.10 FIL Life will maintain a dedicated webpage on the Fidelity website which will include information and documents related to the Scheme relevant to FIL Life policyholders. Scottish Friendly will maintain its own dedicated webpage for the Scheme on its website.

8.11 The drafting of the communications strategy and the Policyholder Pack have been subject to both internal and external reviews to ensure their understandability and completeness. These reviews included testing to ensure that the preparation of the documents has taken into consideration the FCA Consumer Duty rules.

8.12 I have reviewed both the Scheme communication plan and the draft communications for the Transferring Policyholders. This covers those parts of the communications which differ according to the different groups within the Transferring Policyholders as well as the references to the planned subsequent Part VIII transfer from Scottish Friendly to OneFamily (see Section 9). I am satisfied the communications are clear and appropriate.

MIGRATION OF ADMINISTRATION

8.13 A change in administration arrangements of the Section 32 policies is planned in conjunction with the Scheme. FIL Life currently carries out the administration of the Section 32 policies through an intragroup outsourcing arrangement with FPM. This activity is expected to transfer to Scottish Friendly on the Effective Date of the Scheme. This planned change in administration is linked to the Scheme, though not formally part of the Scheme. If the Scheme were not to proceed for any reason, then the administration of the Transferring Policies would remain with FPM. The change in administration would therefore not go ahead without the Scheme and consequently the Scheme will in practice have an impact on the administration and servicing for the Transferring Policies.

8.14 For the Section 32 policies there will be a fully controlled migration of the administration and servicing of the policies from FIL Life to Scottish Friendly. Scottish Friendly is a long-established life insurance firm which currently administers unit-linked pensions business and has previously taken on the management of other blocks of business.

8.15 There will be no change to the administration of the in-payment annuities which will remain outsourced to Hannover Re, which in turn outsources the payment process to Equiniti. There will additionally be no change to the administration applicable to the Remaining Policyholders.

8.16 Scottish Friendly administers most of its existing business using the Sonata policy administration platform and it will expand its usage to include the transferring Section 32 policies following the migration. The Sonata platform is a well-established and respected administration system used by a number of UK insurers.

8.17 Scottish Friendly has an existing block of Section 32 policies which are already administered using Sonata and consequently the migration will not introduce a new product type into the system. Scottish Friendly's existing pensions business does not however have access to the income drawdown, which is available to the Transferring Policies, and consequently work is underway within Scottish Friendly to introduce the relevant functionality into Sonata. The development of Sonata for the transferring Section 32 policies is I understand substantively complete with testing underway, and the development is expected to be completed by end-February 2026.

8.18 The Companies have developed a detailed timetable for the project which includes a number of milestones and activities in relation to the administration migration. The migration plan will help to ensure that the appropriate steps have been taken and that the Companies are ready for the migration at the Effective Date. Tracking of the milestones is monitored by the teams managing the project and the updates are reported to the relevant individuals in both Companies and other relevant parties involved in the transfer on a regular basis.

8.19 As part of the migration plan, I note that there are two joint dress rehearsals planned to test the data and administration transfer process. The dress rehearsals will allow Scottish Friendly to test the readiness of its administration system prior to the actual Effective Date and compare the results to the live results from FIL Life. These are planned to take place in March 2026 and June 2026 and will cover the following areas:

- Full exchange of data.
- Full exchange of documents.
- Work in progress transfer.
- Asset re-registration test (second dress rehearsal only).
- Administration process transfer test (second dress rehearsal only).
- Review and lessons learned discussion following each dress rehearsal.

8.20 The timetable also shows the additional testing and development that Scottish Friendly will conduct both before and after the joint dress rehearsals to ensure the firm's preparedness, and to test the updated functionality of the administration system.

8.21 As part of the agreed timetable for the actual migration, and in order to execute the actual administration migration reliably, there is planned to be a "**non-trading period**" of seven working days during which Section 32 policyholders will be unable to access and make changes to the fund choices underlying their unit holdings. This non-trading period will commence five working days prior to the Effective Date (on 23 September 2026) and finish after two working days following the Effective Date (on 5 October 2026).

8.22 The non-trading period will allow for the settlement of certain self-select units prior to the Effective Date and for the establishment of the new self-select fund structure within Scottish Friendly. Although the non-trading period is required in respect of the self-select funds it will in practice also mean that fund switches between self-select funds and FutureWise will also be paused.

8.23 The communications to Section 32 policyholders will highlight the non-trading period and so that any policyholders contemplating making a change to their investment choices can do so either before the start or after the end of the non-trading period. As the main communications will be distributed a few months prior to the Effective Date, Section 32 policyholders will receive a reminder notification closer to the Effective Date to remind them of the non-trading period. For the avoidance of doubt, all policyholder funds will remain fully invested in the relevant underlying assets through the non-trading period.

8.24 For transferring Section 32 policyholders who plan to retire during the period when the transfer is taking place (including the non-trading period), the communications advise such policyholders to contact FIL Life to discuss their options further. This will likely involve such policyholders adjusting their retirement date to make it earlier or later, but it is expected to affect only a small number of policyholders by at most two weeks. The policies provide for flexible retirement dates, and there are no charges or penalties for retiring earlier or later than the retirement date currently recorded on FIL Life's systems. FIL Life has implemented other non-trading periods for various operational reasons in the past, and this current potential adjustment of some planned retirement dates is consistent with those past occurrences (and also with possible future occurrences absent the transfer to Scottish Friendly).

8.25 For transferring Section 32 policyholders who are currently taking income drawdown, the temporary non-trading period could result in a regular withdrawal being missed. Where this is the case, the policyholder will receive two payments from FIL Life prior to the non-trading period commencing to ensure that the policyholder has sufficient funds to cover them during and just after the non-trading period. If this double payment affects any policyholder's personal tax, this will be able to be resolved through a rebate from HMRC. I note however that the Effective Date is well clear of the end of the tax year, so that any issues arising in this area would be only through special circumstances arising.

8.26 It is not anticipated that the non-trading period will impact the transferring annuitants or the Remaining Policyholders in any way.

8.27 Given the operational nature of these areas, I have needed to place reliance on the work and the conclusions of the relevant specialists within the Companies. In summary however, and based on the above considerations, I conclude that the migration of the administration is being well planned and should not have any material adverse effect on the standards of administration of the Transferring Policyholder or the Remaining Policyholders. The non-trading period will introduce a temporary period where Section 32 policyholders cannot make changes to their policies (which in practice mainly means their investment choices), and some small changes to some planned retirement dates may be needed, but I am satisfied that this short non-trading period is necessary and that the Companies have taken appropriate action to ensure that policyholders are informed in advance.

8.28 I will continue to monitor the progress of the administration migration as it moves further through its planned timetable and I will provide an update in my supplementary Chief Actuary report.

SERVICE LEVELS

8.29 In relation to ongoing service levels, a key area of consideration is the administration and servicing SLAs applicable to the Transferring Policies, and how these may change as a result of the Scheme. These SLAs cover for example the length of time it takes for any particular enquiry or change to be processed by either FIL Life or Scottish Friendly. These SLAs are particularly relevant to the Section 32 business, where the administration and servicing is more involved than with the in-payment annuities. Scottish Friendly is setting up a new administration system for the Section 32 business and will implement a new set of SLAs for this business. These SLAs will be set so as to be the same or better than those applicable within FIL Life (which I have reviewed). A relevant consideration is then whether the Companies are meeting their respective SLAs having set them. My understanding from Scottish Friendly is that their existing SLAs are currently being met with an overall reporting status of "green". I note further that the latest available SLA statistics for FIL Life are showing a predominantly "green" status across the SLA assessment matrix. Hence I am content that there will be no material adverse effect arising in the area of SLAs.

8.30 One specific area where the transferring Section 32 policyholders will see some difference is in the way that support and guidance is provided at the point of retirement. FIL Life currently only provides this support via a telephone-based service. Scottish Friendly will provide this service via an online journey for retirement options. The transferring Section 32 policyholders will still have the additional option to utilise telephone-based support from Scottish Friendly should they need this support, with signposting throughout the online journey. Scottish Friendly will also direct policyholders, who wish to use it, to the Pension Wise service, which is a free and impartial government-sponsored service to support individuals in their decision-making at retirement. FIL Life similarly directs policyholders to Pension Wise. Although this will represent some degree of change for the transferring Section 32 policyholders, it is a change which is consistent with the general evolution of retirement planning to make more initial use of online facilities. In fact my understanding is that FIL Life is itself considering greater use of online facilities for the retirement journey.

8.31 There will be no change to servicing of the in-payment annuities which will continue to be provided by Hannover Re and its outsourcing arrangement with Equiniti.

8.32 There will additionally be no change to the servicing applicable to the Remaining Policyholders.

8.33 Based on the analyses I have carried out and my considerations as set out above, I conclude that there will be no significant change to the administration and servicing provided to the Transferring Policyholders and the Remaining Policyholders as a result of the Scheme and that the standard of ongoing service provided to all policyholders will not be materially adversely affected as a result of the Scheme.

GOVERNANCE

8.34 Both FIL Life and Scottish Friendly are governed by a Board with various sub-committees to which certain activities are delegated. Although there are differences between the committees and member roles across the two governance structures, both of the Companies have well-established structures and experienced individuals who manage and govern the respective entities. The PRA and FCA rules in relation to governance matters are comprehensive, and all UK insurers have to ensure that all governance aspects are covered notwithstanding any differences in governance structure from insurer to insurer.

8.35 The Transferring Policies are currently subject to oversight by an Independent Governance Committee ("**IGC**") at Fidelity Group which covers FIL Life. Following the transfer, these policies will be overseen by Scottish Friendly's Governance Advisory Arrangement ("**GAA**"). Scottish Friendly is not required under current regulations to include the Transferring Policies in the GAA. However, it has chosen to do so voluntarily in order to maintain strong governance standards and preserve independent oversight for policyholders.

8.36 As noted in paragraph 4.8, Scottish Friendly is a Delegate Society, where certain matters are voted on by Delegates, providing an additional layer of governance to the firm. I note that the Transferring Policyholders will become members of Scottish Friendly and will have voting rights similar to other non-delegate members of Scottish Friendly.

8.37 I am satisfied that there will be no material change to the level of governance applicable to the Transferring Policyholders as a result of the Scheme.

8.38 The Remaining Policyholders will see no change to the governance of their policies under FIL Life.

SANCTIONED INDIVIUALS AND SANCTIONED ASSETS

8.39 Rules and regulations now exist in the UK in relation to sanctioned individuals and sanctioned assets. These rules have come to the fore since the onset of the Ukraine/Russia war but they can, I understand, apply more widely than just in relation to the Ukraine/Russia war. Where individuals or assets are subject to sanctions, my understanding is that the rules and regulations act to prevent transactions taking place in respect of those individuals and assets. This area has now become a standard area for consideration on all Part VII Transfers of long-term business.

8.40 I am not aware that any of the Transferring Policyholders are sanctioned individuals according to the relevant rules.

8.41 FIL Life holds units in collective investment schemes within certain unit-linked funds which in turn hold assets which are subject to sanctions. The units held are used to match the liability to certain policyholders, including some of the Section 32 policyholders who will transfer under the Scheme.

8.42 It is not allowable to transfer the legal ownership of such sanctioned assets, and consequently the Companies have had to consider whether there will be any change in the actual legal ownership of the sanctioned assets as a result of the Scheme.

8.43 The Companies have determined that the Scheme will not give rise to any actual transfer of legal ownership or any dealing in relation to the sanctioned assets, and therefore the Scheme will not give rise to any breach of sanctions law. This is a result of the transfer of legal ownership under the Scheme being solely in relation to the holdings of the collective investment schemes and not to any of the underlying assets, including the sanctioned assets. FIL Life has received legal advice which supports this conclusion.

8.44 For completeness, I note that all sanctioned assets have been written down to zero value within the collective investment schemes in question, and that this approach is currently expected to continue post-transfer. The sanctioned assets may gain a non-zero value in future in the event that sanctions are modified or lifted, at which point the relevant policyholders would regain this part of their benefits.

8.45 I note that there have been other recent Part VII Transfers of long-term business where sanctioned assets have been held within collective investment schemes and where analysis similar to that set out above has allowed the Scheme to proceed.

8.46 I am satisfied that appropriate steps have been taken to ensure that FIL Life’s exposure to sanctioned assets has been considered and that the planned course of action and their justification is reasonable. I will provide an update on sanctioned assets in my supplementary Chief Actuary report.

9. Proposed merger between Scottish Friendly and OneFamily

9.1 In December 2025, Scottish Friendly signed a Heads of Terms agreement with OneFamily to enter into a merger. The merger between Scottish Friendly and OneFamily will be subject to a legal and regulatory process which is completely separate to the Scheme covered by this Report, and will (if confirmed) result in all of Scottish Friendly's policies being transferred to OneFamily. This will be achieved by a Part VIII transfer of engagements under the Friendly Societies Act 1992 which requires regulatory confirmation from the PRA (in consultation with the FCA). Additionally, the PRA may require an Independent Actuary to be appointed to review and report on the proposed Part VIII transfer, and given the size and nature of this transfer of engagements I would expect this to be the case. I note that the proposed merger between Scottish Friendly and OneFamily was announced publicly in February 2026.

9.2 Following the Part VIII transfer, Scottish Friendly will cease to exist as a separate entity, and its policyholders, including the Transferring Policyholders under the Scheme covered by this Report, will become policyholders of OneFamily. This is currently expected to become effective in the first quarter of 2027.

9.3 The separate legal and regulatory process (including the review by an Independent Actuary) will mean that all aspects of the impacts on both the Scottish Friendly policyholders (including the Transferring Policyholders) and the OneFamily policyholders will be considered thoroughly. I would expect that the impacts on benefit expectations, financial security, and other aspects (including policy servicing) will be taken into account. Consideration of benefit expectations will include benefit expectations confirmed or created by or under the Scheme. My expectation is that there will be no changes to policy terms and conditions arising from the merger, and moreover that the key benefit requirements of the Scheme (in particular to maintain FutureWise for at least 10 years from the Effective Date) will be carried forward into the terms of the merger. These expectations are based on my extensive experience of insurance business transfers in the UK, whereby the key policyholder requirements arising from one transfer are normally carried forward into a subsequent transfer in order to maintain policyholder expectations. In any case, should any material adverse impacts arise in any of these areas of consideration which could not be satisfactorily resolved, then in my opinion (and arising as a result of the application of the separate legal and regulatory process) the proposed merger would not take place. Given this, and subject to the specific matters set out below, it is not necessary for me to give any further consideration to the proposed merger.

9.4 As the Transferring Policyholders will be subject to a further transfer, it is relevant for me to consider whether there will be sufficient time following the Effective Date for them: to receive appropriate communications in relation to the subsequent transfer; to make representations in respect of the subsequent transfer (as is their right under the relevant legislation) should they so wish; and to have those representations considered by the regulatory process prior to the regulators confirming the transfer. Noting the Scheme Effective Date of 30 September 2026, I believe that this will be the case if the effective date of the Part VIII transfer is sufficiently far into the first quarter of 2027 for all this to take place.

9.5 As previously noted in this Report, the Scheme will give rise to a transfer of administration services when the Transferring Business moves from FIL Life to Scottish Friendly. Scottish Friendly has informed me that under the proposed plans for the merger with OneFamily, the Scottish Friendly infrastructure and administration systems and teams would remain in place post-merger. Thus, although the Transferring Policyholders will be subject to a subsequent change of insurer, the Transferring Business will continue to be administered on the same systems by the same teams before and after the merger, and there will be no second non-trading period (as referred to previously in this Report). I also understand from Scottish Friendly that the Scottish Friendly brand name will continue to be used following the merger.

9.6 The Policyholder Pack which will be sent to the Transferring Policyholders will include information about the proposed merger between Scottish Friendly and OneFamily and how this separate process will proceed. I confirm that I have reviewed the version of the Policyholder Pack which includes this information.

9.7 My understanding is that the communications to all the relevant Scottish Friendly policyholders in respect of the merger will commence in October 2026, which is after the Effective Date of the Scheme. This means that the communication timetable will be the same for the Transferring Policyholders as for the rest of the Scottish Friendly policyholders who will receive communications. The Transferring Policyholders will therefore have the same opportunity to make representations under the Part VIII transfer process as the current Scottish Friendly policyholders.

9.8 I note that I am also the Chief Actuary of OneFamily, having been appointed to this role in November 2025. I will thus in due course have a separate role in considering the Part VIII transfer as the Chief Actuary of the transferee entity. All of the commercial negotiations between FIL Life and Scottish Friendly for the Framework Agreement and the Scheme were completed before my appointment as Chief Actuary of OneFamily and before I was informed of the proposed merger between OneFamily and Scottish Friendly. It is not currently expected that there will need to be any further commercial negotiations between FIL Life and Scottish Friendly in relation to the Framework Agreement or the Scheme, and on this basis, I am satisfied that there is no conflict of interest between my roles as Chief Actuary of both FIL Life and OneFamily. In the event that any additional commercial negotiation between FIL Life and Scottish Friendly becomes necessary for any reason (or if any other conflict of interest arises), I will step aside from providing any advice to either FIL Life or (given the proposed merger) to OneFamily on the commercial or other aspect in question in order to maintain the position of there being no conflict of interest between my two roles. Contingency plans to deal with this situation have been put in place.

9.9 Taking all of the above into account, I am satisfied that the existence of the proposed merger between Scottish Friendly and OneFamily does not give rise to any changes in my conclusions as to the effects of the Scheme on the Transferring Policyholders.

10. My conclusions

10.1 I have considered and analysed the effects and the impact of the Scheme on both the Transferring Policyholders and on the Remaining Policyholders.

10.2 In my opinion, as the Chief Actuary of FIL Life, the implementation of the Scheme will not have any material adverse effect on any of the following:

- The reasonable benefit expectations of the Transferring Policyholders.
- The reasonable benefit expectations of the Remaining Policyholders.
- The security of the benefits of the Transferring Policyholders.
- The security of the benefits of the Remaining Policyholders.
- The levels of ongoing administration and customer service that apply to the Transferring Policyholders.
- The levels of ongoing administration and customer service that apply to the Remaining Policyholders.

10.3 I note that there will be a period of around seven working days, straddling the Effective Date, when the transferring Section 32 policyholders will not be able to carry out any amendments to their selected investment choices. I am satisfied that this is necessary to ensure that the policyholder records are transferred reliably and correctly, and that this limitation is being drawn to the policyholders' attention in the communications so that they plan any desired amendments accordingly.

10.4 I also note that Scottish Friendly has agreed to enter into a merger with OneFamily, which (if confirmed) will result in the whole of Scottish Friendly (including the Transferring Policyholders) transferring to OneFamily in the first quarter of 2027 via a Part VIII transfer under Friendly Societies legislation. This proposed merger will be subject to a separate legal and regulatory process, and its existence does not change my conclusions in respect of the Scheme.

10.5 I will in due course provide a supplementary Chief Actuary report prior to the Sanction Hearing to confirm whether the above conclusions still hold.

John A. Jenkins.

John A Jenkins

17 March 2026

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Chief Actuary, FIL Life Insurance Limited

Appendix A Glossary

A glossary of the abbreviations used throughout the report is given below.

	A
ACS	Authorised contractual scheme. A tax-transparent collective investment scheme, regulated by the FCA, where assets are pooled and co-owned by participants under a contractual arrangement.
AMCs	Annual management charges. A charge, typically a percentage of the insurance policy value to cover the costs of managing and administering an investment-linked insurance policy.
APS	Actuarial Professional Standards. Standards for the actuarial profession produced by the IFoA which all members must adhere to regardless of location or area of practice.
AVC	Additional Voluntary Contribution. A FIL Life insurance product.
	B
BEL	Best Estimate Liability. One of the components of the Technical Provisions under Solvency UK. The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cashflows.
BlackRock	BlackRock Fund Managers Limited. A subsidiary of global asset manager BlackRock, Inc. that manages ACSs into which FIL Life invests.
BMA	Bermuda Monetary Authority. Responsible for the regulation and supervision of banks, credit unions, insurers, and investment firms in Bermuda.
BSCR	Basic Solvency Capital Requirement. The starting point for the SCR which is one of the regulatory capital requirements under Solvency UK. The BSCR is the sum of the capital charges for the individual risk modules under Solvency UK after the application of diversification but before operational risk, LACTP and LACDT.
	C
Canada Life	Canada Life Assurance Company. A Canadian insurance and financial services company.
CIMP	Contracted in Money Purchase. A FIL Life insurance product.
CMP	Capital Management Policy. The policy by which a firm sets out its controls, processes reporting and responsibilities in relation to capital management.
Companies	FIL Life and Scottish Friendly collectively.

Consumer Duty	FCA rules which are applicable to all products from 31 July 2024 and which require financial firms to seek good outcomes for their customers. See paragraphs 3.24 and 7.4 to 7.6.
Counterparty default risk	Counterparty default risk reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months, taking appropriate account of collateral and the risks associated therewith.
	D
Deed of Novation	A formal and legally binding contract that ends an existing contract between two parties while creating a new contract on the same terms, but with a different party taking the place of an original party.
Delegate	The selected members who have certain voting rights within a Delegate Society.
Delegate Society	A type of friendly society where some of the voting rights sit with a subset of the membership who have been selected to represent the wider membership. These members are known as Delegates.
Directions Hearing	An initial court hearing at which the Companies' plans for notifying policyholders (and other preliminary matters) are considered. The court is collectively, the High Court of Justice, Business and Property Courts of England and Wales, the Companies List, and the Court of Session.
	E
Effective Date	The date, expected to be 30 September 2026, from which the Scheme will be effective legally and for the purposes of financial and regulatory reporting.
ERM	Enterprise risk management. A holistic, firm-wide approach to identifying, assessing, mitigating, and monitoring all significant risks of a firm while seeking to identify and seize opportunities to those risks.
	F
FASL	FIL Administration Services Limited. A settlement agent for FIL Life when buying and selling third-party funds.
FCA	Financial Conduct Authority. Responsible for regulating the conduct of financial services firms in the UK. Its roles include protecting consumers, supporting a stable financial sector and promoting healthy competition between financial service providers.
FFSH	FIL Financial Services Holdings Limited. One of the holding companies that make up Fidelity Group.
FFSH2	FIL Financial Services Holdings 2 Limited. One of the holding companies that make up the Fidelity Group and parent company to FIL Life.

FHL	FIL Holdings (UK) Limited. One of the holding companies that make up Fidelity Group.
FIA	Fellow of the IFoA.
Fidelity Group	FIL Limited and its subsidiaries.
FIML	FIL Investment Management Limited. The paymaster for expenses and acts as the company secretary.
FISL	FIL Investment Services (UK) Limited. The investment manager for Fidelity Group's UK fund range.
FIL Life	FIL Life Insurance Limited. A unit-linked UK life insurance company which is a subsidiary of FFSH2.
FIL Life Ireland	FIL Life Insurance (Ireland) DAC. An insurance subsidiary of Fidelity Group registered in the Republic of Ireland.
FOS	Financial Ombudsman Service. A service in the UK which settles disputes between consumers and firms that provide financial services. The service applies once the firm's own disputes process has been followed but without satisfactory resolution from the consumer perspective.
FPM	FIL Pensions Management Limited. A provider of operational services to other companies within the Fidelity Group, including the administration and other services related to the unit-linked business of FIL Life.
FPSL	FIL Platform Solutions (UK) Limited. A relatively new pensions investment approach via non-insurance-based approaches.
FSCS	Financial Services Compensation Scheme. A scheme which provides defined levels of compensation to holders of long-term insurance policies in the event of the insolvency of an insurer regulated by the PRA in respect of its UK customers.
FSMA	Financial Services and Markets Act 2000. An Act that makes provision about the regulation of financial services and markets, provides for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies.
FUM	Funds Under Management. The total market value of all financial assets that FIL Life manages and invests.
FutureWise	FIL Life's primary default investment strategy which consists of TDFs.
FWML	FIL Wealth Management Limited. A provider of pre-retirement and retirement advice and guidance for FIL Life's members.

G

GAA — Governance Advisory Arrangement. The body that will provide independent oversight on the Section 32 policies once they are transferred to Scottish Friendly.

GAPP — Group Appropriate Personal Pensions. A FIL Life insurance product.

GPP — Group Personal Pensions. A FIL Life insurance product.

H

Hannover Re — Hannover Rück SE. A German reinsurer for which the UK branch fully reinsures and manages FIL Life's annuity-in-payment business.

Health underwriting risk — Health underwriting risk refers to the risk arising from health insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk

High Court — High Court of Justice. A senior court in England and Wales.

HMRC — His Majesty's Revenue and Customs is the UK's tax, payments and customs authority.

HSBC — Hong Kong and Shanghai Banking Corporation Limited. A British multinational banking and financial services holding company which provided £500 million in an overdraft facility to FIL Life.

I

IASA — Insurance Agency and Services Agreement. A legal contract between an insurer and an insurance agent or agency.

IE — Independent Expert.

IFoA — Institute and Faculty of Actuaries, the UK chartered professional body which is responsible for regulating actuaries.

IGC — Independent Governance Committee. The body that provides independent oversight on the Section 32 policies of FIL Life.

ILF — A fund held by FIL Life which can be used to provide liquidity to FIL Life

INVE — Investment Only. A FIL Life insurance product.

L

LACDT — Loss absorbing capacity of deferred tax. A balance sheet item under Solvency UK that represents to the fact that, in a stressed situation, a deferred tax asset would arise, and therefore the Own Funds are increased.

LACTP — Loss absorbing capacity of technical provisions. A balance sheet item under Solvency UK that represents the extent to which a reduction in technical provisions can effectively absorb unexpected losses. This is

	a recognition that not all unexpected losses have to be absorbed by the Own Funds and so, this reduces the SCR.
Life underwriting risk	The risk arising from life insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk
LLP	Limited Liability Partnership.
LTAF	Long-Term Asset Fund. An open-ended investment fund designed to allow efficient investment in illiquid, long-term assets.
	M
Market risk	Market risk reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities, comprising risks such as interest rate risk, equity risk, property risk, credit risk, currency risk and market concentration risk.
Marine & General Mutual	Marine and General Mutual Life Assurance Society. It was a life insurance company in the UK until it was transferred to Scottish Friendly.
Master Trust	A multi-employer defined contribution scheme governed by a board of trustees who are independent from the Fidelity Group.
Matching Adjustment or MA	The Matching Adjustment or MA is an upwards adjustment to the risk-free rate sometimes used under Solvency UK to discount long-term liabilities, where those liabilities are well-matched by long-term assets and the intention is to hold those assets to maturity. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL. MA is a more extensive form of the VA with consequently more onerous requirements.
Milliman	Milliman LLP registered in England and Wales.
Mobius Life	A unit-linked life insurance company in the UK.
	N
Non-trading period	A temporary period covering seven working days around the Effective Date, commencing five working days prior to, and finishing two working days following the Effective Date. During the non-trading period Transferring Policyholders will not be able to make changes to their unit holdings.
	O
OEIC	Open-Ended Investment Company. A collective investment scheme, structured as a company, where investors pool their money to invest in a portfolio of assets.
OneFamily	Family Assurance Friendly Society. A UK mutual life and investment organisation.

Operational risk	Operational risk refers to risks of an operational nature that are not already reflected in the life underwriting risk, health underwriting risk, market risk and counterparty default risk.
ORSA	Own Risk and Solvency Assessment. A requirement under Solvency UK whereby insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of their capital resources.
Other liabilities	These are liabilities under Solvency UK other than Technical Provisions. For example, accounting liabilities such as tax due.
Own Funds	The excess of an insurer's assets over its liabilities on a Solvency UK basis.
	P
Part VII Transfer	The transfer of long-term insurance business under UK law in accordance with Part VII of the FSMA.
Part VIII	Refers to Part VIII of the Friendly Societies Act 1992. This regulation governs the process for two friendly societies to be able to merge.
Peer review	An independent review of this Report.
PPA	Protected Pension Age. A rule in UK pension legislation that allows certain individuals to access their private pension benefits earlier than the normal minimum pension age which is currently 55.
PRA	Prudential Regulation Authority. Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
Pre-Funding Basis	The Reported Basis assuming a £500 million transition was taking place.
PTFC	Protected Tax-Free Cash. An allowance for certain individuals to take more than the standard 25% of their pension pot as a tax-free lump sum when they retire.
PVFP	Present value of future profits.
	R
Reinsurance	The process under which certain risks borne by one insurance entity are insured to another insurance entity in return for a consideration.
Reinsurance agreements	The reinsurance agreements between FIL Life and third-party reinsurance entities.
Remaining Business	The business remaining in FIL Life following the Part VII Transfer.
Remaining Policyholders	The policyholders remaining in FIL Life following the Part VII Transfer.
Reported Basis	The SCR as reported by the insurer.

Risk Margin	The amount held under Solvency UK as part of Technical Provisions which is based on the cost of holding capital in relation to the non-hedgeable components of the SCR.
Ring-fenced sub-fund	A portion of assets and liabilities within a larger fund that is legally or contractually segregated and restricted for the sole purpose of meeting specific obligations related to the relevant policyholders.
	S
Sanction Hearing	A formal proceeding where the court considers and if appropriate sanctions the Scheme. The court is collectively, the High Court of Justice, Business and Property Courts of England and Wales, the Companies List, and the Court of Session.
Scheme	The Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation. Also referred to as “this Scheme”.
Scottish Friendly	Scottish Friendly Assurance Society Limited. A UK mutual life and investment organisation.
Section 32	A FIL Life insurance product and block of business to be transferred through this Scheme.
SHP	Stakeholder Pensions. A FIL Life insurance product.
SLAs	Service-level agreements. A target set of metrics for the performance of specific customer services provided used by most financial services companies.
Solvency Capital Requirement or SCR	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency UK. Intended to represent the amount required to ensure that an insurer’s assets continue to exceed its liabilities over a one-year time period with a probability of 99.5%.
Solvency Ratio	The Solvency Ratio is the ratio of the eligible Own Funds divided by the SCR as calculated under Solvency UK. It represents the extent to which an insurer covers their SCR and is required to be at least 100%.
Solvency UK	The regulatory solvency framework for insurance and reinsurance companies in the UK.
Standard Formula	The prescribed method for calculating the SCR where an approved Internal Model is not used. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model.
	T
TASs	Technical Actuarial Standards. The TASs are standards issued by the Financial Reporting Council which apply to work in the UK involving the use of actuarial principles and/or techniques and the exercise of judgement. Compliance with the TASs for work in their scope is required for members of the IFoA.

TAS 100	The Technical Actuarial Standards on General Actuarial Standards Version 2.0 (such as the Scheme that is the subject of this Report), issued by the Financial Reporting Council.
TAS 200	The Technical Actuarial Standards applicable to Insurance transformations (such as the Scheme that is the subject of this Report), issued by the Financial Reporting Council.
TDFs	Target Date Funds. A series of funds that groups together policyholders into 5-year blocks based on their target retirement date.
TPA	Third Party Administrator.
Transferring Business	The Transferring Policies will transfer from FIL Life to Scottish Friendly on the Scheme Effective Date.
Transferring Policies	The policies which will transfer from FIL Life to Scottish Friendly on the Scheme Effective Date.
Transferring Policyholders	The holders of the Transferring Policies which will transfer from FIL Life to Scottish Friendly on the Scheme Effective Date.
Transitional Measure on Technical Provisions or TMTP	Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016. Insurers must apply to the regulator (the PRA in the UK) to use the TMTP.
	U
Unit-Linked Fund(s)	These are funds of assets maintained separately within a life company, with the value of these funds being used to determine the benefits under unit-linked policies.
	V
Volatility Adjustment or VA	An increase to the discount rate sometimes used under Solvency UK in the calculation of the BEL (other than for liabilities that are subject to the MA) based on the rationale of avoiding forced sales of assets in the event of extreme bond spread movements. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL.

Appendix B Documents and data relied upon

B.1 In addition to discussion (comprising face-to-face meetings, video and telephone calls, and emails) with the staff of the Companies, I have relied upon the information shown in the list below in formulating my conclusions. The list below comprises the main items of information and is not a complete list of all items:

- Scheme Data for Section 32 as at 30 June 2025
- Remaining Business Scheme Data as at 30 June 2025
- Section 32 Drawdown Report
- FIL Life internal valuation model as at 30 June 2025
- Project Timetable
- Milestone Timeline
- Comparison of the FIL Life and Scottish Friendly SLAs
- The draft Court documents which were provided for review to the legal counsel on 9 March 2026, as well as any subsequent updates, including:
  - The Scheme
  - FIL Life Witness Statement
  - Scottish Friendly Chief Actuary Report on the Scheme
  - Scottish Friendly With-Profits Actuary Report on the Scheme
  - Scottish Friendly Witness Statement
  - Independent Expert Report for the Part VII Transfer
  - Communications Plan for the Part VII Transfer
  - Section 32 Consumer Guide on the Transfer
  - Section 32 Policyholder Letter on the Transfer
  - Section 32 Policyholder Email on the Transfer
  - Annuity Consumer Guide on the Transfer
  - Annuity Policyholder Letter on the Transfer

B.2 For the avoidance of doubt a draft of this Report was included in the Court documents provided to legal counsel.