

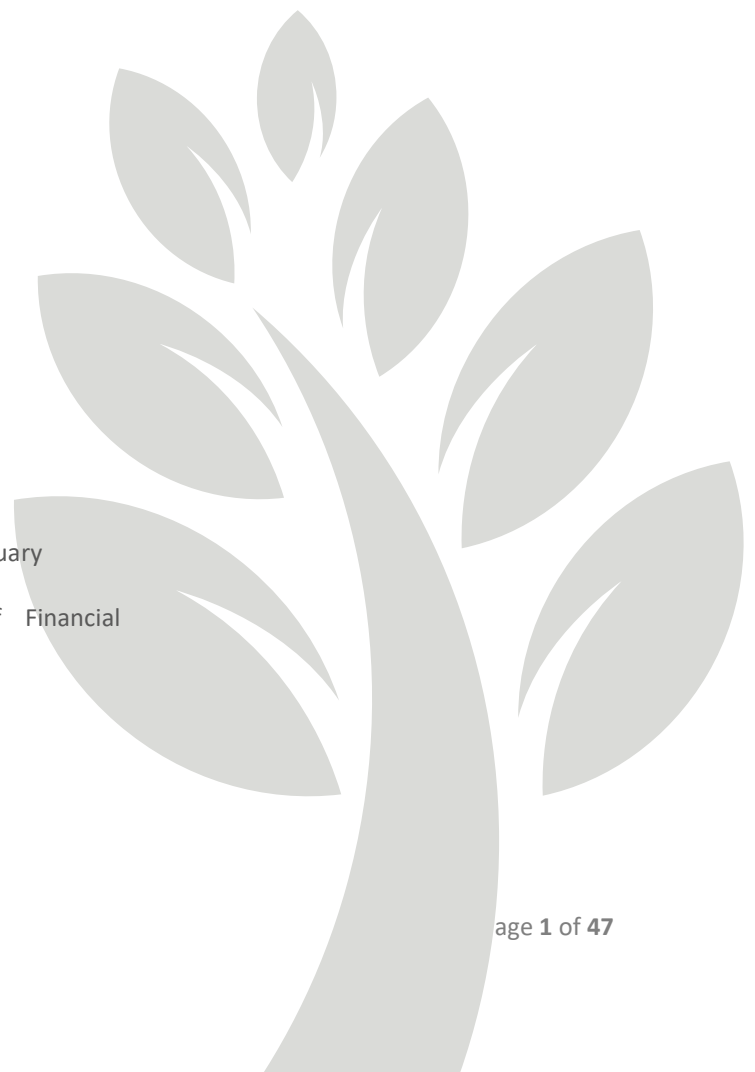


Scottish Friendly Assurance Society Limited

Proposed transfer of long term insurance business from FIL Life Insurance Limited to Scottish Friendly Assurance Society Limited

Initial Report of the Chief Actuary of Scottish Friendly Assurance Society

Author: Scott McNeill FFA, Chief Actuary
Peer Review: Alan Rankine FFA, Chief Financial Officer
Last updated: 16 March 2026



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Version Control

Version	Date	Comments
0.1	06 June 2025	Initial draft shared with SteerCo
0.2	17 June 2025	Draft shared with sub-Board
0.3	1 July 2025	Changes made following Scott McNeill initial review Draft shared with EY and Milliman
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1.1	13 March 2026	Changes made following review by King's Counsel
1.2	16 March 2026	Final

1 Introduction

Purpose and Scope

- 1.1. Scottish Friendly Assurance Society Limited (“Scottish Friendly”) has agreed to acquire a book of c38,000 closed-to-new-business Section 32 unit-linked pensions policies and c1,000 in-payment annuity policies (the “Transferring Business”) from FIL Life Insurance Limited (“FIL”).
- 1.2. The proposed transfer to Scottish Friendly will be achieved by a Scheme of Transfer (“the Scheme”) under Part VII of the Financial Services and Markets Act 2000 (“FSMA”). The proposed date of the transfer is 30 September 2026 (the “Effective Date”), subject to approval by Scottish Friendly’s Delegates and the transfer being sanctioned by the High Court.
- 1.3. The purpose of this report is to consider the impact of the proposed Scheme on the existing policyholders of Scottish Friendly at the time of the transfer (the “Existing Policies”) as well as the policyholders transferring from FIL (the “Transferring Policies”). The impact on policyholders will be assessed with regards to all factors that I consider relevant, including benefit security, benefit expectations, servicing, governance and communications. I have also considered the requirement to act to deliver good customer outcomes as required by Consumer Duty regulation.
- 1.4. This report has been written for the Board of Scottish Friendly in my capacity as Chief Actuary for Scottish Friendly. As well as the Board, it will also be provided to the High Court, the Independent Expert (“IE”), the Prudential Regulation Authority (“PRA”), and the Financial Conduct Authority (“FCA”) in forming their own judgements about the Scheme.
- 1.5. This report should be read in conjunction with the Independent Expert Report on the Scheme, as well as the Scheme document itself, the With-Profits Actuary Report of Scottish Friendly, and the Chief Actuary Report of FIL.
- 1.6. I will continue to review the expected impact of the Scheme on the existing and transferring policyholders and expect to produce a supplementary report confirming (or otherwise) my conclusions in advance of the Sanctions Hearing for the Scheme.
- 1.7. On 3 December 2025 Scottish Friendly agreed Heads of Terms to enter into a merger with Family Assurance Friendly Society Limited (“OneFamily”). This agreement is known as Project Meridian, and it is proposed that all of Scottish Friendly’s business will be transferred to OneFamily in Q1 2027, by way of an instrument of transfer under Part VIII of the Friendly Societies Act 1992. I note that the likely impact on Scottish Friendly’s policyholders (including the policyholders transferred from FIL) will be considered as part of an entirely separate regulatory approval process in due course. I have not considered the impact of the Project Meridian in detail when preparing the analysis to support this report but have considered how it could influence my conclusions in relation to the Scheme.

Disclosures and conflicts of interest

- 1.8. I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 2011, and hold a Chief Actuary (Life) Practicing Certificate issued by the Institute and Faculty of Actuaries. I have been an employee of Scottish Friendly since 2019 and was approved to act as Chief Actuary (SMF20) of Scottish Friendly with effect from January 2023.
- 1.9. I confirm that I am not a policyholder in FIL and do not hold shares or have any other financial interest in FIL or any of the companies in the same group. I also confirm that I am not a policyholder of Scottish Friendly. I note, however, that my two children hold Junior ISAs invested with Scottish Friendly, which I currently control, and are within the cohort of Existing Policies which I consider in this report. The amounts they have invested are entirely trivial in the context of the wider fund (less than £20k in aggregate) and I am satisfied that this does not give rise to a conflict of interest that would either prevent me from forming conclusions in relation to the Scheme or influence those conclusions.

Reliances

- 1.10. In forming my opinions on the Scheme, I have considered the views of Mr Callum Stuart FFA, the With-Profits Actuary of Scottish Friendly, on the implications of the Scheme for the with-profits policyholders of Scottish Friendly. Mr Stuart has provided his opinions in a separate report to the Board of Scottish Friendly which I have reviewed.
- 1.11. I have been provided with a copy of a report from Mr John Jenkins FIA, the Chief Actuary of FIL, and have considered his report in forming my opinions on the impact of the Scheme. While I have not relied on the opinions presented in those reports, I have relied on the factual accuracy of the material presented therein.
- 1.12. Similarly, I have been provided with a copy of the report of Mr Marc Loh FIA, who has been appointed as the Independent Expert in respect of the Scheme.
- 1.13. In preparing my report, I have relied on the accuracy of certain information provided by FIL in relation to the Transferring Business. This includes the information presented in the report by the Chief Actuary and also the information provided by FIL as part of the transaction process. Elements of this information have been subject to review and scrutiny as part of the transaction process and, where relevant, I have requested clarification on specific matters to improve my understanding of the information presented.

Compliance with Technical Actuarial Standards (TAS)

- 1.14. This report and the underlying preparation work that has been carried out is, in my opinion, compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council ("FRC") for members of the Institute and Faculty of Actuaries ("IFoA") in all material respects. The relevant standards include:
- Technical Actuarial Standard 100: General Actuarial Standards v2.0
 - Technical Actuarial Standard 200: Insurance

- 1.15. TAS 200 Provision 4. Insurance transformations specifically sets out the actuarial standards applicable to technical actuarial work related to insurance transformations, which includes providing an opinion on Part VII transfers.
- 1.16. I have also considered the relevant professional standards issued by the IFoA and believe that this work complies with these standards. In particular, this report has been peer reviewed by Alan Rankine, FFA and is considered to be compliant with APS X2.
- 1.17. The Actuarial Profession has published a series of risk alerts requiring all actuaries to consider, and communicate clearly, the impact of climate change and sustainability issues or risks within their actuarial work and demonstrate an understanding of the limitations and uncertainties when evaluating and communicating climate related financial risks. Climate change is explicitly considered within this report as part of the consideration of the impact of the proposed transfer on the risk profile of Scottish Friendly.

Structure of this report

- 1.18. The remainder of this report covers the following information:
- Section 2 provides an Executive Summary of this report;
 - Section 3 provides background information on Scottish Friendly and FIL;
 - Section 4 provides an overview of the Scheme;
 - Section 5 assesses the financial impact of the Scheme on Scottish Friendly;
 - Section 6 considers the effect the Scheme will have on the existing Scottish Friendly policyholders;
 - Section 7 considers the impact of the Scheme on the ability of Scottish Friendly to comply with Consumer Duty;
 - Section 8 considers the effect of the proposed Part VIII Transfer (“Project Meridian”) on the Scheme;
 - Section 9 summarises my conclusions on the impact of the Scheme.

2 Executive Summary

Background to the Proposed Transfer

- 2.1. Scottish Friendly is a friendly society incorporated under the Friendly Societies Act 1992 and regulated by the PRA and the FCA. As a mutual, Scottish Friendly has no shareholders - it is run for the benefit of its members. Scottish Friendly aims to grow its savings and investment business in order to deliver real value to its members.
- 2.2. FIL is an authorised United Kingdom insurance company incorporated in England and Wales in 1997 and regulated by the PRA and FCA. FIL is a wholly owned subsidiary of FIL Financial Services Holdings 2 Limited. FIL is open to most types of new unit-linked business, which makes up the vast majority of its business.
- 2.3. Following a strategic review, FIL identified that the Transferring Business was no longer core to its business and it was agreed to dispose of it. After a competitive tender process Scottish Friendly was selected as the buyer for this book and consequently entered into an agreement (“the Framework Agreement”) on 17 March 2025 to acquire this book from FIL.
- 2.4. Scottish Friendly believes that acquiring the Transferring Business will create long-term value for its members, and offer an opportunity more generally to grow its own-brand business, by expanding its pension offering.
- 2.5. The proposed transfer to Scottish Friendly will be achieved by a Scheme of Transfer under Part VII of the FSMA. The proposed date of the transfer is 30 September 2026 (the “Effective Date”).

Overview of Proposed Transfer

- 2.6. The Transferring Business is formed of approximately 39,000 policies with c.£2.10bn assets under management (“AUM”) as at 30 June 2025, and is made up of
 - c.£2.10bn of closed-to-new-business Section 32 unit-linked pensions; and
 - c.£6.4m of in-payment annuities best estimate liabilities (on a Solvency UK Pillar 1 basis)
- 2.7. The majority of assets under management of the Section 32 book are invested in the default investment strategy called FutureWise, with the remainder invested in other funds available for selection by the Section 32 policyholders (“Self-Select Funds”), or drawdown investment pathways. The FutureWise and self-select fund range are a series of wrapped funds which are created and managed by FIL. The underlying investments backing these wrapped funds are accessed by either direct investment in ACSs (primarily a series of FutureWise ACSs managed by BlackRock) and OEICs or via fund linked reinsurance agreements. Scottish Friendly will replace FIL on a “like-for-like” basis by replicating the wrapped fund range and accessing the underlying assets in the same way.

- 2.8. The annuity-in-payment business is fully reinsured to Hannover Re, and the claims and payment administration is also outsourced to Hannover Re (who in turn sub-contract this activity to Equiniti). The reinsurance and associated outsourcing arrangement will be transferred from FIL to Scottish Friendly on the Effective Date pursuant to a deed of novation between FIL, Scottish Friendly and Hannover Re.

Impact of proposed transfer

Benefit security

- 2.9. The proposed Scheme is not expected to introduce any significant change to the risk profile of Scottish Friendly given that the Transferring Business is similar in nature to Scottish Friendly's existing business.
- 2.10. Immediately following the proposed transfer, Scottish Friendly expects to hold a significant level of excess capital over the regulatory capital requirement and the trigger under its Risk Appetite Framework on both a Pillar 1 and Pillar 2 basis. Projections of the solvency position show that this is expected to continue to be the case. Therefore, the proposed transfer is not expected to have any material adverse effect on the security of the benefits of either the Existing or Transferring policyholders.

Customer outcomes – existing policyholders

- 2.11. There will be no changes to the terms and conditions of any Existing Policies as a result of the proposed transfer. There will also be no change to the administration / operational processes of Existing Policies as a result of the proposed transfer.
- 2.12. Plans are currently being finalised to ensure there is sufficient additional resource in place post-transfer to support the ongoing administration of the enlarged business. Additional resources will be onboarded and fully trained prior to the Effective Date, and will be dedicated to servicing the Transferring Policies. There should therefore be no change to the servicing of existing Scottish Friendly policies as a result of the transfer.
- 2.13. The transfer is expected to generate value for Scottish Friendly's members and, all else being equal, this is expected to improve the outcomes achieved by eligible members in the Main Fund through higher future ProfitShare distributions.

Customer outcomes – transferring policyholders

- 2.14. There will be no changes to the terms and conditions of any Transferring Policies as a result of the proposed transfer.
- 2.15. The range of unit-linked funds currently available to the Section 32 policyholders will not change as a result of the transfer, and there will be no changes in the level of charges deducted from transferring policyholders.
- 2.16. Although the exact detail of the operational arrangements are still being finalised at the point of writing, Scottish Friendly expects to operate unit pricing and policy administration processes which are broadly aligned with those currently operated by FIL for the Section 32 policyholders.

- 2.17. In particular, following the transfer, administration of the Section 32 policies will be provided by Scottish Friendly, and the policies migrated onto Scottish Friendly's administration platform. Plans have been developed to support the successful migration and to ensure there is sufficient resource in place to support the ongoing administration of the Transferring Policies post-transfer. There is therefore no reason to expect any adverse impact on the service standards achieved by Transferring Policies as a result of the proposed transfer.
- 2.18. The Section 32 Policies are currently subject to oversight by an Independent Governance Committee ("IGC") at FIL – albeit FIL do so voluntarily as the Section 32 policies are not workplace pensions and so not strictly in scope under current legislation. Following the proposed 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.
- 2.19. The exact scope of the work is being finalised at the time of writing, but it is expected to broadly mirror the oversight that the current GAA provider, Zedra, already undertakes for the Scottish Friendly workplace pensions book.
- 2.20. There will be no change to the administration of the in-payment annuities which will continue to be outsourced to Hannover Re (and sub-contracted to Equiniti).

Consumer Duty

- 2.21. Ongoing compliance with the requirements of Consumer Duty is overseen by Scottish Friendly's Board with day-to-day compliance delegated to relevant members of the Executive. The Board formally review and agree an assessment of Scottish Friendly's compliance with Consumer Duty annually.
- 2.22. Following the transfer, this oversight and assessment of compliance will extend to the Transferring Business. Scottish Friendly has reviewed FIL's approach to Consumer Duty and are satisfied that FIL's interpretation of the Duty is closely aligned with its own.
- 2.23. Therefore, the Transferring Policies are expected to be in line with Scottish Friendly's interpretation of the Duty at the point of transfer. The transfer is also not expected to have any adverse impact on Scottish Friendly's ongoing ability to comply with Consumer Duty in respect of the Existing Policies.

Project Meridian

- 2.24. I have also considered the impact of the Proposed Part VIII transfer ("Project Meridian") on the transfer in Section 9 and will provide a further update in my Supplementary Report when details of the project will be more finalised.

Overall Conclusions

2.25. I have considered the likely effect of the proposed transfer on the Existing Policies. Based on the considerations set out in this report, it is my view as Chief Actuary of Scottish Friendly that:

- The benefit security of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.
- The reasonable benefit expectations of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.
- Although the specific operational details are still being finalised at the time of writing, based on the plans I have seen to date I expect that the policy administration and service standards of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.

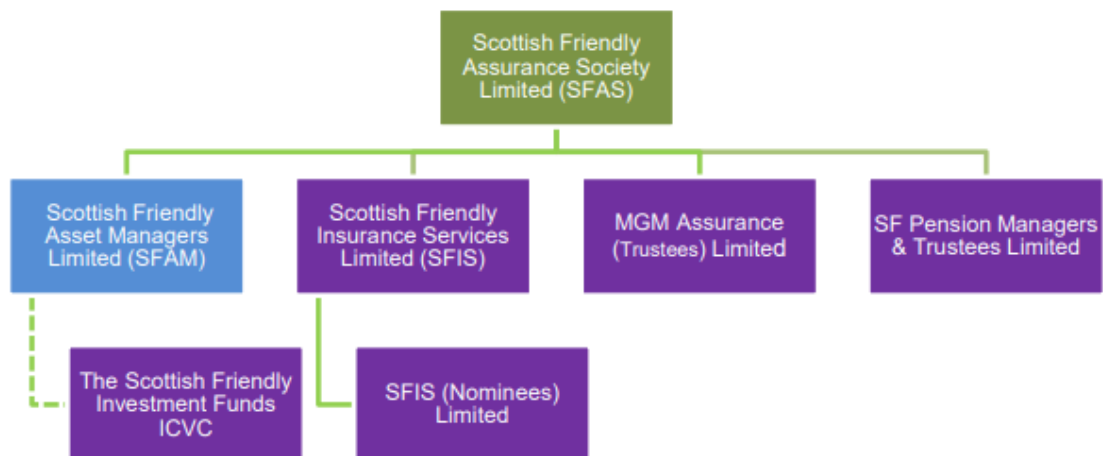
3 Background to the Proposed Transfer

Overview of Scottish Friendly

- 3.1. Scottish Friendly is a friendly society incorporated under the Friendly Societies Act 1992 and regulated by the PRA and the FCA. As a mutual, Scottish Friendly has no shareholders - it is run for the benefit of its members, which includes both with-profits policyholders and non-profit policyholders. Scottish Friendly has a Board of Directors, which is the ultimate governing body, and distribution of surplus and bonuses is determined by the Board upon the advice of the With-Profits Actuary.
- 3.2. Scottish Friendly traces its origins back to 1862 as the City of Glasgow Friendly Society, a friendly society. In the early 1990s, the City of Glasgow Friendly Society acquired Scottish Friendly and rebranded itself as the Scottish Friendly Assurance Society.

Structure

- 3.3. The diagram below shows a summary of the expected organisational structure of Scottish Friendly and its subsidiaries immediately prior to the Scheme. This structure will not be affected by the Scheme.



Green - denotes insurance company subject to full SM&CR rules.

Blue – denotes IFPRU firm, not in scope for SM&CR rules.

Purple – denotes unregulated entity not in scope for SM&CR.

* The Scottish Friendly Investment Funds ICVC is an Open Ended Investment Company, managed by SFAM.

- 3.4. Scottish Friendly Asset Managers Limited (“SFAM”), Scottish Friendly Insurance Services Limited (“SFIS”) and SFIS (Nominees) Limited (now dormant) are wholly owned subsidiaries of Scottish Friendly. SFAM provides an “OEIC” (Open Ended Investment Company) investment vehicle, Child Trust Fund, ISA and Junior ISA products. SFIS provides back office support services for financial services organisations.
- 3.5. MGM Assurance (Trustees) Limited (now dormant) and SF Pension Managers & Trustees Limited are the trustee entities for the oversight of closed pension schemes.

Business and Strategy

- 3.6. Scottish Friendly's purpose is to help its policyholders and their families achieve financial wellbeing through friendly products and customer care. To do so, Scottish Friendly aims to grow its savings and investment business and deliver real value to members.
- 3.7. Scottish Friendly carefully evaluates all acquisition and consolidation opportunities to ensure they offer long-term growth in value for members. Scottish Friendly continues to look for opportunities that align with or support its strategic objective to grow its own-brand business with the aim of delivering real value.
- 3.8. The proposed transfer is in line with the objectives to deliver value and achieve growth and is the latest in a series of successful merger and acquisition ("M&A") transactions undertaken by Scottish Friendly. A summary of previous M&A activity is set out below:
- On 31 December 2005, Rational Shelley Friendly Society ("Rational Shelley") transferred its business to Scottish Friendly.
 - On 31 May 2006, Preston Operative Assurance ("Preston Operative") transferred its business to Scottish Friendly.
 - On 1 July 2007, Pioneer Friendly Society ("Pioneer") transferred its business to Scottish Friendly.
 - On 30 September 2007, Scottish Legal Life Assurance Society Limited ("Scottish Legal") transferred its business to Scottish Friendly.
 - On 31 December 2007, London Aberdeen & Northern Mutual Assurance Society ("LANMAS") transferred its business to Scottish Friendly.
 - On 30 November 2012, Royal Standard Friendly Society ("Royal Standard") transferred its business to Scottish Friendly.
 - On 31 May 2015, business was transferred from Marine & General Mutual Life Assurance Society ("M&GM") to Scottish Friendly by means of a Part VII Scheme.
 - On 9 November 2018, a block of business was transferred from Mobius Life Limited ("MLL") to Scottish Friendly by means of a Part VII Scheme.
 - On 1 November 2019, a block of business was transferred from Canada Life Limited ("Canada Life") to Scottish Friendly by means of a Part VII Scheme.

Scottish Friendly sub-funds

- 3.9. Scottish Friendly maintains one long-term business fund, the "SF Main Fund". Within this structure, separate notional sub-funds are maintained in respect of business transferred from Scottish Legal, M&GM and Manulife (a separate with-profits sub-fund which was acquired from Canada Life as part of the transaction in 2019). Each of these

sub-funds have separate investment strategies, bonus rates and Principles and Practices of Financial Management (“PPFM”). These sub-funds are ring-fenced for the benefits of the relevant policyholders.

3.10. The Rational Shelley and LANMAS sub-funds were wound up on 1 October 2025. This was anticipated in the Instrument of Transfer / Scheme (respectively) and was also described in the PPFM for each sub-fund. The wind-up involved the distribution of the remaining surplus of each sub-fund to eligible policyholders, and the assets and liabilities of each sub-fund being transferred to the Scottish Friendly Main Fund.

3.11. Where this report refers to business in the “SF Main Fund” it is specifically referring to the business in the long-term business fund excluding any policies in the separate notional sub-funds.

3.12. All Scottish Friendly policyholders are members of Scottish Friendly, whether their policies have been written in the SF Main Fund or have transferred into any of the sub-funds. This includes the holders of with-profits policies, those with non-profit policies and those written by means of partnership agreements with third party distributors.

3.13. Scottish Friendly operates a delegate system to ensure that it engages with, and is accountable to, its members. Scottish Friendly has 30 delegate positions, each representing one of five geographical electoral districts (Scotland, Northern Ireland, North of England, South of England & Wales, and Republic of Ireland). In addition to any vacancies that arise from time to time, one third of delegates have to retire in rotation each year and may offer themselves for re-election. The system allows members to have their views represented at the Annual General Meeting through their representative delegate (typically the delegate closest to them geographically).

3.14. A high-level overview of the business in each of the sub-funds is provided below:

- SF Main Fund: with-profits business - both conventional and unitised - together with significant volumes of unit-linked business, such as ISAs and pensions, non-profit whole of life policies and term assurance business (most of which is reinsured).
- Scottish Legal: with-profits business - both conventional and unitised - together with significant volumes of non-profit whole of life policies, and small volumes of term assurance business.
- M&GM: with-profits business - both conventional and unitised - immediate annuities and flexible income annuities and business originally sold by M&GM International (“MGMI”).
- Manulife: with-profits and non-profit business, mainly comprising North American style with-profits whole-of-life business originally sold by Manulife.

3.15. Further detail on the operation of the sub-funds is provided in the following paragraphs.

SF Main Fund

3.16. The SF Main Fund contains policies written by Scottish Friendly, along with business obtained through historic acquisitions. The most significant is a block of non-profit business (comprising of mainly unit-linked pensions) which transferred into the SF Main Fund as part of the acquisition of business from Canada Life on 1 November 2019. Additionally, on 1 October 2025, the LANMAS and Rational Shelley sub-funds were wound up and the business was transferred into the Main Fund. This was comprised of:

- LANMAS: unitised with profits business, and a small number of term assurance and industrial branch whole of life policies
- Rational Shelley: conventional with profits business and whole of life policies

3.17. Scottish Friendly continues to sell an appreciable volume of new savings and investments business within the SF Main Fund - primarily ISA and Junior ISA policies through the award winning "MyPlan" product - which have the option to invest in the with-profits fund. The SF Main Fund also continues to sell new protection policies via distribution arrangements with a number of third-parties. Scottish Friendly makes extensive use of reinsurance arrangements to manage the risks associated with these partnerships.

3.18. Profits will emerge in the SF Main Fund from:

- non-profit business written by Scottish Friendly or transferred into the SF Main Fund;
- the difference between the charges deducted from with-profits policies and unit-linked policies and the actual costs incurred to manage these policies.
- any profits arising in the subsidiaries of Scottish Friendly; and
- charges for administering the business held within the M&GM notional sub-fund. The SF Main Fund makes a charge against the M&GM notional sub-fund in line with the relevant court scheme that effected the transfer of these policies. The difference between those charges and the actual costs incurred in administering the business within the notional sub-fund emerges as a profit for the SF Main Fund.

3.19. In the first instance these profits are attributed to the working capital of the SF Main Fund. Each year an assessment is made of the profits emerging from the sources listed above, and a share of these profits is distributed to eligible policyholders by means of enhancing the investment returns applied to asset shares. Scottish Friendly has named this mechanism "ProfitShare." ProfitShare distributions are discretionary in nature and Scottish Friendly has the right to vary or stop the distributions in future.

Other sub-funds

3.20. The Scottish Legal, M&GM, and Manulife notional sub-funds are all closed to new business, and contain policies written prior to acquisition by Scottish Friendly. The

charges made against policies within these sub-funds are governed by the relevant scheme of transfer.

3.21. In the event that one of these sub-funds required support to meet its expected liabilities to policyholders, then the SF Main Fund would be expected to provide that support. These capital support arrangements will be unaffected by this transfer. I note that the existing sub-funds can also provide support to the SF Main Fund in the event that solvency is threatened.

Summary of the Business

3.22. As at 30 June 2025, Scottish Friendly had £4.06bn of assets under management, 1.3m policies in force and £3.73bn of Technical Provisions, made up of £3.72bn best estimate liabilities (“BEL”) and an £11m risk margin.

3.23. The following tables summarise the in-force business as at 30 June 2025, including the best-estimate of the cost of the policy liabilities:

Scottish Friendly Main Fund	Policy Count	Gross BEL (£m)	Net of Reinsurance BEL (£m)
CWP	63,747	76.8	76.8
UWP	68,407	167.7	167.7
Unit-linked life	108,254	576.0	576.0
Unit-linked pensions	65,487	1,719.3	1,455.3
Whole of Life	427,301	329.4	80
Term Assurance	392,445	6.3	-34.5
Other	8,236	82.9	71.2
Total	1,133,877	2,958.3	2,392.4

Sub-fund	Policy Count	Gross BEL (£m)	Net of Reinsurance BEL (£m)
LANMAS (wound up on 1 October 2025 and now part of the Main Fund) ¹	542	8.8	8.8

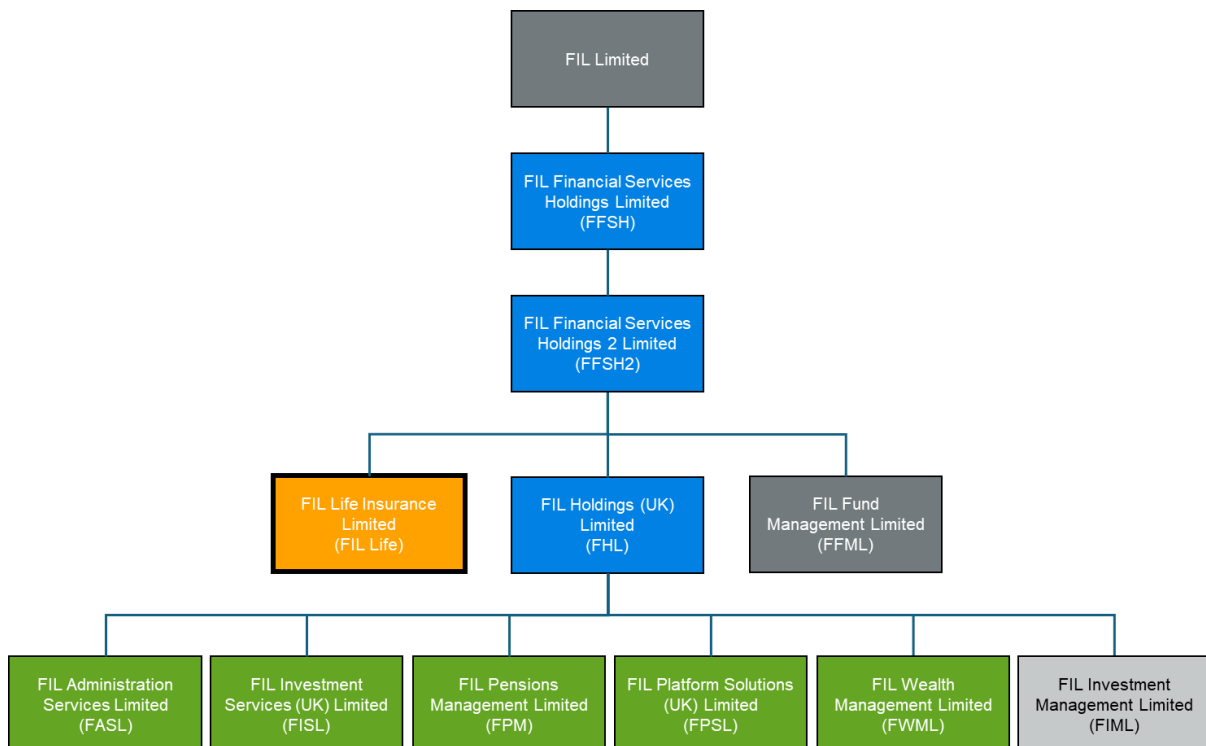
¹ The LANMAS and Rational Shelley sub-funds were wound up on 1 October 2025 and the remaining policies were transferred into the Main Fund at that point in time. These are shown separately in the table, as this accurately reflects the position as at 30 June 2025 prior to wind up.

Rational Shelley (wound up on 1 October 2025 and now part of the Main Fund) ¹	2,973	5.0	5.0
Scottish Legal	114,674	53.0	53.0
M&GM	23,704	614.4	148.3
Manulife	7,155	78.3	78.3
Total	149,048	759.5	293.3

Overview of FIL

3.24. FIL is an authorised United Kingdom insurance company incorporated in England and Wales in 1997 and regulated by the PRA and FCA. FIL is a wholly owned subsidiary of FIL Financial Services Holdings 2 Limited.

3.25. A simplified organisational structure for the Fidelity Group of companies (as applicable to FIL) is shown below.



- 3.26. In the diagram, FIL 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.
- 3.27. The ultimate parent company of the Fidelity Group is FIL Limited, which is domiciled in Bermuda and regulated by the Bermuda Monetary Authority. FIL is the sole UK insurance entity of the Fidelity Group.
- 3.28. Both FIL Financial Services Holdings Limited (“FFSH”) and FIL Financial Services Holdings 2 Limited (“FFSH2”) are also domiciled in Bermuda.
- 3.29. The business of FIL consists of two main classes of insurance business:
- Unit-linked pensions investment business of various types, which makes up the vast majority of FIL’s business.
 - A small number of fully reinsured in-payment annuities.
- 3.30. FIL is open to most types of new unit-linked pensions business but is closed to new annuity business.

4 Outline of the Scheme

Rationale for the Scheme

- 4.1. The proposed transfer of the block of business from FIL is aligned with Scottish Friendly's objective of delivering long term growth in value for members. It is expected to generate a profit for the SF Main Fund.
- 4.2. In due course, I expect this profit to form part of the surplus distributed to the relevant participating members via the ProfitShare uplift applied to asset shares.
- 4.3. In addition to enhancing member value, the transfer is consistent with Scottish Friendly's strategic objective to expand its own-brand business.

Overview of the Scheme

- 4.4. Under the Scheme, a portfolio of Section 32 unit-linked pensions and in-payment annuities of FIL will transfer to Scottish Friendly on the Effective Date which is expected to be 23.59 on 30 September 2026.
- 4.5. The Transferring Business is formed of approximately 39,000 policies with c.£2.10bn of AUM as at 30 June 2025, and is made up of
 - c.£2.10bn of closed-to-new-business Section 32 unit-linked pensions; and
 - c.£6.4m of in-payment annuities best estimate liabilities (on a Solvency UK Pillar 1 basis)
- 4.6. The Scheme will also transfer to Scottish Friendly:
 - the units held under the Section 32 policies, along with various reinsurance arrangements with third-party asset management groups which are used to access those units (where relevant); and
 - relevant "business information", including the books and records relating to the transferring policies.

Section 32 Unit-Linked Pensions

- 4.7. Section 32 policies were bought from an insurance company using funds from a registered pension scheme. Such policies were used to transfer pensions from an employer to an individual pension upon leaving employment.
- 4.8. The policies are entirely unit-linked, and do not have any investment guarantees, underpins nor any Guaranteed Minimum Pension ("GMP") benefit entitlements. No new business is being written and no contributions or transfers-in are accepted.

- 4.9. Some of the Section 32 policies have additional policyholder protections. Approximately 25,000 policyholders have Protected Tax Free Cash (“PTFC”) and/or a Protected Pension Age (“PPA”). These protections do not result in options and guarantees as defined under Solvency UK and instead effectively provide additional flexibility for the policyholders in question at the point of retirement.

FutureWise

- 4.10. The majority of assets under management (c.92%) are invested in the default investment strategy called FutureWise, with the remainder invested in other funds available for selection by the Section 32 policyholders (“Self-Select Funds”), or drawdown investment pathways. The FutureWise investment strategy is comprised of a series of target date funds (“TDFs”) for policyholders in the accumulation phase of their retirement journey.
- 4.11. The FutureWise TDF range is a series of wrapped funds created and managed by FIL. To access the investment component of these life wrappers, FIL invest directly in a number of underlying Authorised Contractual Schemes (“ACSs”) managed by BlackRock.
- 4.12. Scottish Friendly will replace FIL on a “like-for-like” basis in the structure described above. For each of the FutureWise (and Self-Select Funds, see below) available to the book, Scottish Friendly will create a new wrapped fund, replicating the range of funds wrapped by FIL.
- 4.13. Scottish Friendly’s existing Investment Management Agreement (“IMA”) with Blackrock will be amended to include access to the FutureWise ACSs and Scottish Friendly will invest in the ACSs which correspond to the wrapped funds.

Self-Select

- 4.14. Policyholders have the option to invest in any of the 24 available self-select funds, which are also a series of wrapped funds, rather than the FutureWise TDFs. The self-select funds do not hold any securities directly and instead invest in units managed by external fund managers.
- 4.15. FIL accesses six of the self-select funds via reinsurance agreements, which covers both the Section 32 policies, and policies which are not transferring to Scottish Friendly. Prior to the Sanctions Hearing, FIL will split the existing reinsurance agreements such that a separate agreement will be created for the Section 32 book only. These new reinsurance agreements will be transferred to Scottish Friendly as part of the Scheme.
- 4.16. The remaining self-select funds are accessed via direct investment in the underlying Open-Ended Investment Companies (“OEICs”) and ACSs. Scottish Friendly will put in place fund link agreements with the respective asset managers such that units held in these OEICs / ACS’s can be effectively managed by Scottish Friendly on and following the Effective Date.

Drawdown

4.17. As at the 30 June 2025, c.200 policyholders take drawdown income on a regular basis via one of the four drawdown investment pathways offered.

Annuities

4.18. The annuity-in-payment business is fully reinsured to the UK branch of Hannover Re. The claims and payment administration of the annuity book is also outsourced to Hannover Re (and in turn this activity has been sub-contracted by Hannover Re to Equiniti).

4.19. The reinsurance and outsourcing arrangement with Hannover Re will be transferred from FIL to Scottish Friendly on the Effective Date pursuant to a deed of novation between FIL, Scottish Friendly and Hannover Re.

4.20. I note that the contract between Hannover Re and Equiniti is due to be renewed later this year. Hannover Re intend to undertake a review of the outsourcing arrangement, and I will provide an update on the outcome of this process in my Supplementary Report.

Costs related to the Scheme

4.21. Scottish Friendly and FIL will each meet their own transaction costs, such as legal and consultancy fees and costs incurred in carrying out the migration. Shared costs, such as the Independent Expert and Legal Counsel, will be shared equally between Scottish Friendly and FIL in accordance with the terms set out in the Framework Agreement.

Membership Rights

4.22. The transfer will result in around 39,000 policyholders transferring to Scottish Friendly. Scottish Friendly's Board has agreed to grant the transferring policyholders membership of the Society.

4.23. These policyholders will have the right, as members of the Society, to nominate or stand themselves for selection as a delegate and play an important role in the Society's system of governance.

Governance

4.24. At the Effective Date, the Section 32 policies transferred as part of the Scheme will be overseen by Scottish Friendly's Governance Advisory Arrangement ("GAA").

4.25. The primary role of the GAA is to provide independent oversight, and assess the ongoing value for money for policyholders. In particular, the GAA will consider the level of charges and costs levied, the investment performance achieved, and the quality of service provided.

- 4.26. The GAA was set up following the transfer of the ex-Mobius Life pension policies on 9 November 2018. The GAA has oversight of all of Scottish Friendly's in-scope pension business which encompasses both ex-Mobius Life and Canada Life policies, and existing Scottish Friendly pension business. The remit of the GAA will extend to include an oversight role in respect of the transferring business from FIL, including those policyholders invested in one of the drawdown pathways where applicable.
- 4.27. The Transferring Policies are currently subject to oversight by an Independent Governance Committee ("IGC") at FIL – albeit FIL do so voluntarily as the Transferring Policies are not workplace pensions and so not strictly in scope under current regulations. Scottish Friendly is not required 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.
- 4.28. The exact scope of the work is being finalised at the time of writing, but it is expected to broadly mirror the oversight that the current GAA provider, Zedra, already undertakes for the Scottish Friendly workplace pensions book.

Tax Clearances

- 4.29. Clearance will be sought by both Scottish Friendly and FIL from 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 purpose) as a main purpose of entering into the transfer or the wider transactions between the parties, and accordingly that the anti-avoidance provisions of Section 132 of that Act will not apply.
- 4.30. Scottish Friendly will also seek confirmation from HMRC that the transfer will not give rise to UK stamp taxes.

5 Effect of the Scheme on the Financial Position and Risk Profile of Scottish Friendly

Background

- 5.1. UK insurance companies are required to maintain a minimum level of capital resources, in order to reduce the risk that they are unable to meet their future obligations to policyholders. These capital resources and the capital requirement are determined under the “Solvency UK” regime, which is the current regulatory regime for UK life insurers.
- 5.2. The Solvency UK regime prescribes a “standard formula” methodology for assessing the capital position of an insurance company. Solvency calculations must be undertaken in accordance with the standard formula unless a firm has received separate regulatory approval to use a bespoke “internal model”. Scottish Friendly and FIL both calculate their regulatory capital positions using the standard formula methodology.
- 5.3. In this report I refer to the capital position assessed in accordance with the Solvency UK regime (and using the standard formula) as the “Pillar 1” basis. This is the basis of the results shown in this report.
- 5.4. Separately, insurers are also required to perform their own assessment of their solvency requirements to support effective management of risks with the insurer. For this calculation insurers are permitted to use their own methodology and models. I refer to this as the “Pillar 2” basis.

Pillar 1

- 5.5. The Pillar 1 results are prepared in line with the specified requirements of Solvency UK. Scottish Friendly has been granted a waiver by PRA which exempts it from having to complete quarterly regulatory reporting - results are only required to be disclosed to the regulator on a semi-annual basis (at half-year and year-end).
- 5.6. Solvency UK requires an assessment of an insurer’s “Own funds”: the capital resources, calculated in line on a market consistent basis and which are available to support losses that could arise in the future. For Scottish Friendly, the Own Funds are equal to the excess of the value of assets held over the Technical Provisions and any non-insurance liabilities, with a deduction for ring-fencing restrictions. The Technical Provisions are the sum of the Best Estimate Liabilities (a best-estimate of the cost of providing the benefits to policyholders) and a Risk Margin (an additional margin for prudence, intended to reflect the amount that would be required to transfer the liabilities to a third party insurer).
- 5.7. The capital requirement under Solvency UK (the Solvency Capital Requirement (“SCR”)) is assessed by considering the loss that might be incurred in a very severe scenario, expected to occur only once in every 200 years. As set out above, Scottish Friendly uses the standard formula to assess the amount of capital it holds, and expects to continue to use this approach in the future.

- 5.8. Scottish Friendly does not utilise any of the measures included in the regulations which would serve to reduce the liabilities under Solvency UK, such as the Matching Adjustment, Volatility Adjustment or the Transitional Measures on Technical Provisions.

Pillar 2

- 5.9. Solvency UK also requires insurers to undertake their own assessment of the amount of capital they need to hold, based on the risks to which the firm is exposed, to ensure they remain able to meet its liabilities to policyholders. This is referred to as the Pillar 2 capital adequacy assessment, and it is submitted to the regulators privately (unlike Pillar 1 which is disclosed as part of the public disclosures).
- 5.10. Scottish Friendly's Pillar 2 basis is similar in nature to the Pillar 1 calculation, but includes an allowance for certain risks that are not included in the Pillar 1 standard formula and allows for the measurement of certain risks in a way that is more in line with Scottish Friendly's assessment of those risks.

Risk Appetite Framework

- 5.11. Scottish Friendly has a Risk Appetite Framework which is used to support the management of risk in the business. The Risk Appetite Framework prescribes Scottish Friendly's overall appetite to accept risks, and a suite of triggers and tolerances are used to indicate the quantum of risk the business is willing to accept in the delivery of its strategy.
- 5.12. A key consideration in the assessment of Scottish Friendly's capacity to support risk is its solvency position. This is translated into a series of metrics – assessed on both a Pillar 1 and Pillar 2 basis – which are specified in terms of the capital coverage ratio (the level of capital resources available to support the capital requirement) and termed the solvency appetite “tolerance” levels.
- 5.13. Scottish Friendly's Board has set an overall risk appetite which is based on the Pillar 2 position. The tolerance is to hold sufficient capital such that following the occurrence of a scenario equivalent to around a 1-in-20 year event it is still able to cover its Pillar 2 capital requirement.
- 5.14. On a Pillar 1 basis, a similar approach is taken and the same range of stress scenarios considered. The tolerance level is calibrated to a level which encompasses both the risk appetite of Scottish Friendly, and also commercial considerations.
- 5.15. The framework also specifies a “trigger” point which is a buffer in excess of this tolerance level. If the solvency position fell below this trigger level then in the normal course of events Scottish Friendly would consider whether actions may be required to increase it. This could include reducing bonus rates, increasing use of reinsurance or hedging, changing investment strategy as well as a number of more severe measures.
- 5.16. The circumstances under which Scottish Friendly would take actions to improve the solvency position, and the range of actions available to management, are set out in the

Capital and Financial Management Framework which has been approved by Board. This is used on a day-to-day basis to guide the management of the business in the deployment of capital.

5.17. The solvency appetite tolerance and trigger levels which have been approved by the Board are:

Metric	Trigger Level	Tolerance Level
Pillar 1	150%	130%
Main Fund Pillar 2	160%	130%

5.18. The lower trigger level within Pillar 1 ratio reflects that this is less volatile than the Pillar 2 position as a result of the ring-fencing requirements for the sub-funds.

5.19. The trigger and tolerance levels were approved by the Board in June 2025, on the basis that, as a result of the terms set out in the Framework Agreement, Scottish Friendly is effectively exposed to the economic risks of the Transferring Business in the period prior to the Effective Date. I note that the updated levels do not represent a change to the strength of the risk appetite, but rather they reflect the numerical interpretation of this following the integration of the Transferring Business into the existing portfolio. If for any reason the Transfer did not go ahead, the Board would need to re-calibrate these levels.

5.20. Triggers and minimum tolerance levels have also been set for each of the sub-funds, in order to support their ongoing management and to avoid actions being taken in those sub-funds that unreasonably increase the likelihood of support being required. The entity level financial position is the primary determinant of security for policyholders and is the focus of my analysis in this report.

Expected impact of the Scheme: Pillar 1

5.21. The table below shows Scottish Friendly’s reported solvency position as at 30 June 2025 (the column headed “pre transfer”), as well as the estimated solvency position had the transfer taken place at that date (the column headed “post transfer”).

5.22. The estimated post-transfer position shown below is based on the expected value of the assets, liabilities and capital requirements of the Transferring Business as at 30 June 2025.

5.23. The estimated position is reliant on the accuracy of the policyholder data provided by FIL. Work was undertaken as part of the diligence process to verify the reasonableness of the results and further modelling work has been undertaken to assess the accuracy of the calculations.

5.24. I will continue to monitor the expected impact of the Scheme on the financial position of Scottish Friendly and expect to present any revisions to these estimates in my supplementary report on the Scheme, prior to the Scheme being approved (or otherwise).

Pillar 1 position as at 30 June 2025	Pre-transfer (£m)	Post-transfer (£m)
Own funds	141.7	156.9
SCR	62.7	87.6
Solvency ratio	226%	179%

5.25. Based on the position as at 30 June 2025, the impact of the transfer is to reduce the capital cover from 226% to 179%.

5.26. The results show that Scottish Friendly is expected to be able to meet its Pillar 1 capital requirements immediately after the Scheme, and that the business will remain comfortably in excess of its solvency appetite trigger level. For clarity, the post-transfer position reflects the purchase price paid to acquire the business.

5.27. The main drivers of the movements are:

- Own Funds: increase of £15.2m, representing the transferring assets, less the upfront consideration and other costs incurred to acquire the business, as well as the transferring liabilities, assessed using the expected expense base that will apply in Scottish Friendly;
- SCR: increase of £24.9m, reflecting the capital requirements for the Transferring Business, net of additional diversification with the existing risks in Scottish Friendly.

5.28. I note that in the results shown above I have not made any allowance for the potential benefit which could be achieved from hedging the equity risk arising from the Transferring Business.

5.29. The equity risk capital arising from the Transferring Business was c.£17m as at 30 June 2025. This capital charge could be reduced to almost nil using derivative contracts such as equity futures for a very minimal upfront cost. Had equity hedging been implemented as at 30 June 2025, the impact would be to increase the Pillar 1 solvency position by c.25 percentage points.

5.30. Scottish Friendly considered the option of hedging the equity risk in accordance with its Capital and Financial Management Framework. However, as the solvency position is projected to remain within the “green zone” after completion of the transaction, it was concluded that the business has sufficient capacity to accept this risk without any further mitigation and so no hedging was considered necessary.

5.31. I note that equity hedging remains a tool which is available to management and could materially reduce the equity risk capital should this ever be required.

Expected impact of the Scheme: Pillar 2

5.32. The results on a Pillar 2 basis are not publicly available. The absolute solvency ratio on a Pillar 2 basis is higher than the equivalent Pillar 1 result pre-Scheme and that is expected to remain the case post-Scheme. The impact of the Scheme on the financial position is consistent with that shown for Pillar 1, with the solvency position reducing as a result of the transfer, and the drivers of the results are the same.

5.33. Based on the position as at 30 June 2025, the solvency ratio on a Pillar 2 basis is expected to be comfortably in excess of the solvency appetite trigger level approved by the Board.

Other Considerations

5.34. It should be noted that the 30 June 2025 position reflects that £10m of seed capital was invested into the new unit linked fund series as part of Scottish Friendly's ongoing Unit Linked Funds Rationalisation project ("ULFR"). As a result this attracted around £4m of equity risk capital within the 30 June 2025 valuation, which consequently reduced the solvency coverage ratio. This seed capital has since been returned and is now held within lower risk assets within the Main Fund's estate, which has increased the solvency coverage ratio by c.5 percentage points. This reduction in market risk / improvement in solvency ratio is not reflected within the Pillar 1 financial position shown above.

5.35. Additionally, in the period between 30 June 2025 and the Directions Hearing, Scottish Friendly intends to make changes the investment strategy adopted for with-profits customers in the Main Fund. This will increase proportion of the assets held within equities, in order to increase the expected return achieved for the asset portfolio. This decision reflects that even after the transaction is completed the Main Fund will still have capacity to accept additional risk to increase returns for policyholders. This change in investment strategy does not materially affect the solvency coverage ratio.

5.36. The solvency coverage ratio will continue to be monitored in the future, and I note that there are many management actions which could be taken in the event that the solvency coverage ratio was to decline for any reason.. The most obvious action would be to reverse this decision and reduce down the proportion of the portfolio invested within equities. Additionally, as discussed above, equity hedging remains an option available in future if required.

Risk profile of the business

5.37. The proposed Scheme is not expected to introduce any risks which are not similar in nature to the existing risks faced by Scottish Friendly, nor is it expected to significantly change to Scottish Friendly's overall existing risk profile. It will, however, result in an increased exposure to some risks which are already key to Scottish Friendly's business.

5.38. The Transferring Business is comprised of almost entirely unit-linked business, with c.£2.10bn unit-linked liabilities which will transfer to the SF Main Fund under the Scheme. The SF Main Fund already contains unit-linked business which accounts for around 75% of the Main Fund liabilities (as measured by Solvency UK best estimate liability). After the transfer, it is expected that the unit-linked business will account for around 85% of the liabilities within the SF Main Fund.

5.39. The following table shows the estimated exposure to market, counterparty, life, health and operational risks at 30 June 2025 for Scottish Friendly pre-transfer, and the expected position post-transfer. These are measured by the Pillar 1 SCR undiversified capital requirements.

Risk Category	Scottish Friendly pre-transfer		Scottish Friendly incl. Proposed Scheme	
	£m	%	£m	%
Market	40.7	33%	57.7	37%
Counterparty	8.5	7%	8.7	6%
Life	60.7	49%	75.6	48%
Health	1.2	1%	1.2	1%
Operational	13.0	10%	13.0	8%

5.40. The following table shows the breakdown of risk exposure for the SF Main Fund only at 30 June 2025. This is also measured by the Pillar 1 SCR undiversified capital requirements.

Risk Category	SF Main Fund pre-transfer only		SF Main Fund incl. Proposed Scheme	
	£m	%	£m	%
Market	32.5	32%	49.5	37%
Counterparty	7.9	8%	8.1	6%
Life	51.0	50%	66.0	49%
Health	1.2	1%	1.2	1%
Operational	10.0	10%	10.0	7%

5.41. The main component of market risk arising from the proposed transfer is the risk of a fall in the value of equities which are backing the unit-linked pensions, which in turn reduces the future charge income to Scottish Friendly (termed “equity risk”).

- 5.42. The main component of life risk is in respect of policyholders remaining in force for a shorter period of time than anticipated which consequently means Scottish Friendly earns a lower future charge income from the transferring book (termed “lapse risk”).
- 5.43. There is a small increase in the counterparty risk exposure due to the transferring reinsurance arrangement with Hannover Re in relation to the annuities-in-payment. I note that Scottish Friendly already has a much larger annuity book which is externally reinsured. As a result, this small book of transferring annuities does not change Scottish Friendly’s risk profile in any material manner. Finally, I note that the BEL of the transferring annuity book is only c.£6.4m and so in the extremely unlikely scenario that Hannover Re was to default on its liabilities, the annuity claims could be supported from the Main Fund with no material impact on the overall solvency position.

Operational Process Risk

Pre-transfer

- 5.44. To manage and mitigate the operational process risks relating to the transfer itself, a robust and detailed migration, test and implementation plan is being developed. This plan is subject to oversight from the Risk Function, with regular updates provided to the Executive and a specially convened sub-group of the Board which is responsible for providing oversight in relation to the transaction.
- 5.45. Furthermore, the transfer agreement and Scheme includes provisions to defer the Effective Date of the transfer if either party finds themselves not operationally ready to transfer the policies. This limits the risk of the transfer causing any operational disruption to the existing policyholders of Scottish Friendly.

Post-transfer

- 5.46. While there will be a small increase to operational risk in line with the Standard Formula calculation, I have considered the practical change in operational risk in more detail below.
- 5.47. Scottish Friendly already manages a large pensions book, which includes existing Section 32 business. As part of the transfer, all of the transferring Section 32 policies are to be migrated onto Scottish Friendly’s existing administration system.
- 5.48. Whilst this will not introduce a new product type to the administration system, I do note that the transferring Section 32 policies are able to access drawdown in the decumulation phase. Scottish Friendly does not currently offer any decumulation products and so, whilst the administration system has “out of the box” drawdown functionality, this is not currently utilised by Scottish Friendly. To support the design and build of the drawdown functionality, Scottish Friendly supplemented the internal team with external specialists experienced in delivering decumulation solutions. The build is now substantially complete and testing is underway. I will provide an update on the outcome of this testing in my supplementary report.

- 5.49. I also note that none of the Transferring Policies have complex benefit entitlements, which greatly simplifies operational processes relative to my experience of the position for other Section 32 policies.
- 5.50. Post-transaction Scottish Friendly will be responsible for managing and pricing the unit-linked funds which the transferring Section 32 policies can access. This is not a new activity to Scottish Friendly – Scottish Friendly already has an Investment Function which manages and prices a large number of existing funds using well established processes and systems. Introducing the small number of FutureWise and Self-Select funds does not pose a significant additional overhead.
- 5.51. The transfer introduces some new material contractual arrangements with BlackRock and Hannover Re. However, I note that Scottish Friendly already has existing relationships with both third parties and so I do not believe these pose a significant source of additional operational risk.
- 5.52. Overall I do not believe that the operational risk exposure will materially increase as a result of the transaction. I also note that my colleagues in the Risk Function independently came to the same view when they considered the impact of the Transferring Business as part of their annual review of operational risk exposure; contingent upon an effective transfer process.

Climate Risk

- 5.53. The impact of the proposed transfer on climate risk was considered as part of the quantitative scenario analysis undertaken as part of the Own Risk and Solvency Assessment (“ORSA”) process. The proposed transfer is not expected to have any material impact on the climate risks faced by Scottish Friendly.

Sanctioned Policyholders

- 5.54. I have considered the risk posed to Scottish Friendly of sanctioned policyholders transferring via the Scheme. FIL has advised me that there are no sanctioned policyholders who are part of the Transferring Business. FIL continues to monitor for changes in sanctions as part of its business-as-usual processes and continue to do so until the Effective Date.
- 5.55. If the position was to change prior to the Effective Date, the Scheme states explicitly that no sanctioned policyholders will be transferred and sets out a separate mechanism whereby any sanctioned policyholders would be retained by FIL until such time in the future that sanctions were lifted and the policy could transfer to Scottish Friendly.
- 5.56. I will provide a further update in relation to sanctioned policyholders in my Supplementary Report.

Use of Standard Formula

- 5.57. Scottish Friendly uses the standard formula to assess the amount of capital it is required to hold on a Pillar 1 basis.
- 5.58. It is expected that Scottish Friendly will continue to use the standard formula post Scheme Effective Date, and will continue to formally assess the ongoing appropriateness of doing so as required under the Solvency UK regulations. I do not have any reason to believe that the transfer will cause the standard formula to become inappropriate for Scottish Friendly.

6 Effect of the Scheme on the Policyholders of Scottish Friendly

6.1. I have considered the following factors to determine the likely effect of the proposed transfer on the Existing Policies of Scottish Friendly:

- Benefit Security
- Capital Support Arrangements
- Benefit Expectations
- Service Standards
- Operational Risk
- Communication to Policyholders
- Costs of Transfer
- Membership Rights
- Investment Policy
- Tax

6.2. In this report, I have assessed whether I believe there could be a 'material adverse impact' on policyholders as a result of the proposed transfer. I interpret this to mean any effect that is sufficiently significant to influence a policyholder's decision-making or that would place them at a disadvantage in terms of their rights, protections, or the security of their benefits.

Benefit Security

6.3. The security of existing policyholder benefits is ensured through the assets that Scottish Friendly holds to cover its liabilities and regulatory capital requirements, and the requirements of its Risk Appetite Framework. In assessing the security of the benefits, I have therefore primarily focussed on the impact of the Scheme on the ability of Scottish Friendly to meet these requirements.

6.4. The transfer is expected to result in a reduction in Scottish Friendly's solvency coverage ratio, on both a Pillar 1 and Pillar 2 basis. Despite this reduction, and based on the 30 June 2025 position, Scottish Friendly expects to hold a significant level of excess capital over the regulatory capital requirement on a Pillar 1 basis (and the trigger on a Pillar 1 basis as defined within the Risk Appetite Framework). It also expects to hold excess capital over trigger levels on a Pillar 2 basis.

6.5. Additionally, an addendum to the annual ORSA report was presented by the Risk Function to the Board Risk Committee in early 2025. This showed a projection of the capital position after allowing for the expected impact of the Transferring Business. These projections showed a consistent impact of the transfer to the impact as at 30 June 2025 (as shown in Section 5). These projections also show that Scottish Friendly expects to continue hold a significant level of excess capital over its solvency appetite tolerance level on a both a Pillar 1 and Pillar 2 basis throughout the five-year projection horizon.

- 6.6. Given the result as at 30 June 2025 and expected stability in solvency over time, I am satisfied that the reduction does not materially adversely affect the security of the benefits.
- 6.7. While consideration of the impact on solvency ratios provides an indication of relative security before and after the Scheme, I believe it is also important to note the following:
- The Existing Policies will continue to be held in an insurer that is subject to the Solvency UK regime, which provides a strong underlying level of protection for policyholders. Indeed, a solvency level of 100% under Solvency UK (significantly lower than is expected to be the case) is still expected to be sufficient to meet policyholder liabilities in all but the most extreme scenarios. Further to this, failing to meet the regulatory capital requirements does not, in itself, mean that Scottish Friendly would be unable to meet its obligations to policyholders, but would require Scottish Friendly to take steps to restore its solvency position.
 - In the very unlikely event that Scottish Friendly did become insolvent, then policyholders may be eligible to claim from the Financial Services Compensation Scheme, which covers up to 100% of claims. The Scheme does not affect the eligibility of existing policyholders to claim under this Scheme.
- 6.8. The Transferring Business is expected to generate profits for the SF Main Fund as the business runs off. Over time this release of capital into the fund will increase the security of existing policyholders' benefits and/or enhance benefit expectations of with-profits policyholders in the SF Main Fund. The security of policyholders' benefits holds supremacy, and surplus would not be distributed if doing so would jeopardise the solvency position of the fund.
- 6.9. Consequently, I do not believe there is a material adverse impact on the security of benefits for existing Scottish Friendly policyholders as a result of the transfer.

Capital Support Arrangements

- 6.10. Scottish Friendly operates capital support arrangements, codified implicitly through the various prior transfers, such that any of the sub-funds can, either on a temporary or permanent basis, be provided with capital from the SF Main Fund. In extreme circumstances, where there is a threat to solvency, it is possible for the sub-funds to also provide capital to the SF Main Fund.
- 6.11. The existing capital support arrangements are not affected by the transfer of the Transferring Business and will continue to operate in their current form. The solvency coverage ratio of the SF Main Fund will reduce but is expected to remain comfortably in excess of the SCR for the fund. Taking this into consideration, I do not consider that the reduced solvency position will materially adversely affect the benefit security or benefit expectations of existing Scottish Friendly policyholders across the sub-funds or the ability of the SF Main Fund to provide support to the sub-funds if required.

Benefit Expectations – non-profit business

- 6.12. The terms and conditions for existing Scottish Friendly non-profit policies are unaffected by the transfer. Any policyholder benefit expectation can therefore only arise through areas of discretion in the investment management of unit-linked policies.
- 6.13. The range of unit-linked funds available to existing policyholders will not change and there will be no changes to unit pricing or investment administration processes for existing Scottish Friendly non-profit policyholders as a result of the transfer.
- 6.14. The Scheme will not change the level of charges on unit-linked funds held by existing policyholders.
- 6.15. Therefore, I am satisfied that the benefit expectations of non-profit policyholders will not be materially adversely affected by the Scheme.

Benefit Expectations – with-profits business

- 6.16. The terms and conditions for existing Scottish Friendly with-profits policies are unaffected by the transfer.
- 6.17. There will be no changes to investment strategy, expense allocation, policy charges, or the methodology for setting or allocating bonuses for existing Scottish Friendly with-profits policyholders as a result of the transfer.
- 6.18. Although the transfer results in the SF Main Fund being exposed to an increased absolute level of risk, it is expected that existing SF Main Fund with-profits policyholders will ultimately benefit from the profits generated by acquiring the Transferring Business via future ProfitShare distributions.
- 6.19. Therefore, I do not expect that the benefit expectations of with-profits policyholders will be materially adversely affected by the transfer. Indeed, I would expect benefit expectations to be improved to the extent that the expected profits from the transaction will be distributed to the SF Main Fund with-profits policyholders over time.
- 6.20. The With-Profits Actuary has prepared a report for the Board of Scottish Friendly on the impact of the Scheme on the with-profits policyholders of Scottish Friendly. The report considers the existing with-profits policyholders, their benefits and expectation of future benefits, the impact of membership rights and practical considerations in relation to managing the with-profits policies.
- 6.21. The key conclusions of the report are:
- the Scheme does not have a materially adverse effect on the security of benefits, benefit expectations, or customer outcomes of Scottish Friendly's existing with-profits policyholders,
 - the Scheme does not result in a significant dilution of membership rights, and that

- there is no reason, in those terms, why the transfer should not proceed.

Service Standards

- 6.22. I note that at the time of writing this report, work remains ongoing to develop the new operational processes which will be used to administer the Transferring Policies. As a result I have based my comments below on my understanding of the Operations Function's project plan and development roadmap, which I have had sight of through my attendance at the project Steering Committee.
- 6.23. Operational arrangements are expected to be substantively finalised by early April 2026, and will be subsequently reviewed and enhanced over the course of two testing phases running from April 2026 until June 2026. I will provide an update on the finalised arrangements in my Supplementary Report.
- 6.24. It is expected that there will be no change to the administration (either in relation to systems or processes) of existing Scottish Friendly policies as a result of the transfer.
- 6.25. The administration of the Transferring Business is currently undertaken by FIL, with the administration of the in-payment annuities outsourced and sub-contracted to Equiniti. As part of the transfer, the Section 32 policies will be migrated onto Scottish Friendly's administration platform. I note that any system development and migration exercise comes with an element of risk. However, as changes will be made as part of controlled change programme, this should not be expected to pose a threat to the administration of existing Scottish Friendly policies.
- 6.26. Plans are currently being finalised to ensure there is sufficient additional resource in place post-transfer to support the ongoing administration of the enlarged business. A bottom-up activity resource model is currently being developed to forecast the level of resourced required based on actual administration data provided by FIL (i.e. volume and length of income calls, number of emails received etc). The latest expectation is that around 10 additional full-time equivalent ("FTE") employees will be required. These resources will be onboarded and fully trained prior to the Effective Date, and will be dedicated to servicing the Transferring Policies. This will ensure there is no impact to the servicing of existing Scottish Friendly policies.
- 6.27. As described in Paragraph 7.26.2, as a result of the Transfer, Scottish Friendly will develop enhanced digital servicing capability, which could be a longer-term benefit for existing policies.
- 6.28. At this stage, having reviewed the proposed operational arrangements, I do not expect any changes to service standards that would give rise to a material adverse effect on existing policyholders. I will provide an update in my Supplementary Report, once the arrangements have been finalised. Consideration is given to the impact of the transfer on the service standards applicable to the Transferring policyholders in Section 7.

Operational Risk

6.29. Given the risk management tools described in paragraphs 5.44, 5.45, 6.25 and 6.26 I am satisfied that the change in the level of operational risk as a result of the transfer should have no material adverse effect on the existing policyholders.

Communication to Policyholders

6.30. The regulations governing Part VII transfers require that, unless the Court orders otherwise, all policyholders in all affected companies should be written to in order to inform them of the proposed transfer.

6.31. Scottish Friendly operates a delegate system, whereby 30 members are selected to represent the interests of the policyholder book. The 30 delegates have the right to vote on certain matters on behalf of all other members, one of which is in relation to the transfer of insurance business by Part VII transfer.

6.32. Given that I do not expect the transfer to have a material adverse effect on existing policyholders, and as the With-Profits Actuary does not consider there to be a material dilution of existing membership rights, I would support an application being made for a waiver from mailing all Scottish Friendly policyholders provided also that the delegates are written to in a timely manner outlining the nature and expected effect of the transfer.

6.33. Separately, I have had sight of the communications plan being developed jointly by Scottish Friendly and FIL in respect of the Transfer ("Communications Plan"). The Communications Plan outlines how the Transfer will be communicated to policyholders and other interested persons and how enquiries and objections will be dealt with by Scottish Friendly and FIL. I will consider any and all objections received by Scottish Friendly from existing policyholders as part of my supplementary report.

6.34. I note the intention stated in the Communications Plan is to place notices of the transfer in the national press, alongside communications on both the FIL and Scottish Friendly websites (which will include copies of my report as well as the With-Profit Actuary's report and IE's report). This will provide existing policyholders with details of the transaction which they can discuss with their delegates if they wish to do so, thereby providing a further avenue for any views on the transaction to be represented as part of the process.

6.35. I am comfortable that the proposals outlined in the Communications Plan that I have reviewed are appropriate.

6.36. I note that at the time of writing this report the communications which will be issued to policyholders in relation to the transaction have not yet been finalised. It is my understanding that in due course these policyholder communications will be reviewed by appropriately trained specialists within Scottish Friendly and FIL to ensure they are clear and understandable for policyholders.

6.37. Communications to Delegates will be designed with their needs in mind, such that they can make an informed decision, and will undergo similar governance.

6.38. I also intend to review both of these communications to ensure they are technically consistent with my expectations as stated in this report.

Costs of Transfer

6.39. The costs associated with the proposed transfer will be met on a shared basis by Scottish Friendly and FIL in accordance with the terms set out in the Framework Agreement. The costs borne by Scottish Friendly will be met from the estate of the SF Main Fund. The expected costs have been allowed for within the pricing of the acquisition such that an acceptable rate of return is expected to be achieved for members on their investment.

6.40. The expected costs have also been allowed for in the financial impacts of the proposed transfer as detailed in this report.

6.41. I am satisfied that the expected costs of the proposed transfer will not cause a material adverse effect on the Existing Policies.

Investment Policy

6.42. Scottish Friendly's current practice is to consider investment policy separately for the SF Main Fund and each of the sub-funds. The investment policy of each fund is set out in the relevant PPFM.

6.43. The transfer to the SF Main Fund is not expected to alter the investment profile of the fund. The transferring unit-linked liabilities will be matched with unit-linked assets and the annuities are fully reinsured.

6.44. Scottish Friendly's investment managers, the asset selection processes, and the investment strategy for Existing Policies will not change as a consequence of the transfer.

6.45. Scottish Friendly currently maintains a "Unit-Linked Principles and Practices" (the "ULPP") framework which is used to guide the management of unit-linked business. The ULPP as it applies to the Existing Policies will not change as a consequence of the transfer.

Taxation

6.46. I note that life insurance taxation is a highly technical and specialist topic and that as an actuary I am not qualified to advise on taxation.

6.47. To this end, Scottish Friendly has engaged an expert in life insurance taxation to support with the transaction. I have relied on the written advice provided by this expert in forming my conclusions in this section of the report.

6.48. Based on this advice I am comfortable that there is not expected to be any impact on the tax position of existing Scottish Friendly policyholders as a result of the transfer of the Transferring Business.

7 Consumer Duty

Background

- 7.1. Consumer Duty came into effect for all products and services on 31 July 2024.
- 7.2. The Duty sets higher standards of consumer protection and requires firms, and the people who work for them, to act to deliver good outcomes for customers.
- 7.3. Ongoing compliance with the requirements of Consumer Duty is overseen by the Scottish Friendly Board, with day-to-day compliance delegated to relevant Executives. The Board formally reviews and agrees an assessment of Scottish Friendly's compliance with Consumer Duty annually.
- 7.4. There are four consumer outcomes prescribed under Consumer Duty, which set detailed expectations for firm conduct in four key areas:
 - **Products and Services:** This outcome requires firms to design and distribute products that are fit for purpose, and which meet the needs, characteristics and objectives of customers in their identified target market.
 - **Price and Value:** This outcome ensures that customers receive fair value by requiring firms to assess whether the price paid is reasonable in relation to the overall benefits of a product or service. Firms must consider the full value proposition, not just the cost, including factors such product features, customer support, and transparency.
 - **Consumer Understanding:** This outcome holds firms accountable for supporting customers understanding by delivering communications that are clear, effective and accessible. It focuses on ensuring customers receive the right information, in the right way, at the right time to support informed decision-making.
 - **Consumer Support:** This outcome requires firms to deliver support that enables customers to realise the benefits of the products and services they buy. Firms should enable customers to pursue their financial objectives without facing unreasonable barriers.

Existing Policies

- 7.5. The transfer is not expected to have any adverse impact on Scottish Friendly's ability to comply with Consumer Duty in respect of the Existing Policies.

Products and Services

- 7.6. Existing policyholders will continue to receive products that meet their needs and objectives, as the transfer introduces no changes to terms and conditions or servicing, as detailed in Section 6 under *Benefit Expectations* and *Service Standards*.

Price and Value

- 7.7. The transfer does not affect the value proposition for Existing policyholders. As detailed in Section 6 under *Benefit Expectations*, charges will be unchanged post-transfer, and with the potential for increased ProfitShare enhancements, the overall value delivered to with-profits policies may improve.

Consumer Understanding

- 7.8. Existing policyholders will continue to receive communications that are clear, fair, and not misleading, with no changes being made to the current approach as a result of the transfer. As detailed in Section 6 under *Communications to Policyholders*, information about the transfer will be made available to policyholders in accordance with the Communications Plan which is being developed currently.

Consumer Support

- 7.9. Existing policyholders will continue to receive the same level of support post-transfer, with no changes to existing servicing arrangements. As detailed in Section 6 under *Service Standards*, plans are being developed to ensure that the increased scale of the business can be supported without interruption to Existing policyholders.

Transferring Policies

- 7.10. Scottish Friendly has reviewed FIL's approach to Consumer Duty and are satisfied that FIL's interpretation of the Duty is in line with its own in all significant respects. Therefore, the Transferring Policies are expected to be in line with Scottish Friendly's interpretation of the Duty at the point of transfer.

- 7.11. The transfer is not expected to have any adverse impact on Scottish Friendly's ability to comply with Consumer Duty in respect of the Transferring Policies.

- 7.12. I note that the effect of the Scheme on the Transferring Policies is considered in the Chief Actuary report by Mr John Jenkins FIA, the Chief Actuary of FIL, where he arrives at similar conclusions to my own.

Products and Services

- 7.13. As detailed in Section 4, the terms and conditions of the transferring policies are unaffected by the transfer. Additionally, the range of unit-linked funds available to the Section 32 policyholders will not change as a result of the transfer and there will be no material changes to unit pricing or investment administration processes following the transfer.

7.14. As is common in Schemes of transfer for unit-linked business, the Scheme allows Scottish Friendly to close or merge unit-linked funds subject to actuarial advice. Any such closures or mergers would need to consider the requirements of Consumer Duty. An agreement has been made between Scottish Friendly and FIL to maintain the current FutureWise investment offering for at least 10 years from the Effective Date, with a view to extending the arrangements beyond this date if they are working satisfactorily.

Price and Value

7.15. The Transferring Policies have no discretionary benefits or charges. The Scheme will not change the level of charges deducted from unit-linked funds held by Section 32 policyholders.

7.16. The costs associated with the proposed transfer will be met on a shared basis by Scottish Friendly and FIL in accordance with the terms set out in the Framework Agreement. The Transferring Policies will not bear any of these costs.

7.17. As described in paragraphs 4.24 to 4.28, after the Effective Date, the Transferring Business will be overseen by Scottish Friendly's GAA, with a focus on assessing the ongoing value for money for policyholders.

Consumer Understanding

7.18. Paragraph 6.33 makes reference to the Communications Plan which is being developed between FIL and Scottish Friendly for the transferring policyholders.

7.19. Following the transfer, Scottish Friendly intends to issue a separate welcome pack to the transferring policyholders. This will introduce Scottish Friendly as the new provider, welcome them to the society, and provide reassurance regarding the continuity of their policies. Additionally, policyholders will be provided with details of how to contact Scottish Friendly for information or support.

7.20. I am satisfied that the proposed communication approach for the transferring policyholders will supporting customers understanding and allow informed decision-making.

Consumer Support

7.21. As described in paragraphs 4.18 and 4.19, there will be no change to the administration of the in-payment annuities which will continue to be sub-contracted to Equiniti.

7.22. Scottish Friendly has undertaken an exercise to review the Service Level Agreements ("SLAs") and corresponding metrics of Equiniti. These have been found to be in-line with Scottish Friendly's service standards and in-line with wider industry benchmarks. No changes to these SLAs are expected as a result of the transfer.

7.23. Following the transfer, administration of the Section 32 policies will be provided by Scottish Friendly, and the policies migrated onto Scottish Friendly's administration platform.

- 7.24. As described in Section 5 under Operational Process Risk, and Section 6 under Service Standards, plans are currently being finalised to ensure a smooth operational transition, and that there is sufficient additional resource in place post-transfer to support the ongoing administration of the enlarged business.
- 7.25. The service standards that Scottish Friendly currently applies to internally administered business are expected to apply to the Section 32 policies post-transfer. I consider these to be consistent with good outcomes for customers. Additionally, it is the aim of Scottish Friendly to match or exceed the service level agreements that FIL currently apply. The Target Operating Model for the transferring book is being designed based on the existing FIL SLAs, and analysis of resource requirements has been aligned with these SLAs to ensure that they can be met.
- 7.26. Scottish Friendly has committed to deliver policy servicing and administration in materially the same way as currently provided by FIL. There are however some planned, immaterial differences to some aspects of servicing. I have noted these differences below, as well as an assessment of the customer impact where relevant.
- 7.26.1. Digital Portal: The Section 32 policies currently enjoy a non-contractual benefit in the form of a digital portal. Scottish Friendly will utilise its current customer portal and build on this to deliver functionality for the Transferring Business that is substantially equivalent to that within the member portal provided by FIL, with some enhanced features such as improved app functionality and visibility of plan charges. Scottish Friendly have reviewed the digital tools offered by FIL, and identified the key tools which provide meaningful support for the transferring customers. These key tools will be developed within Scottish Friendly's customer portal and I will provide an update on this in my supplementary report.
- 7.26.2. Retirement Guidance Journey: Scottish Friendly will provide retirement guidance digitally, where this is currently provided via telephone-based service at FIL. The transferring policyholders will still be able to access telephone-based guidance via Pension Wise should they prefer this option. The digital journey will be structured and consistent, allowing for accessible and flexible decision making. I further understand that FIL is currently considering adopting greater use of digital tools to support customers' retirement journey.
- 7.26.3. In my view the non-contractual benefit to the policyholder is the ability to access appropriate guidance at a point in the retirement journey that they wish to access it. The format in which this guidance is delivered to the policyholder is not a non-contractual benefit and I would expect this to evolve from time-to-time to reflect technological developments and wider trends in society. I was in attendance at the Steering Committee when the decision was made to adopt a digital journey was approved and I support the view that this (along with the continued ability to access telephone advice from via Pension Wise) will deliver a better customer outcome

8 Effect of the Proposed Merger between Scottish Friendly and OneFamily (Project Meridian) on the Scheme

- 8.1. On 3 December 2025 Scottish Friendly agreed Heads of Terms to enter into a merger with OneFamily (“Project Meridian”). The proposal is that all of Scottish Friendly’s business will be transferred to OneFamily in Q1 2027, by way of an instrument of transfer under Part VIII of the Friendly Societies Act 1992.
- 8.2. With regard to Project Meridian, I note that the likely impact on Scottish Friendly’s policyholders (including the policyholders transferred from FIL) will be considered by an Independent Actuary and the PRA and FCA as part of an entirely separate regulatory approval process in due course. I expect to provide separate advice to the Board on the likely impact of the Project Meridian. As such and because the merger proposals are under development, I have not considered the impact of the Project Meridian in detail when preparing the analysis to support this report but have considered how it could influence my conclusions in relation to the Scheme.
- 8.3. At the time of writing the specific details of Project Meridian are still being finalised. Notwithstanding the above, I do make the following high-level observations based on my review of the Project Meridian Framework Agreement, which I consider to be key points that could shape my conclusions. For the avoidance of doubt, all references in the bullets below to the Scottish Friendly policyholders should be read as including the FIL Life Transferring Policyholders:
- There will be no change to Scottish Friendly policyholder terms and conditions as a result of Project Meridian, and consequently the merger is not expected to have any impact on Scottish Friendly policyholder benefit expectations.
 - The Chief Actuary of OneFamily and I have produced an initial proforma balance sheet for the combined entity. This shows that (after allowing for the expected costs of the merger and the expense synergies anticipated from Project Meridian) the combined entity’s Pillar 1 and Pillar 2 solvency positions are expected to be well in excess of Scottish Friendly’s current risk appetite trigger levels (noting that the combined entity will, in due course, be required to develop its own capital policy). Consequently, based on the information I have seen to date, I believe that Scottish Friendly policyholder benefit security will not be materially adversely affected by Project Meridian.
 - I understand that the FIL Life Transferring Policyholders will be provided with clear communications prior to transferring to Scottish Friendly which highlights the anticipated Project Meridian merger and makes clear it is proposed that their policy will, in due course, transfer to OneFamily through a separate legal process. This should help ensure a strong level of customer understanding.

- There are no planned material changes to the operational processes used to administer the Transferring Policies following completion of Project Meridian. In particular, I understand that OneFamily does not currently have a significant pension book and, as such, that the processes developed by Scottish Friendly to support the Transferring Business will be adopted by the combined business post-merger. I also understand that : (i) the economic rationale underpinning the proposed Part VIII Merger is not predicated on near-term operational synergies that could directly affect the quality of policy administration or customer service provided to policyholders, and (ii) that key third-party contractual arrangements, including investment management agreements and relevant framework agreements, are intended to be novated under the applicable statutory process, with no change in economic substance or policyholder outcomes. As a result, I expect that service standards for transferring policyholders will be materially consistent after Project Meridian.
- More generally, I note that OneFamily is also a Friendly Society which has a strong customer centric ethos and very positive customer feedback scores. I have no reason to believe Project Meridian will result in a deterioration in customer outcomes.
- All Scottish Friendly's policyholders will become members of OneFamily and will enjoy similar benefits of membership that they currently do as members of Scottish Friendly – indeed, OneFamily policyholders have the opportunity to participate directly in governance through a direct member vote (rather than the Scottish Friendly delegate model) and so their member experience may be enhanced by the merger.
- I consider the proposed timetable for Project Meridian affords sufficient time between the respective transfers such that they can be treated and considered separately in accordance with the legal processes applicable to each.

8.3. Based on these points I have no reason to believe that Project Meridian will result in any deterioration in either policyholder outcomes or policyholder benefit security for Scottish Friendly policyholders. I will consider this further in my supplementary report prior to the Sanctions Hearing when details of the Project Meridian will be more advanced.

9 Conclusions

9.1. I have considered the likely effect of the proposed transfer on the Existing Policies of Scottish Friendly. Based on the considerations set out in this report, it is my view as Chief Actuary of Scottish Friendly that:

- The benefit security of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.
- The reasonable benefit expectations of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.
- Policy administration and therefore service standards of the existing policyholders is not likely to be materially adversely affected as a result of the proposed Transfer.
- The proposed Communications Plan and waivers being sought by Scottish Friendly are appropriate and proportionate.

Signed electronically

[Scott McNeill FFA](#)

Chief Actuary – Scottish Friendly Assurance Society Limited

16 March 2026

Appendix 1: Glossary of Terms

ACS	Authorised Contractual Scheme
BEL	Best Estimate Liabilities
Canada Life	Canada Life Limited
IE	Independent Expert
FCA	Financial Conduct Authority
FIL	Fidelity Life Insurance Limited
FFSH	FIL Financial Services Holdings Limited
FFSH2	FIL Financial Services Holdings 2 Limited
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000
FTE	Full-time equivalent
FutureWise	The default investment strategy currently available to the Section 32 policies. This is comprised of a series of target date funds which invest in a mirror range of ACSs managed by BlackRock
GAA	Governance Advisory Arrangement
GMP	Guaranteed Minimum Pension
Hannover Re	Hannover Rück SE
HMRC	His Majesty's Revenue and Customs
IFoA	Institute and Faculty of Actuaries
IGC	Independent Governance Committee
IMA	Investment Management Agreement
LANMAS	London, Aberdeen and Northern Mutual Assurance Society
M&A	Mergers and Acquisitions

M&GM	Marine & General Mutual Life Assurance Society
MGMI	M&GM International
MLL	Mobius Life Limited
OEIC	Open-Ended Investment Company
OneFamily	Family Assurance Friendly Society Limited
ORSA or Pillar 2	Own Risk & Solvency Assessment
Own Funds	The capital resources, calculated in line with the principles of market consistency, available to meet losses that could arise in the future.
Pillar 1	The approach to assessing the capital position prescribed under the Solvency UK regulations
Pioneer	Pioneer Friendly Society
PPA	Protected Pension Age
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
Preston Operative	Preston Operative Assurance
ProfitShare	The name given to the distribution of profits by Scottish Friendly to eligible members' plans by means of enhancing the investment returns applied to asset shares.
Project Meridian	The name given to the proposed merger of Scottish Friendly and OneFamily by means of a Part VIII transfer.
PTFC	Protected Tax Free Cash
Rational Shelly	Rational Shelly Friendly Society
Royal Standard	Royal Standard Friendly Society
Scottish Legal	Scottish Legal Life Assurance Society Limited
Self-Select Funds	A selection of unit-linked funds which are available for selection by the Section 32 policyholders.

SFAS or SF	Scottish Friendly Assurance Society Limited
SFAM	Scottish Friendly Asset Managers Limited
SFIS	Scottish Friendly Insurance Services Limited
SLA	Service Level Agreement
SLIS	Scottish Legal Insurance Services Limited
Solvency UK	The current regulatory requirement for UK life insurers
SCR	Solvency Capital Requirement
TDF	Target Date Fund
ULFR	Unit Linked Funds Rationalisation
WPA	With-Profits Actuary